BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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The markets rallied strongly this week – largely due to comments by Fed Chairman Powell. The Fed issued dovish statements indicating that further interest rate hikes would be measured. The market (which has become accustomed to favorable interest rate policy over the last 10 years) rallied on the apparent change by the Fed. It remains likely that another rate hike will happen in December but the expectation of further rate hikes in 2019 have been reduced – for now. To this point, the current week's rally has just gotten us back to where we were the week before Thanksgiving. Things certainly look better this week than last and opportunities ***may*** be presenting themselves. Santa may come after all.

It is unlikely that a rally in the major indices can be sustained without the participation (and leadership) of the tech sector. In the decline over the last 2 months, XLK lost 16% vs a 10% loss in the S&P. XLK tested its April/May bottoms last week and have bounced strongly off that support. However, tech remains merely a participant in the rally and not yet a leader. This important sector should be watched to determine the sustainability of any rally in the major indices.

Our Point

Looking at the chart of the S&P a compelling case can be made that a bottom is in and blue skies lay ahead – at least in the short-term. The S&P has formed what looks like a W bottom and the strong rally earlier this week (along with the ability to hold those gains over the last few days) lends credence to the argument. Two of the most prominent unknowns in the current market environment have been the Fed interest rate policy and the ongoing trade (tariff) kerfuffle. The Fed seemed to settle some debate on the ongoing interest rate policy with recent statements from Chairman Powell. Chairman Powell indicated that we were closer to market neutral on rates, reversing what he said just a month ago when we stated that we were "a long way" from neutral. The radical change spurred a flurry of buying as investors took his statement to mean that fewer interest rate hikes were anticipated over the coming year. Investors have become enamored by the prospects of easy money – it's been good for 10 years – and we don't argue with the change in policy. However, it should be noted that rising interest rates often mean a strengthening economy so the bears can argue that a change in policy may mean the Fed sees growth stagnating (not a good thing). Nonetheless, the market was all smiles and the rally has been impressive. Just as impressive has been the ability of the market to hold their gains through the week. The other big unknown surrounds the ongoing trade discussions with China which may move towards some resolution today and through the weekend as world leaders meet in Argentina for the G20 meeting. Any movement towards resolution will likely lead to another leg up in the markets and could set the stage for a further rally into the new year. Clearly, the market is feeling optimistic but that could be reversed quickly on bad news out of Argentina. We have made no changes in our portfolios but are assembling a list of buy candidates should market strength persist next week. The coming week could bring a number of portfolio changes.