# BILLS ASSET MANAGEMENT

# BAM MARKET NOTE

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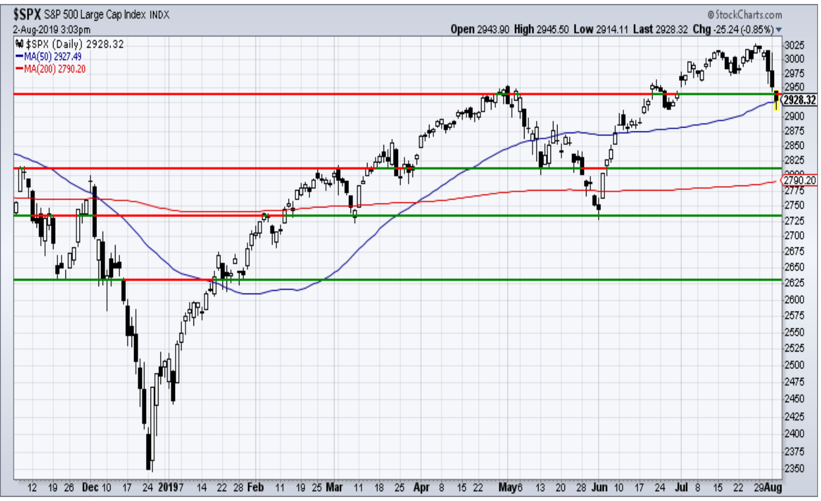


The support and resistance lines that we have been carrying forward for several weeks now have come back into play with the week's weakness. The S&P dropped back below support at the previous highs. A few days below support can be weathered but if the bulls aren't able to establish a rebound next week then we may be stuck back in the long-term trading range that has persisted for much of the last 4 months. As we surmised, volatility did increase this week as the Fed delivered to expectation but were greeted by a Wall Street crowd that wanted more. A single tweet and an additional 10% tariff sent the bulls scurrying as they tried to rebound yesterday. The selling has continued today. With most of the big name earnings out of the way, trade and the economy will drive the next few weeks.


Treasury yields have dropped precipitously. The ten year rate is down 11% this week! While the rate cut started the decline, the tariff fears served to throw gasoline on the fire. The flight to safety is something to be watched. If money continues to flow into treasuries (rates declining), we could be in for a more protracted decline. Before the tariff tweet, the chances of a September rate cut was a little more than a coin flip. Fed Futures now indicate a 100% chance of another 25 basis cut despite the one and done language of Chairman Powell. Any easing of the trade tensions will reduce the certainty of a rate cut but it is hard to imagine the Fed not cutting again in six weeks.

## Our Point

As we wrote last week, "it is very possible that the market sells off at the end of the month regardless of what the Fed does. Expectations are high and the Fed is unlikely to surpass them, so a buy the rumor sell the news mindset may be forthcoming." While the Fed provided the widely expected 25% rate cut, it surprised the market by intimating that future rate cuts should not be expected. The presence of 2 dissenting Fed members also didn't help. The result was an orderly but painful sell-off late Wednesday afternoon. The market gained its footing and was on its way to recovering the losses on Thursday when the announcement of further tariffs on China would be forthcoming. Considering the gains this year, the declines have been modest and not out of the ordinary. The market has become a little numb to volatility over the last few months. While the market decline has been unpleasant, it should not be a reason to head for the exit yet. That said, investors would be wise to reduce market exposure to their comfort level and to set sell stops on their equity positions. Bonds and defensive sectors were the winners on the week as the interest rate declines and a flight to safety benefitted these areas. Snap movements on news events (tariffs) are often reversed as investors take time evaluate the significance of the news rather than their emotional response. In reality, nothing much has changed on the trade front – we remain a long way from settling it and will likely have many more positive and negative reactions to tweets and other news events before this uncertainty in the market is put to bed. We made no changes to our portfolios this week as our bond and defensive holdings will finish up for the week. We will see how the market responds next week (after a weekend of digesting all the news) before making any changes. Lowell Reeves Handy finally arrived early Sunday morning. Fashionably late but a show-stopper! He is beautiful and mother, father and baby are all doing well. We are so thankful. PaBo is a proud grandparent. Still settling in on Kelly's grandparent name! Have a great weekend – football season is in the air.