BILLS ASSET MANAGEMENT

BAM MARKET NOTE

SAM BILLS (865) 525-1329

OCTOBER 4, 2019

BO BILLS (615) 371-5928

As we surmised in prior notes, a retest of the break out that occurred during the first week of September was likely. The retest came this week and, to this point, has failed. The S&P fell below support at 2930 with a couple of big down days. The bulls are making a push today to get back above that support (now resistance). We'll see if the gains hold as we head into the last hour of trading. Regardless, it has been a down week as weak economic data trumped any hopes of further Fed rate cuts. It could be the start of the markets beginning to get numb to interest rate cuts. For much of the last 10 years, the markets have viewed bad news as good news due to the fact that bad news would prod the Fed to continue their dovish policies. Are we starting to see a shift in the market's mentality?

We often look at high yield bonds to gauge the market's appetite for risk. The weakness over the last couple of weeks is clearly shown in the performance of high yields. As you can see, high yields briefly pierced their 50 day moving average (a clear warning sign) but, like the S&P above, is making a push to get back above this key indicator for this sector. The performance of high yields often portend future market moves so we will continue to watch this group's performance over the coming weeks.

Our Point

Unexpectedly weak manufacturing and non-manufacturing numbers earlier this week led to a broad-based sell-off. Clearly the market was on edge this morning as it awaited the monthly jobs report. Fortunately for the bulls, the numbers reported were in line with expectations (modestly below) but also, importantly, revised upwardly the prior 2 months. It was enough to get the bulls back on track and the markets are up today on the news. The numbers were good enough to forestall thoughts of an acceleratingly weak economy but not so strong as to suggest that the Fed would sit on their hands at their next meeting. There is no doubt that the economy is slowing. However, it remains an open question on how pronounced and how quickly the slowing will be. With earnings reports and forecast of future earnings just around the corner, we will likely get a clearer picture of the economy over the next 2-4 weeks. The fourth quarter is historically a strong one for Wall Street (not always the case if you remember last year!). Despite the weakening economy, threats of recession, an impending impeachment, tariff and trade issues, etc., the markets remain a good week from taking out their highs. It is a resilient market. Speaking of impeachment – it should be noted that the market has largely shrugged this off. The reality is that any impeachment is more a political statement than a market event. Unless additional facts are presented, the impeachment will be more like a censure as the Republican held Senate will not take the next step of removal from office. As such, any Congressional actions will have no effect on the markets. However, to the extent that political stances are deemed to affect the 2020 elections, we could begin to see shifts in market winners and losers depending upon who is deemed to benefit the most from the political noise. We will see more and more shifts as the Democratic nominee is settled on over the coming months. We made no portfolio changes this week as we continue to wait patiently for the market to tip its hand on the next big market move. Go Vols? Have a great weekend and enjoy a little less oppressive heat.