Bills Asset Management

BAM MARKET NOTE

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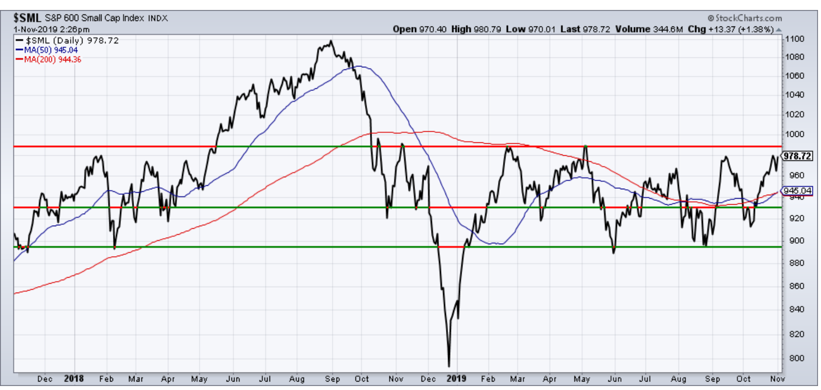
We finished last week knocking on the door of resistance at the highs of the year. Monday saw the market break to the upside. After some backing and filling to re-test the old resistance (now support), the market is moving up again today on positive economic news. Eclipsing the old highs, the market is now in uncharted waters. Support remains at the old highs. Many have called the recent rally the most hated rally since it is going up against the backdrop of many negatives and lots of uncertainty. The on again – off again trade talks, the real threat of impeachment, the rhetoric of the 2020 election, a weakening economy, weak world markets (though they are showing some life), to name a few worries/uncertainties. Over the last several years, an accommodative Fed has made many of the worries and uncertainties moot. We'll see if this time is any different.



Small-caps have a long ways to go to get back to their highs but are nearing significant resistance. Over the last 3 weeks, small caps have been showing relative strength over the large caps and that is continuing today. If small-caps can continue their relative strength and can break the resistance that lies just 1% above, then it would be a very big positive for the rally that appears to be starting in the S&P.

Our Point

As expected, the Fed lowered rates by another ¼% on Wednesday. Also as expected, Chairman Powell was asked about the expansion of the Fed's balance sheet. Fed officials reiterated that the expansion is not quantitative easing but are a "purely technical measure." Call it what you may a duck is a duck. The increase in liquidity will and is finding its way into the markets possibly explaining some of the rally over the last few weeks. Adding fuel to the fire this morning, the monthly jobs report came in much stronger than expected. The headline number modestly beat expectations but revisions to prior months added to the excitement. The combination of a Fed that is willing to back stop the market and an economy that is showing some signs of regaining its footing, sent the markets higher this morning and they have not looked back. We'll see how the market closes but with the traditionally strong 4th quarter, the business positive of an accommodative Fed and a leveling, if not slightly strengthening, economy as backdrops, higher prices seem likely for the coming weeks. Over half of the 3rd quarter earnings have been reported and the results have largely beaten (lowered) expectations. With earnings season greater than half way done, the market will begin turning back to watching economic measures and Fed speak. The Fed didn't shut the door on another rate reduction at their next meeting but expectations are that they will stand pat for awhile. We made a few portfolio adjustments as we exchanged our utilities holdings for broad large cap holdings. Absent a surprise over the weekend, we will continue to make a few changes as we shift to a less defensive posture. Small and mid caps are an area of interest but we will take the weekend to find the best holdings. It seems like we went from Summer to Winter overnight – hopefully Fall will reappear next week. Have a great weekend and stay warm.