Bills Asset Management

BAM MARKET NOTE

August 11, 2023

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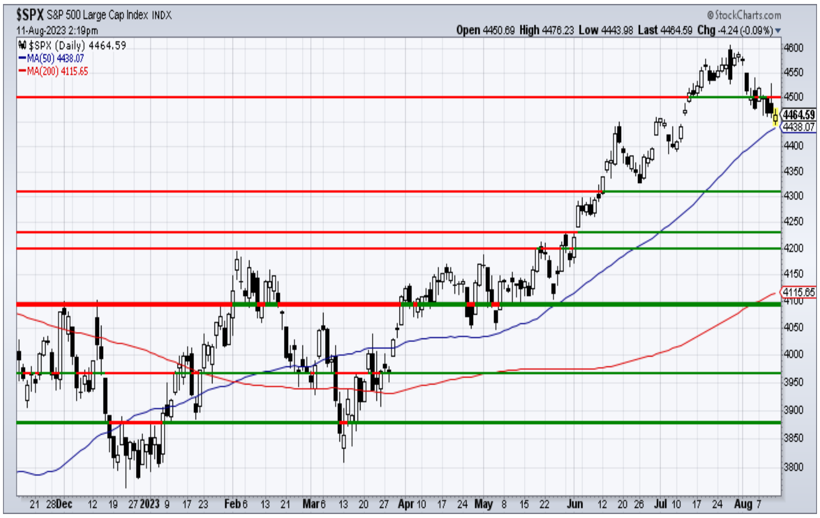

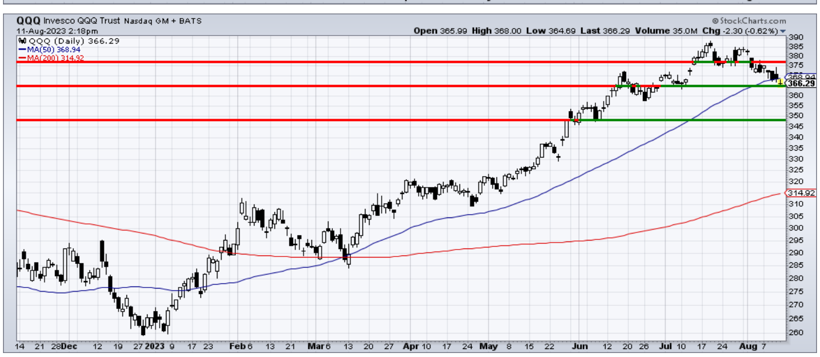

Since August began, the major indices have all been in a downtrend. The damage has been modest. The S&P is now down a little more than 2.5% since August 1st. To this point, the decline is nothing out of the ordinary and reflects a small pullback in an ongoing uptrend. As we have said over the last few weeks, a pullback in the range of 5-10% would not be unexpected and would be welcome to reset the market for the potential of higher prices later in the year. The S&P touched the 50-day moving average earlier today before bouncing a little. Should the moving average support not hold, we are likely to see that 5-10% correction. A correction of that magnitude that holds would be an excellent opportunity to add a little more risk into your portfolio.

The NASDAQ is in a similar situation. However, the tech index breached its 50-day moving average and is now testing support at 366 for QQQ. Further weakness here would set the stage for more losses in the short-term. Again, a decline that holds above the next support level should be viewed as an opportunity to add more risk.

Our Point

Inflation measures came in this week mostly unchanged from the prior month. Some measures did tick up raising the specter of a return of rising inflation. However, some of the increase may be attributed to seasonality and to prior month's readings that dropped off the calculations. Regardless, the fact that inflation seems to have stalled here is a concern that we are certain the Fed is watching. With the inflation data and the surprise announcement by the Bank of Japan to raise its cap on interest rates, the market bears have had every opportunity to force a significant sell off. And yet, the widely expected sell off has been muted. In a market like this a correction often needs a catalyst to get things moving down. Sometimes the catalyst is real and sometimes it is just an excuse for traders to book some profits. What is interesting is that the market has had an apparent catalyst and still remains relatively calm and stable. It speaks to the conviction of market traders and is a further positive to the market. Will that change over the coming weeks? August and September have the well-deserved reputation of being the worst market months so it would come as no surprise if the correction we have been waiting on happens over the next few weeks. Time will tell but we would advise caution in the near-term. We'll get the usual batch of economic reports next week including retail sales, housing starts and initial jobless claims that could be market movers. Additionally, we will see the release of the Fed minutes on Wednesday which could provide a little more clarity on the Fed's interest rate policy going forward. Currently, there is only a 10% chance of the Fed raising rates in September. Surprisingly, the markets have priced in a 25% chance of another rate hike in 2 meetings (November 1st meeting). There will be a lot of data to parse between the next two meetings, but the minutes next week should provide some information on the tenor of the Fed. With the major indices all at significant support levels, we made no changes in our portfolios this week. The recent weakness has us evaluating several of our equity positions. Should support fail to hold here, we are likely to get a little defensive and wait for the markets to find support at lower levels. Well, it isn't real football, but it is something! The Titans kick off their pre-season tomorrow and the Vols aren't far behind with their season opener only 3 weeks away. It can't come soon enough! This time of year, every team is a Super Bowl or national champion. Yes, that includes the Titans and Vols. Have a great weekend and Titan Up!