Bills Asset Management

BAM MARKET NOTE

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It has been a seesaw market this week as early week gains were reversed yesterday and then, to this point, recovered some today. The market rallied yesterday up to the 50-day moving average but was turned back down with an intra day reversal that saw the S&P lose 1.35%. The S&P is trying to recover those losses today but will need some more work before making another run at the 50-day moving average resistance. We spoke last week about the oversold rally that we expected to see this week. If this is the extent of the oversold rally, then it foretells more losses before the market settles out. Most often it isn't where the market opens but where it closes that provides the most reliable information. We'll see today if we see strength or weakness into the close that will give some indication of what next week might bring.

The 20-year treasury ETF TLT provides some indication of fear in the market and where interest are and where they are heading. Remember that TLT moves in the opposite direction of interest rates. As interest rates rise, TLT will likely fall and vice versa. Interest rates have been rising and TLT (along with most all interest rate sensitive stocks and bonds) have been falling. That reversed a little on Wednesday and has continued this week. With TLT short-term oversold we could easily see a rally and a corresponding fall in interest rates. Something to watch for sure.

Our Point

All's Well That Ends Well is not only a Shakespeare play but also a mantra for the markets. As alluded to above, how the market closes is much more important than how it opens. Yesterday was a very concerning day. With the blowout earnings by Nvidia, the NASDAQ and market all exploded out of the gates. However, those gains evaporated throughout the day with the major indices all suffering one of their biggest losses over the last couple of months. The negative turnaround is not something you would expect to see from an already oversold market. Today's rebound provides some consolation but if this is the oversold bounce many expected, then we are likely to see lower prices in the near-term. 4300 (2.5% down from current levels) on the S&P remains a good possibility with an outside possibility of a move down towards 4200. The longer the S&P remains below its 50-day moving average the more likely a lower move becomes. Chairman Powell's comments this morning at the annual Jackson Hole symposium initially created lower prices and volatility. However, the markets have shrugged off the comments to this point today. With little surprise, Chairman Powell reiterated that the Fed is likely to hold rates steady if not raise them over the coming months. The economy has powered through the high rates and its resiliency has been impressive. We continue to believe that the higher for longer interest rates will eventually have a deleterious effect on the economy but, to be honest, we have been surprised with how the economy has held in there. The resiliency may have more to do with Covid funds still sloshing around and continued government spending, but its effect are hard to deny. August and September remain two of the weakest months historically, so we aren't out of the woods yet. We didn't make any changes to our portfolios this week but are watching both our equity and bond holdings closely. Further weakness could push our holdings down to their stops. We don't believe the market run is over but do believe that caution in the short-term is warranted. With daily temps hovering near 100 degrees, it will be another weekend of inside projects. Hoping for some relief next week in time for the Vols opener! Have a wonderful weekend wherever it finds you.