BILLS ASSET MANAGEMENT

BAM MARKET NOTE

AUGUST 18, 2023

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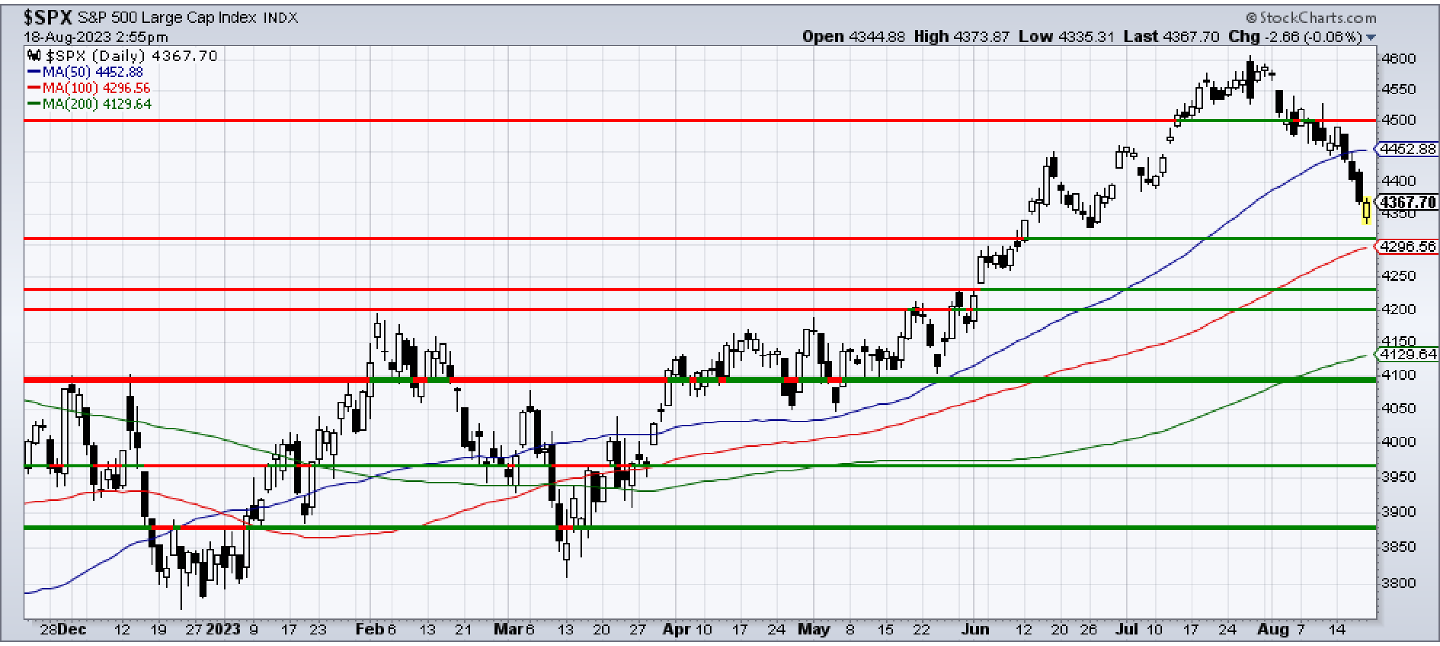

Our Point

The sell off that began August continued this week. The decline remains orderly and modest (all things considered). As we have mentioned for several weeks, a decline of 5-10% would not be unexpected and may provide an opportunity for investors to increase their risk heading into the end of the year. With this week's decline, the S&P is off 5% from its July highs. The 50-day moving average has been convincingly breached setting the next support at the 4300 level which also coincides with the 100-day moving average. A decline to this level would be a little over 6% from the recent highs. A 10% correction would take us all the way down to the 200-day moving average at 4130. Such a correction would not be all that unusual and would likely provide an excellent buying opportunity. The markets have become oversold in the short-term, so an oversold bounce is likely over the next few days. What happens after any bounce will provide many clues on the depth and duration of any further decline. We are in an historically weak market period for the next few weeks so it would not be surprising for weakness to continue in the near term. The better-than-expected retail sales numbers earlier this week and the release of the Fed minutes from their last meeting, puts further interest rate hikes back on the table. Chairman Powell will be speaking next week at the annual Jackson Hole symposium so Wall Street will be listening closely to his remarks. While the US has been resilient, European countries are beginning to slip into recession. China may also already be in a recession or quickly approaching one. With so many world economies struggling, it will become increasingly difficult for the US to escape a significant slow down. If the rest of the world is sick, it will be hard for the US to avoid catching a cold. Speaking of China, their markets have fallen nearly 30% over the last 2 years and the selling only intensified over the last month with negative economic news. As the second largest holder of US treasuries, China may be forced to sell some of these securities to shore up its currency. However, selling those US treasuries would have a negative effect on the Chinese economy as it would impair exports and perhaps draw more capital to the US as treasury yields would rise with any broad-based selling by the Chinese government. In fact, the concern has contributed to the current rise in US treasuries. Stronger than expected US economic activity has also driven up treasury yields as the bond markets worry about further rate increases by the Fed. There are many crosswinds and lots to consider. There is certainly not a shortage of things to be watching over the coming few weeks and months! To this point, the market has been orderly in the current weakness. However, it is not a time to be complacent. Every significant downturn starts off with a little weakness. With selling on the minds of many traders, a negative catalyst could set the stage for something more damaging. We are watching things closely and will not hesitate to remove risk from our holdings. In fact, we sold two of our equity positions this week and a few others are getting close to hitting their stops. We'll see how the market responds to the expected oversold bounce before making any additional changes - unless the oversold bounce doesn't materialize, and our sell points are hit. Stops are in place and managing risk remains a hallmark of our investment process. We have gotten a reprieve from the oppressive heat of the last few weeks, and it promises to be a more palatable weekend. I'll spend that time doing some things around the house and yard and watching a little pre-season football to keep tabs on the upcoming season. It promises to be a good weekend and we hope yours is as well. Enjoy.