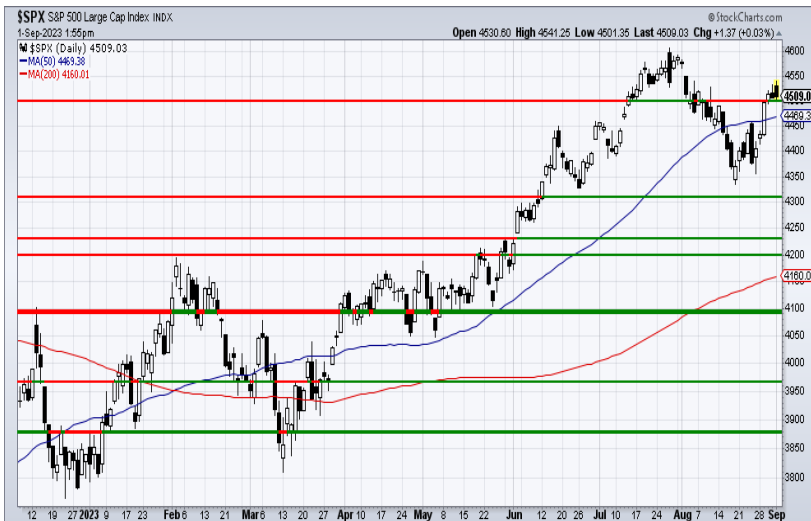


# BILLS ASSET MANAGEMENT

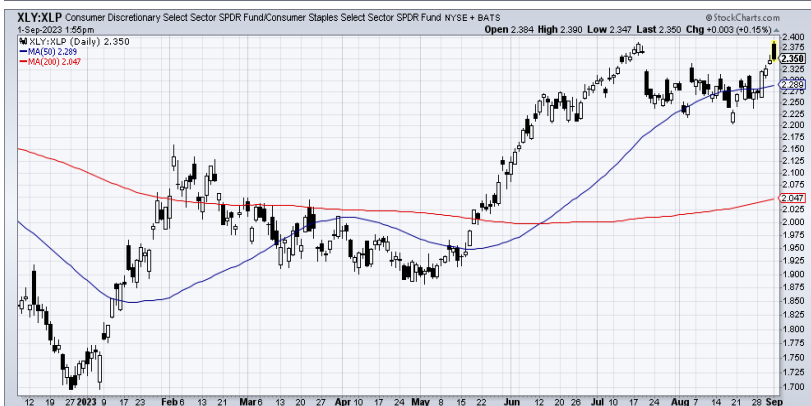
## BAM MARKET NOTE

### SEPTEMBER 1, 2023

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The market faded for much of August but stabilized mid month and has been working the last 2 weeks to recover some of its monthly losses. To date, it has recovered a little over half of those losses but importantly sits at relatively significant resistance/support currently. The index did break above the 50-day moving average but is stalling a bit at its next level of resistance. Is it just a pause or a failure of the counter-trend rally? One thing that has us worried is the well-founded reputation of September to be an ugly month for the markets. With many headwinds, it would not be a surprise to see a continuation of the losses that pervaded August. That said, the rally has us looking closely – this market has not been a particularly intuitive one.



A positive behavior of the market is the current relationship between consumer discretionary and consumer staples. Often, when the market is fearful of a steeper loss, staples will outperform discretionary as investors look for the relative safety of consumer staples. However, the current decline and the bounce that followed show that consumer discretionary is a relative standout which leads credence to the idea that the August weakness may have run its course or that any September decline might be a modest one. We'll continue to closely watch this chart among many others.

## Our Point

Are we at a Rocky Top or just a pause that has legs to drive higher? Are we at a pause - half bear the other half ~~cat~~ bull? Those are important questions especially considering the game this weekend. The market received lots of economic data this week with the PCE and jobs report leading the way. The PCE ticked a little higher but remained within Wall Street expectations. The increase, however, reinforces the notion that inflation remains and will be difficult to bring down without more interest hikes and/or a greater slowing of the economy. The jobs report this morning shed little new light as new jobs were in line with expectations. It remains a strong jobs market but is slowing. Importantly, the unemployment rate and participation rate both ticked up a bit. Both seem to indicate that jobs are getting a little scarcer which could bring lower jobs numbers in months to come. Short term treasury yields were up slightly on the jobs report, but the futures market still predicts only a 7% chance of a Fed rate increase at their next meeting. However, none of the current data suggests that the recent Fed policy of higher for longer has changed. Absent significant economic weakness, we don't expect interest rate cuts until well into 2024. As we mentioned above, September holds a well-deserved reputation as one of the weakest market months. To add to that this year, we have another debt showdown with a new budget due on September 30<sup>th</sup>. With an election year coming up and the continued acrimony between Republicans and Democrats a chance of a shutdown cannot be discounted. We continue to believe that something will get done but it will likely come down to the final hour and will likely add some volatility as we move through this month. While the volatility could be uncomfortable, it is very unlikely to last for any length of time as the markets always look to the future and will quickly discount any current effects of a potential shutdown. With the markets at the current level, we are considering adding new positions on any continued strength. The markets have had their oversold bounce and are now pausing. Where they head next will determine whether September's reputation proves true or if this year is one of the exceptions. Not much planned for me this weekend as it will be Home Sweet Home for Me. Go Vols.

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