BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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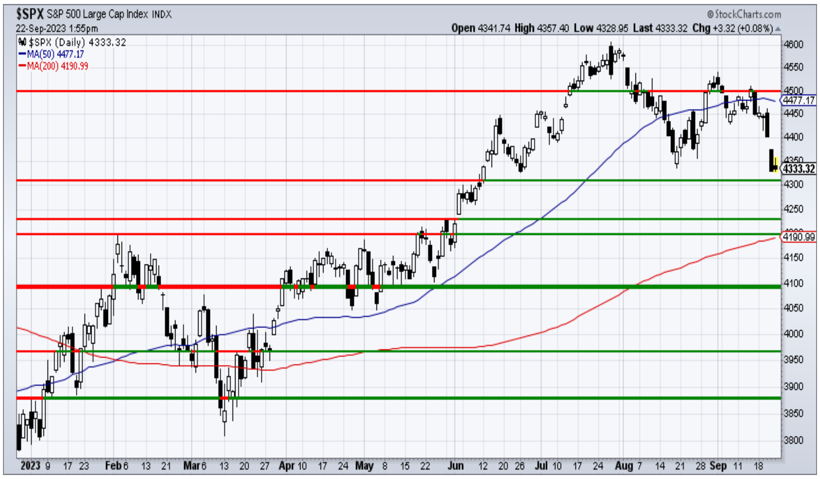

After rallying a bit last week on the back of elevated inflation data, the market took note of the Fed's continued promise of higher for longer interest rates. It has been a challenging week as all the major indices are down. The S&P is down nearly 3% for the week and is approaching another key area of support. Despite the weakness, the index is only down a little over 5% from its peak at the end of July. As we had proposed in prior notes, we expected a correction in the area of 5-10% before the market staged another rally. We are at the lower end of our expectation, but more losses could easily materialize as we remain in a very weak seasonal period. Caution should be exercised but a good buying opportunity is on the horizon.

One of the overriding themes of 2023 has been the dominance of the mega cap stocks relative to the rest of the market. Nearly all of this year's returns has been driven by a literal two handfuls of stocks. The other 490 stocks in the S&P 500 have barely eked out a gain for the year. RSP is an equal weight ETF of the S&P. As you can see it is much weaker than the S&P index and illustrates that the mega cap names remain the driver of this market. The recent weakness took the equal weight S&P below its 200-day moving average – a key area for many traders.

Our Point

As we noted last week, we expected the Fed to leave interest rates where they are but were more likely than not going to raise at least one more time – at the next meeting in November. This is the path that Chairman Powell indicated in his press conference on Wednesday. Unless inflation eases between now and the end of October, we will likely see another 25-basis point hike at the next Fed meeting. Despite what the Fed has said all year, the markets have held onto the belief that the Fed was right around the corner from easing on rates. Chairman Powell has been consistent in saying that they were data dependent, and we would likely have higher rates for longer than many expected. Powell reiterated that stance this week and the market has reacted negatively to this reality. After two broad days of decline (Wednesday and Thursday), the market opened significantly higher this morning. However, at this writing, today's gains have evaporated, and the market is now in the red. The market is getting a little oversold so a rally next week would not be surprising. The S&P is in a short-term downtrend and will need a few days of positive action to break the current short-term trend. September's bad reputation has been fulfilled to this point. With little in the way of market moving news over the next couple of weeks, we would expect a mostly sideways to down market over that time. That may change in October as earnings reports start rolling in. Earnings expectations have fallen all year long which makes company beats more and more likely. The third quarter earnings parade will likely lead to some level of excitement in the market and could mark the start of the much-anticipated 4th quarter rally. Speaking of which, we join many others in expecting an end of year rally but are growing more nervous about the prospects. With so many expecting such a rally, the odds of it materializing diminishes. The markets always make a habit of making fools out of as many as possible and often defies expectations. We will be watching closely. As noted last week, one scenario may be that the end of year rally starts a little early and ends before the traditional Santa Claus rally. We made no changes this week but are close to adding a little risk to some of our more aggressive portfolios. The stickiness of interest rates has delayed the attractiveness of some bonds but that will change when the Fed is done. All in all, our portfolios have weathered this recent squall well and we are gearing up for what we hope will be a nice 4th quarter – in stark contrast to the Vols 4th quarter in the swamp. Have a great weekend.