Bills Asset Management

BAM MARKET NOTE

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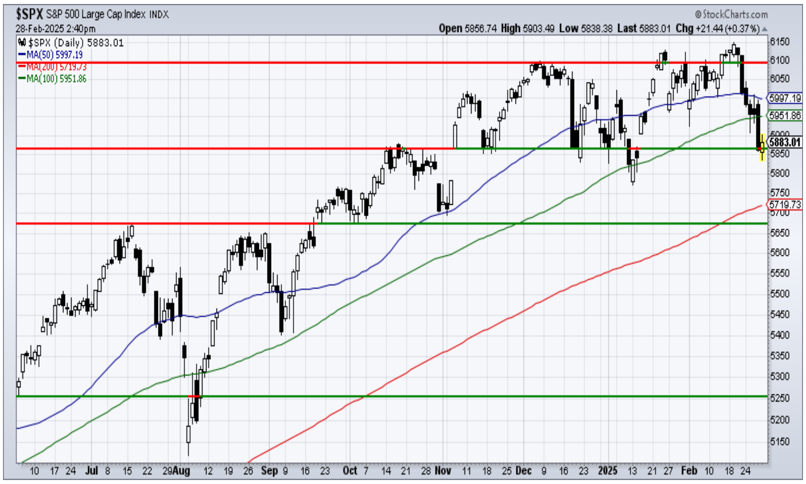

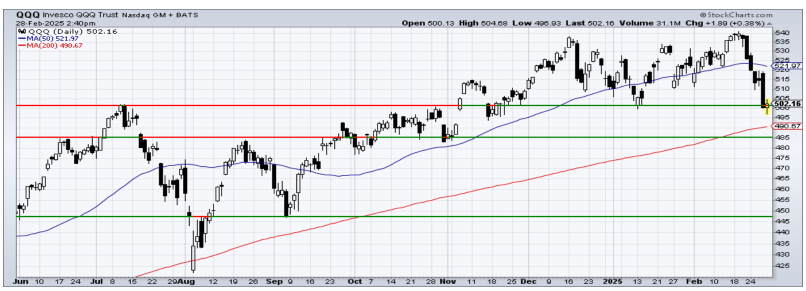

The S&P has had 6 straight down days and has shed nearly 5%. The selling has been broad based but led by the tech sector. Despite being uncomfortable and painful, the selling (to this point) has not been panicked or particularly unusual. Things can change quickly, especially when the markets are in a selling mood. On a short-term basis, the markets are oversold, and we are very likely to have a bounce in the next few days. The 50 and 100-day moving averages provided little support, but the market now stands at the bottom of the long-standing trading range. If the bulls are going to make a stand, this is the area. Investors should remain cautious but not over-react to what could be a normal pullback.

While the S&P has fallen close to 5% over the last week or so, the Nasdaq has fallen over 7%. The larger decline shows that tech stocks and the market leaders of the last couple of years have been hit harder than other sectors. Just like the S&P, the Nasdaq 100 is at important support and the bulls will need to take a stand here or risk another leg down.

Our Point

We limp into the end of February with red screens. By all accounts, it has been a bad month for markets. All of the major indices are down between 3 and 4%. Despite the panicked headlines, it should be noted that 4-10% corrections are normal and healthy for markets. The declines take out some of the irrational exuberance and resets the market allowing for new investors to step in. With the markets oversold, we are very likely to get a reflexive bounce over the coming days. The strength and duration of the bounce will provide helpful guidance on whether or not we have seen the worst of the most recent weakness. As noted above, the markets stand at important support for both the S&P and Nasdaq. If support doesn't hold, we could easily see another quick 2-3% decline down to the 200-day moving average and additional support. Investor sentiment has turned decidedly negative (often a contrary indicator). When everybody is on one side of the boat, it may be wise to move to the other side! As noted last week, we were hoping that Nvidia would rescue the markets with another blow out earnings report. Nvidia did their part with large earnings beats and optimistic guidance, but investors were not in the mood. Surprisingly, Nvidia has led the market decline – more likely because of unrealistic expectations and valuation concerns. We also got the PCE inflation report this week with an inline report that did nothing to excite the markets. We remain in a headline driven market. With the flurry of Trump administration actions, the financial markets are having trouble keeping up with the news. New tariff threats and proposals come almost daily. The markets quickly price in new information and move forward but have a difficult time responding to uncertainty. In the current environment there is much uncertainty and, accordingly we have seen increased volatility. We expect volatility to moderate and headlines to have less and less effect as the markets adjust to the new normal. Similarly, we don't expect the end result of all the tariff talk to have much lasting effect on the markets. For good or bad, President's are often judged on stock market performance. The Trump administration is no exception and will adjust its policies to have as little negative effects on the markets as possible. The big events next week are the first round of announced tariffs set to take effect on Tuesday and the monthly jobs report on Friday. With a slowing economy and government jobs not padding the report, it will be interesting to see where the numbers fall. The jobs report always has the potential to be a market mover. We made no changes to our portfolios this week but have several holdings that are on the cusp of sell signals. Next week could be a busy one! It will be nice to say goodbye to February and one step closer to spring. Enjoy your weekend wherever it finds you.