

BILLS ASSET MANAGEMENT
BAM MARKET NOTE
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We haven't seen much weakness in the markets for a couple of months, so today's decline feels worse than it likely is. As we have noted, we expected a pull back and this is probably the beginning of it. As of this writing, the S&P is down a little over 2% for the week. After such a steep and rapid rise, there is nothing to be concerned about currently. A further decline back to the 50-day moving average and support at 6100 would not be unexpected or alarming. However, if the index breaks below support, we could be in for a more significant correction. We are watching things closely but aren't overly concerned at this point. Tighten up your stops and be a little cautious.



High yield bonds have leveled off over the last several weeks but have remained stable. The sell off today has not generated any selling in high yields so the bond market isn't worried (yet) about any economic weakness. Should high yields begin trading down and approach its 50-day moving average, it would get our attention. Watch this chart for an early warning sign of problems beneath the surface of the market.

Our Point

Last week, we noted the glut of information that the stock market would need to deal with this week. From LOTS of earnings, significant economic measures, the Fed meeting and the tariff deadline (again!), there were a number of crosscurrents for the market to digest. Earnings have largely been very good (with lowered expectations, mind you). Microsoft and Meta both blew out earnings and were rewarded. Apple and Amazon were mixed with both exceeding expectations but Amazon warning of slower quarters later this year – Amazon is getting whacked today – down almost 8%. On the economic front, we got slightly higher inflation readings and a poor jobs report. The higher inflation reading added credence to the Fed standing pat while the weak jobs picture argued for a rate cut. Speaking of the Fed, the market was disappointed that they didn't shift a little bit more dovish. With two members dissenting on the decision (very unusual), the Fed didn't adjust their thinking much. I suspect that President Trump's badgering of Chairman Powell may have backfired as Powell doesn't want to look like he is cowing to Trump. In any event, despite the small increase in inflation, the much weaker than expected jobs report (especially in prior month revisions) will likely push the Fed to cut in September – there is no August meeting. Fed Funds Futures jumped from a 37% chance of a September cut to an 80% chance on the disappointing jobs numbers. Tariffs have largely been taken out as a market catalyst as most market participants now realize that deals will get done and that tariffs are not likely to have a measurable effect on inflation. As we have noted here recently, August and September have the well-deserved reputation as weak market months. We are certainly seeing that today and we expect the next couple of months to be a little choppy with a downward bias. We don't expect the bull market to end but rather to reset for another push higher to end the year. Next week will be much lighter on market moving events. We will continue to get earnings but much of the fireworks happened this week. Economic reports are sparse. We have made no changes to our holdings but may lighten up a little next week in view of today's weakness and the seasonality of August and September. We are not looking to make wholesale changes but rather generate a little cash to be able to deploy on weakness. While we do not expect a significant correction, one never knows when it is coming. Rather than invest based on what we think might happen, we try to respond to what is happening. We have had a good investing year thus far and sincerely appreciate your trust. We are getting a "cold front" this weekend with highs only in the high 80's! Get outside and enjoy it before the August heat returns. Enjoy your weekend.