

BILLS ASSET MANAGEMENT
BAM MARKET NOTE
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Last Friday's weakness did not extend into this week as the S&P has churned higher. Weakness continues to be short-lived. That will change at some point, but, for now, the markets are on solid footing. Support remains just below the 6400 level. A test of that support would entail a 3% decline. We suspect that any weakness over the next few weeks would be confined at this level. Next week has lots of data points and historically begins the weakest period of the weakest month. However, we continue to believe that buying weakness will be a winning strategy.



Two-year treasury yields often foreshadow the Fed Funds Rate. Currently the Fed Funds Rate sits at 4.25% -4.5%. However, the two-year treasury yield sits at 3.55%. The difference of .7% - .95% indicates that the bond market expects at least 3 25 basis point interest rate cuts over the coming months. We'll see what changes the Fed makes to its policy next week.

Our Point

The only things that could seemingly derail a more dovish Fed were this week's CPI and PPI reports. Both reports came in at or below expectations setting the stage for the much-anticipated Fed rate decision next Wednesday. It is widely expected that the Fed will cut rates by 25 basis points next week; however, it is possible that the Fed could cut by 50 basis points. A 25-basis point cut has been priced into the market, but a larger cut could lead to some additional volatility. Chairman Powell's comments and the Fed dot plot will be highly scrutinized for indications of future Fed policy and how dovish the Fed is turning. If indications are for more rate cuts over coming meetings, the market is likely to rally. However, absent surprises from the Fed meeting and coming into the weakest part of September, it would not be surprising to see a buy the rumor and sell the news market reaction. With some interest rate cuts already priced in, the market could easily sell off if the Fed only does what is expected. There remains a number of hedge funds and professional investors that have missed the lion's share of market gains this year. As we near the fourth quarter, pressure will continue to mount on those that missed gains to try and make up for their bad decisions earlier this year. The increase in buying pressure could very easily result in an exceptionally strong end to the year. We remain optimistic but always have an eye on an exit plan should things not turn out as we expect. Making gains is important but keeping them is equally important. Just like the anticipated August weakness, September has (to this point) defied expectations and has logged strong gains. Likewise, we have continued to enjoy the market strength and have strong gains for the year. After adding a position in small caps last week, we are nearly fully invested and made no changes to our holdings this week. All of our positions are performing as expected. When that changes, our investing posture will change. It's a monster weekend in Knoxville this week as my Vols take on Georgia. Hoping for a Big Orange weekend. We'll also get another peek at the Titans on Sunday with last week being less than inspiring. It will be another full weekend – enjoy yours wherever it finds you.