

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

SEPTEMBER 19, 2025

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The market continues to defy historical tendencies. Despite the chronicled usual weakness of August and September, the S&P is up nearly 5% since August 1st. The index is getting a little extended but not overwhelmingly so. It has been a slow churn upwards with little volatility. With just 7 trading days left in September, the bears will need to establish themselves to prove the worst month history true. Regardless, the market is poised to continue marching upward. Any weakness should continue to be bought.

We show the equal weighted S&P from time to time to illustrate what is driving the market. Though RSP is up over the last couple of months, its performance is lagging the weighted index significantly. The difference, as we have seen several times over the last few years, is the relative outperformance of the largest of the large cap names. The large tech names continue to lead the market higher. We would like to see a little better breadth, but it is hard to complain.

Our Point

As widely expected, and noted here last week, the Fed met expectations and cut the Fed Funds rate 25 basis points this week. While we surmised that we wouldn't be surprised if there was a sell the news market reaction, the bulls took full control. The market held its small gains on Wednesday and was up strongly yesterday. The rally is continuing today with the S&P logging solid gains to this point in the day. Importantly, while the Fed met expectations on the rate cut, it also indicated that two additional cuts will be made this year (October and December meetings). The Fed Funds futures show a greater than 90% chance of an October cut and an 80% chance of another cut in December. While Chairman Powell was not particularly dovish in his comments, the indication of 2 more measured rate cuts has the market in a happy mood. Today is triple witching day which happens 4 times a year and can create additional volatility – especially as we near the close. Triple witching is the expiration of three different derivative contracts on the same day (today). The result is the closing, rolling over or settling of a number of positions resulting in larger than normal trading volumes. The result can often be increased volatility but should not affect the prevalent market trends. While we expected weakness last month and this month and thought that it was likely we would get a bit of a sell-off after the Fed announcement, our portfolios didn't suffer as, fortunately, we don't invest based on what we think the market might do. Rather, we always try to respond quickly to what it is actually doing. Nobody knows what the market will do today, tomorrow, next week, next month, etc. We will have weakness in the markets over the coming weeks, but the market is in a strong bullish trend, and higher prices are more likely than not through the end of the year. There is little in the way of market moving news scheduled for next week. The one wildcard is a potential government shutdown on October 1st. If history is any indication, any volatility due to a shutdown would be short-lived and the dominant market trend would resume after any shutdown is settled. We made no changes in our holdings this week and remain fully invested in various stock and bond holdings. It was a heartbreaking last Saturday in Knoxville as the Vols let one slip away. Fortunately, the sun did come up Sunday morning. The Titans... enough said. Enjoy your weekend wherever it finds you.