

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

OCTOBER 17, 2025

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As we noted last Friday, this week's action would be extremely informative relative to the late week sell-off. We mentioned that the 50-day moving average would provide some support to the markets and beyond that the support line at 6400. To this point, earnings have been enough to stall the selling, and the S&P looks to finish the week up around 1%. As you can see, the 50-day moving average provided support on both Friday and Tuesday. It is too early to say the decline is over but the market's reaction this week has been very constructive. Caution should still be exercised but we continue to recommend buying on weakness.

While the high yield chart we showed last week has turned a bit more favorable, the VIX is flashing some warning signs. Despite this week's positive gains, the VIX is rising. The dichotomy is a concern. A rising VIX in a rising market (the VIX usually surges on weakening markets) is not the usual and may be a sign that things are not as calm as they seem. The VIX briefly went above 25 this morning and remains elevated relative to the last several months. We would like to see the VIX return to the teens before reducing our caution.

Our Point

Last Friday's selling was met with a strong rally on Monday as buyers stepped in to buy the dip. Monday's gains have held to this point assuaging some of the angst from last week. More speculative assets (for example, crypto) have not been so lucky. While bitcoin remains up 20% this year (more than any of the major indices), it did suffer from recent selling and is down 13% since its highs of October 6th. It is reminder that while crypto may in many cases have a place in someone's portfolio, it should augment returns and not replace all investments. As mentioned above, a rising VIX can be a challenge to future market gains. Traditionally, gains are harder to come by once the VIX rises above 25 – we are right at that level. While the major indices have held up well and remain a good day or two from their highs, the rising VIX gives us pause in saying the recent weakness has passed. We do still believe that we will finish the year higher than current levels but aren't yet convinced Friday's sell off is over. With the government shutdown ongoing with no end in sight, bank earnings took center stage this week. Generally, the big banks recorded strong earnings and positive outlooks. One wrinkle to the good bank news was the failure of subprime lender Tricolor due to the fraud of First Brands – an automotive parts maker. Following the announcement late last week, additional scrutiny of regional bank balance sheets and risk arose. The result was a sell-off for smaller banks but hasn't yet had much effect on the market in general. Tesla will headline a number of earnings releases next week. The following week will bring many more of the tech heavyweights. At some point, the government shutdown will end, and economic reports will be released. Until then, the markets will continue to have a backdrop of uncertainty. Once the resulting data is released, it will have the potential to create large market moves. The void in information happening now is building up some pressure that will be released once the data becomes apparent. With the elevated market risk, we generated a little cash this week selling a small equity position. We don't expect to hold the cash long but thought it wise to capture some gains and generate a little bit of cash to redeploy on any further weakness. The third Saturday of October always garners my attention. With the Vols heading to Tuscaloosa, this year's game will bring college football playoff ramifications. Tennessee has won 2 of the last 3 meetings but haven't won in Tuscaloosa since 2003 – streaks are made to be broken... It will be a great weekend regardless – enjoy it wherever it finds you.