

BILLS ASSET MANAGEMENT
BAM MARKET NOTE
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Since the steep one day sell off two Fridays ago, the markets have resumed their uptrend. In fact, with today's gains, the S&P is back to new highs. The caution we were warning of the last couple of weeks seems to have waned and buyers have stepped in to buy any and all dips. The recent pull-back was at the low end of what we expected but, apparently, has done enough to wash out any sellers that wanted to capture their gains. While some level of caution is always warranted with investing, it does appear that the China/US trade tensions that precipitated the recent decline has abated in the market's eyes. Should we get any additional weakness, we continue to advise adding to your portfolio risk.



We showed high yield bonds a couple of weeks ago breaking down below their 50-day moving average. At that point, we noted that high yields needed to stabilize and ideally move back above the important moving average. It has done just that providing further support that the recent weakness was nothing more than a normal pull-back and that economic concerns are not particularly alarming to the market.

Our Point

Generally, earnings continue to come in at or above expectations. However, Netflix and Tesla both disappointed and their stocks sold off on their reports. The misses raise some concern on upcoming tech earnings. Netflix has fallen 11% this week. Tesla, however, is up a little after initially falling on their earnings. The market is up strongly as I write this. Despite the shutdown, September CPI was released (it was needed for Social Security COLA calculations) this morning. The market jumped as inflation came in less than expected. The report nearly guarantees a 25-basis point Fed rate cut next week and significantly increases the odds of a further cut in December. The backdrop of stable (if not accelerating earnings) and Fed rate cuts continue to provide a tailwind for this market. Additionally, as we have mentioned here many times, many professional investors have missed much of the rally this year. As we near year-end, they will feel increasing pressure to generate returns and add positions in their portfolio that have done well this year (window dressing). All signs are pointing to a strong end to the year. My only caveat is many others feel that way too! When too many people get too bullish it can set the market up for a sharp reversal on any disappointing news. Next week is full of many market moving catalysts. It will be a banner week with lots of data points to consider. We'll get the largest number of earnings reports this quarter with the likes of Amazon, Google, Apple, and Microsoft leading the parade. The Fed meeting will be Tuesday and Wednesday with the rate announcement and future guidance on Wednesday. And finally, President Trump and President Xi are supposed to meet next Thursday to discuss the recent saber rattling between the two countries. Hold onto the bar! With so much data next week, we could get strong moves in either direction. After generating a little cash last week, we redeployed some of those proceeds to the energy sector on weakness. We are nearly fully invested and will continue to look for opportunities with the small amount of proceeds that we have available. My Vols fell to Bama last week. It seemed like it all turned on one bad play to end the half. We'll get them next year at Neyland! With crisp mornings and cool afternoons, it does feel like Fall is here – I hope it stays awhile – not ready for Winter and darkness at 4:30 in the afternoon. Enjoy the Fall while it lasts and have a great weekend wherever it finds you.