

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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The market shake out continued this week with big tech and many of the growth-oriented companies leading the slide. It looked to be a very ugly week when the market opened this morning, but buyers have stepped in and limited losses. Importantly, the bulls have reclaimed territory above the 50-day moving average - a level we have highlighted in the past couple of newsletters. As of the time of writing this note, the S&P 500 and the Nasdaq look to close down .6% and 1.4% respectively for the week.

We have been watching the beginning of a shift in the market as value stocks have become more in vogue. Growth and high-flying tech stocks have been the leaders for the majority of the climb we have seen this year, but that may be beginning to change. A rotation into value is not necessarily a bad thing as it could help to increase market breadth. Broader participation across all sectors of the market is healthy, but it is unlikely that we will see a strong 4th quarter rally without the Mag 7 and mega-cap stocks leading the way. It is something we will continue to monitor as we approach the end of the year.

Our Point

The government reopening proved to be a sell the news event, as there is still a great deal of uncertainty in the market. The White House announced that key October economic data, including the jobs report and consumer price index (CPI), could be permanently impaired or may not be released at all. The lack of transparency and missing data has left market participants with more questions than answers. During the most recent FOMC meeting, Federal Reserve Chair Powell noted that without critical inflation data, policy makers would be “driving in the fog” and that the smart thing to do would be to “slow down.” Now that the data is in question, the market is appearing to price in the chance that the Fed does in fact pump the breaks in regard to the rate cutting cycle. In addition to official data flow coming to a halt, numerous high-level Federal Reserve officials gave statements this week that expressed caution and decreased the likelihood that we see a December rate cut. Alberto Musalem of the St. Louis Fed stated there was “limited room to ease further” without risking excessive accommodation. The President of the Federal Reserve bank of Cleveland, Beth Hammack, suggested that “we need to maintain downward pressure on inflation to bring it back to target. To achieve this, we must maintain a certain level of tightness in monetary policy.” The hawkish comments pushed the chances of a December rate cut to an estimated 50% - down from 95% just one month ago. Both Musalem and Hammack hold a vote in the next Fed Rate decision during the FOMC meeting on December 10th. Despite these negative developments, the market has held up reasonably well and the weakness we have experienced is well within a normal range for a healthy correction. One spark that could ignite the next leg up and help to bolster the bull case would be a positive earnings report from the tech giant NVIDIA. The report will be released on Wednesday of the coming week and has been circled on investors calendars for quite awhile now. The widely anticipated release has the potential to cause a sizeable market move in either direction. We will certainly be watching closely. We made no adjustments to our portfolios this week but remain on our toes in case we see any developments that warrant a change. With warm weather anticipated in Nashville this weekend, we encourage you to get outdoors and enjoy the sunshine before the temperature drops again. Have a great weekend!