

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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We mentioned last week that a test of the 50-day moving average might be coming. We look to be getting that this week. We expect the support to hold at that level, but the market really doesn't care what we expect. Should support at the moving average fail, further support is just below at both the 100-day moving average and the support line at the 6400 level (some 4% below current levels). For the week, the S&P is down over 2%. For perspective, we are back at the levels of October 23 – just 2 weeks ago. At this point, the decline does not have the hallmarks of a broader/deeper decline. We continue to believe that dips should be bought and a rally to end the year is still in the cards.

The VIX has crept up over 20 this week which is reflective of the uncertainty in the market due to the government shutdown and the Fed's response to a slowing economy. When the shutdown ends (and it will end eventually), government data will flow again, and the Fed will (hopefully) act accordingly. An end to the shutdown and statements by Fed governors indicating a more dovish stance will likely bring the VIX back into the teens.

Our Point

We mentioned several weeks ago that the prospect of a government shutdown would have little effect on the market. However, we did not anticipate a record-breaking shutdown that now looks like it could stretch into the holidays. With air travel and commerce affected, the shutdown is beginning to have real consequences for the economy. While it is definitely creating some short-term volatility, the fact remains that eventually the parties will either cave or come together to sign a continuing resolution. Once that happens, the economy will pick up where it left off a few weeks ago. Speaking of the economy – it is strong but is showing signs of slowing. Absent politics, the Fed should absolutely be cutting rates in December, and we believe that will happen. Also, agree with it or not, the One Big Beautiful Bill will be a stimulus to the economy going forward and will accelerate as we enter into 2026. Adding to the uncertainty noted in the VIX above is the legality of the tariffs that is before the Supreme Court now. A decision is not expected for a few weeks but having the tariffs in limbo is creating uncertainty in the markets. We don't believe the ultimate decision will have any lasting effects on the market as markets are efficient and will respond and price in the new environment very quickly. Without government data to parse and with many of the big names already having posted their third quarter earnings, the markets are left to guess where the economy is headed. A market that has already come a long way this year combined with the increased uncertainty is creating some undue volatility. However, as noted above, we should keep the relative amount of volatility in perspective. To this point, the recent weakness has only given back the last 3 weeks worth of gains. On October 17, the S&P closed at 6664 – right where we are now. Both the S&P and Nasdaq are just 3% and 5% off of their recent highs. A rally into year-end is still more likely than not and the recent weakness has done nothing to the longer-term trend. Of course, things can (and often do) change quickly. If the decline over the last week continues, we will adjust our holdings accordingly. Active management strives to protect against life-changing losses but periodic bouts with weakness are to be expected when investing in the financial markets. We didn't make any changes to our holdings this week and still have a little bit of cash to deploy once we get a sense that the selling is over. We believe we are close to that point. Vols football suffered a big setback last week with its home loss to Oklahoma that all but eliminates them from any playoff aspirations. It is disappointing but if you told me earlier this year that we would lose our quarterback in the spring and still be competitive, I would have been happy. The sun still rose every day this week - so all is good. Our first bout with winter starts next week with freezing temperatures – I am not ready for that. Enjoy your weekend wherever it finds you.

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