

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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When we last wrote this note two weeks ago, the bulls were at a point where they were trying to hold onto the 100-day moving average to avoid a deeper correction. The bulls held and more as the markets have roared back over the last 2 weeks. We mentioned the seasonal strength of Thanksgiving week, and it did not disappoint. The S&P is up over 4% since our last note and is sniffing new highs. With favorable tailwinds and seasonality, we expect new highs and a continuation of this rally. Those that bought the dip are being rewarded. Enjoy it while it lasts.



Small-caps are also showing some life as they are at new highs. That is a welcome sign as market breadth expands beyond the large cap names. The increasing likelihood of continued Fed rate cuts should continue to buoy the markets – especially small cap names. Small caps have lagged this year but may be trying to close the gap. We have small investments in this area of the market.

Our Point

What a difference a couple of weeks makes! Two weeks ago, investors were worried that the market was in trouble after falling below the 50-day moving average and threatening to break through the 100-day moving average. However, support held and the market has bounced back strongly. The VIX (fear index) had moved up to the low 20's which often makes it difficult to make money but has now fallen down into the mid teens (a place where it is considerably easier to make money). The fears that were present just 14 days ago have, now, all but vanished. The concern that the Fed would pass on cutting rates next year has also faded and markets are now virtually convinced that the Fed will cut rates another 25 basis points. Some Fed members will also, likely, push for a 50-basis point cut. The Fed will cut rates next week and should also foretell future rate cuts into 2026. Santa looks to be on his way to Wall Street. With the S&P closing in on 7000, we will likely see that number before the end of the month. Psychologically, round numbers always attract traders so S&P 7000 is very likely but may pause there. Hitting that mark would be another 2% increase in the S&P and would put a nice bow on an excellent year for the markets. Mutual fund distribution season is upon us so that could create some increased volatility. As we remind our readers annually, don't be alarmed if you see a mutual fund position fall unexpectedly and unusually this time of year. Most often, the decline is just the result of yearly dividends being paid. We had this happen earlier this week on two of our holdings. In each case, the holding fell 10% but reversed the next day as dividends were credited to the account. Most distributions should be completed by the middle of the month. As mentioned, the Fed makes its interest rate decision next Wednesday and will be cutting rates. The markets have priced in a greater than 80% chance of a cut and the Fed would be foolish to surprise traders. The more important data point will be Chairman Powell's presser after the announcement and where he sees rates going in upcoming meetings. With Powell in the final months of his term, his words will carry less and less weight but will still potentially move the markets. Government data keeps trickling in after the shutdown and this morning's PCE inflation report came in as expected with inflation contained. The jobs market has continued to weaken but data has been a little sparse. That will change with the early 2026 jobs report (the first in several months). It will be widely watched but that is the subject of an upcoming note. There is not much economic data between now and year-end and trading volume will dry up as we near Christmas. The prevailing trend often continues in a low volume market and the trend remains up. We expect the market to drift higher between now and the end of the year. We made a few small changes in our holdings this week as we purchased two new positions and sold two lagging ones. We are well positioned to capitalize on a continuing rally but are always cognizant that things can change. In my view, there is nothing worse than a rainy day with 35-degree temperatures! That is where we have sat this week and hoping for some sun and warmer temps. Stay warm and have a wonderful weekend wherever it finds you.