

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

FEBRUARY 6, 2026

BO BILLS (615) 371-5928
CARTER BILLS (615) 585-6867



An interesting week has been unfolding on Wall Street as software and tech stocks began to slide and put equities under pressure. The selling in tech sparked a broader bout of risk-off sentiment that echoed throughout the major indexes and fueled what looked to be a substantial weekly decline. Fortunately, many of the stocks that were leading the retreat have bounced today and helped buoy the indices to avoid an exceedingly red week. At the weekly lows yesterday, the Nasdaq 100 was down 4.8% and the S&P 500 was down 1.9%. With today's rally, the Nasdaq looks to finish down about 1.7% while the S&P is now flat for the week.



We can gauge the market's risk appetite by tracking the relationship between consumer discretionary and consumer staples. As the chart on the left shows, discretionary stocks have taken a clear back seat to their staple counterparts. A falling ratio points to a slower growth environment where households prioritize necessities over non-essential purchases. For the stock market, that can mean a rotation into more defensive sectors and a declining confidence in the economic backdrop. We will continue to watch this ratio closely to see if the current downtrend persists.

Our Point

Volatility swept through the markets this week as investors had much to digest. The nomination of Kevin Warsh to succeed Fed Chair Powell has sparked some concern that the anticipated dovish rate-cutting cycle may be in jeopardy. While it remains to be seen if these fears are justified, equity markets are clearly uneasy with the prospect of fewer rate cuts than originally priced in. However, recent labor data suggests the Fed may still have a reason to lean toward accommodation. January saw the highest level of layoffs since 2009, and unemployment claims came in higher than expected. While the official January Jobs report was delayed until next week, the data we did see pointed to a weakening job market, which may help persuade the Fed to continue cutting rates in upcoming meetings. Looking ahead, next Friday's CPI report will provide some insight into the state of inflation, adding another variable for the Fed to weigh while plotting future policy. The biggest story in the market this week was the precipitous drop in nearly all software stocks. This was largely driven by the fear that AI tools may replace the utility of the software programs these companies rely on for their business models. This trepidation even managed to thwart positive earnings releases from the likes of Alphabet (Google) and Amazon; both market giants reported strong data and encouraging guidance but were swept up in the software scare and fell victim to the selling pressure. With numerous software companies reporting earnings next week, it will be constructive to see how the market reacts and if it can carry today's positive momentum forward. We will continue to monitor these developments and stand ready to adjust our portfolios when the time is right. On a more personal note, warmer temperatures are finally returning to Nashville this weekend. I plan on getting outside and taking my son, Roan, to Radnor Lake for a short hike, followed by some much-overdue garage organization projects. We hope you enjoy your weekend and the much-needed reprieve from the cold. As always, we appreciate you for reading.