BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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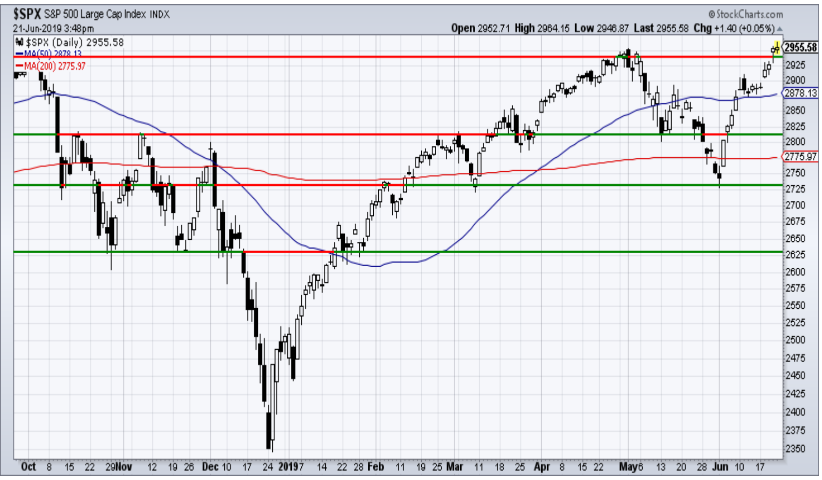
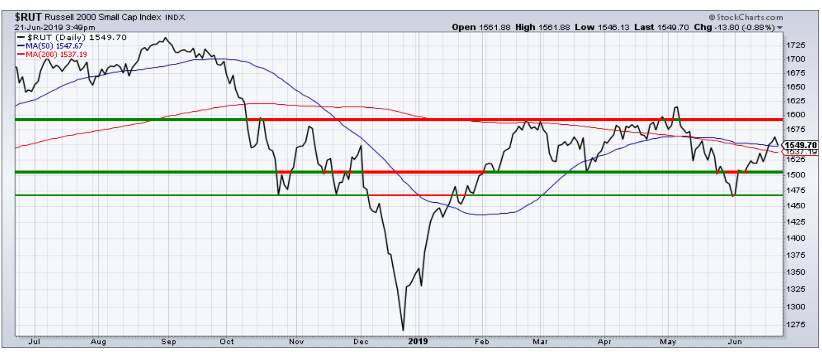


The S&P has broken out to new highs, though it is still perilously close to the break-out. A confirmation of the break-out will come only when the next downturn holds at the old highs or there is more separation from the old resistance (now support). It has been an extremely impressive rally from the Christmas Eve lows. Despite the rally, however, the S&P is less than 1% above its close on 9/20/18 – some 9 months ago. Over that time, we have had a watershed decline (-20%), a powerful rally (25%), another significant decline (7%) and a rally back up to the highs. It has been an unusual 9 months to be sure and it might not be over yet. The Fed has little room for error here – more on that below.



The Russell 2000 continues its relative underperformance and that remains a concern. However, the market can continue going up (as it has) with this important metric flashing yellow. The relative strength has improved and its not like small-caps are going down while the rest of the market is going up. Small-caps remain a long way from their highs. It is a strange market and, interestingly, many of the strongest sectors this year have been the traditionally defensive ones.

Our Point

The Fed stole the show this week. As many expected, the Fed did nothing to current rates at their June meeting but did change their language significantly and all but said rate decreases were coming. In fact, Fed Fund futures now indicate a 100% chance of a rate cut in July. There is little room for error for the Fed. Because of what Chairman Powell said (or in spite of it), the markets have now priced in at least 1 rate cut and, more likely, 2 or 3 rate cuts. Ironically, the Fed could be put in a box should the little bit of weakness the economy has shown shift more positively. Also, positive news on the trade/tariff front next week at the G20 meeting could put any rate cut on hold. The Fed's dual mandate of maximizing employment (we are at historic lows of unemployment) and stabilizing prices (inflation – there is little) seems to fly in the face of the Fed's dovish actions. One can argue (and many have) that the Fed is quickly losing credibility and is more concerned with rising stock prices than fulfilling its purposes. There are many crosscurrents and many have opined that the supposedly independent Fed has succumbed to market pressures and presidential tweets. The bond market has certainly indicated that rates should be lowered and, perhaps, they know something that is not yet readily apparent. In any event, the dance that the Fed has to perform over the coming months is not an enviable one. While the Fed dominated headlines this week, the G20 will dominate next week. The market is pricing in BOTH rate cuts and a positive trade resolution so anything that alters that view will create significant volatility. We haven't even touched upon the risks with Iran's saber rattling. Despite the giddiness surrounding the new market highs, we would caution investors with getting too ahead of yourself. There is much headline risk over the next few weeks. With the decline in treasury rates this year, bonds continue to generate terrific risk adjusted returns. Defensive sectors, if not leading, are certainly keeping up with the traditional market leaders. Consumer staples, utilities, gold, and real estate have all done well. We added a position in emerging market debt this week and will likely add additional equity exposure in the next week or two dependent upon a confirmation of the breakout. We are looking forward to a relatively quiet weekend and hope you have time to relax and enjoy your friends and family.