

# BILLS ASSET MANAGEMENT

## BAM MARKET NOTE

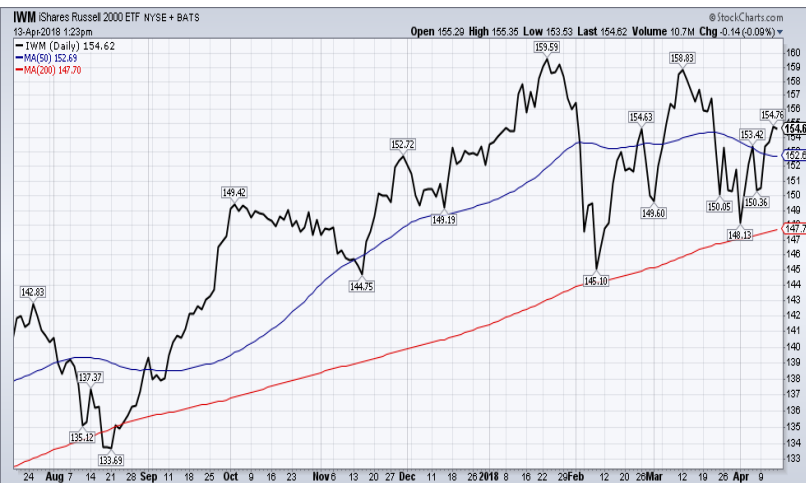
APRIL 13, 2018

SAM BILLS (865) 525-1329

BO BILLS (615) 371-5928



The financial markets continue their day to day volatility with some wild swings intraday. However, on the positive side, the S&P has worked its way up to within striking distance of its 50 day moving average. Even though this important moving average is declining, many investors will use a cross over of this moving average to increase their market exposure. Accordingly, if the S&P can move up a little more, then it is likely that money will flow into the market leading to higher prices. There is reason for some optimism as earnings season kicks off. With the tax cuts in place for the first quarter, expectations are for strong earnings and future guidance. Should earnings disappoint a quick return to the lows or below would be likely.



Meanwhile small cap issues have held a relative strength edge over their large cap brethren for the last few weeks. While the S&P retested its lows earlier this month, the Russell 2000 fell well short of its prior lows and has already broken out above its 50 day moving average. In fact, the 50 day moving average is trying to turn up itself. While the tariff tantrum affected large cap stocks with international exposure, its effect on smaller companies is more muted as most of their business is done domestically.

## Our Point

We aren't out of the woods yet, but things do look better this week than last. The markets, while still volatile, have made some positive steps this week. High yield bonds (not shown) have strengthened considerably over the last week and a half. As we have discussed in prior weeks, high yields are often a good barometer of the economy. The fact that high yields have turned up again provide some level of increased optimism. The recent relative strength in small caps provide another reason for some optimism. However, the market still remains volatile. The increased tensions in Syria and the developments of the Mueller probe into the President provide a level of headline risk that could prove to be a bump in the road. Despite the short-term risks, the economy remains strong and if earnings results come in as good or better than expected, it is very possible for the markets to reach new highs over the coming month or two. With the relative strength in small caps, we have added a small position there that we will likely add to if the markets continue to stabilize. Caution should still be exercised but positive signs are beginning to appear. Have a great warm weekend.

The contents of the BAM Market Note should not be construed as advice to purchase or to retain any interest in any of the investments mentioned. Any references to returns are not indicative of future performance and are subject to adjustment or revision.