BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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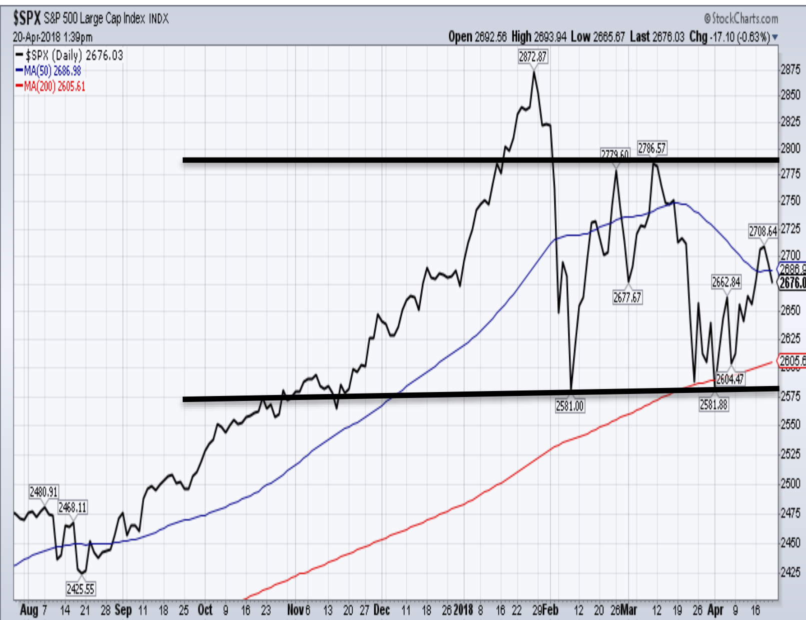

Despite today's losses, the S&P is on track for another up week. After a strong move up through the 50 day moving average, the much watched index has settled down just below the moving average line. Negative earnings in the staid consumer staples sector led to some profit taking yesterday and today as Phillip Morris, Proctor Gamble, and others disappointed investors. Earnings will likely continue to drive the market and, despite a few stumbles, should be positive and lead the market higher over the coming few weeks. We remain in the middle of the wide trading range (200 points) that has persisted since early February. Any slight overbought conditions that had developed over the last 2 weeks has been ameliorated setting the stage for a resumption of the rally next week.

10 year treasury rates have been creeping up over the last 3 weeks and are now approaching 3%. It's a nice round number and there has been much ado about crossing 3%; in fact, you will likely hear talks of impending doom once this level is breached. However, we believe it is much ado over nothing. Rising rates due to a strengthening economy is good for stocks and banks will be the biggest beneficiary. Should rates continue to push upward, the financial sector should garner interest among investors. Higher rates for the right reasons are not a negative but should higher rates persist while the economy stumbles… well that would be bad.

Our Point

Though the markets have stumbled to finish out this week, we are still on track for another positive week for the major indices. Earnings have been generally strong and companies will continue reporting over the next few weeks. Earnings will likely drive this market one way or another. Small cap stocks remain a relative leader. Rising interest rates are likely to unsettle the market in the short-term but should not be a factor longer-term as long as the economy remains strong. However, the next recession will likely be driven by higher rates in the face of a weakening economy. Speaking of which, the yield curves of the 10 year and 2 year treasuries are nearing each other. Recessions are often preceded by inverted yield curves (the short term yield higher than the long term yield). It is something worth watching. We increased our market exposure modestly this week – adding to our position in small caps and adding a position in high yield bonds. We will continue to fill out our portfolios over the next week or two as the market dictates.

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