

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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As discussed last week, a consolidation of the recent gains was in order. That has happened this week with the S&P flat to down for the week. It is very constructive and sets the stage for further gains next week and beyond. Of course, things can change in an instant but the current weight of evidence and a look at the charts suggest that after resting this week another leg up is more likely than not. The 2700 area on the S&P remains a key technical and psychological support and any further declines will need to hold this level to avoid any additional weakness.



Much like last week, the continued relative dominance of small caps over large caps remains a key to this current market environment. While large caps moved sideways to down this week, small caps (aided by a strong dollar) continued to push higher. The small cap Russell 2000 was up well over 1% this week and reached new highs yesterday. The leadership of small caps is a welcome sight and has the possibility of pulling the other indices along.

Our Point

This was a pretty quiet week on Wall Street with only a few big name earnings reports and economic news that didn't move the market. Geopolitical events were measured and had no real effect on market movements. Even North Korea's threat to pull out of talks did nothing to roil the indices. Next week, earnings reports will continue to dwindle and the Fed minutes from their last meeting will be dissected. Unless there are surprises (and there often are!), it should be another quiet week. Energy, commodities, and financials are areas that have our attention. Energy has been particularly strong over the last few weeks. From a technical standpoint, it looks to be overbought and due for a pullback. It will be a candidate for upgrades to our portfolios upon correction. Financials haven't garnered the strength that many expected in this rising rate environment. However, financials will be a winner when rates invariably head up in earnest. Speaking of rates, the yield curves continue to flatten which raises the specter of recession. It is not something that looks imminent by any means, but remains an area that bears watching. Inverted yield curves almost always lead recessions and there is no reason to believe that this time is any different. We continue to fill out our portfolios by selling lagging positions and adding market leaders. This week we added to our small cap positions and are nearing a full investment posture. We remain vigilant and will respond should the market change course. Until then, we are enjoying the upswing.

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