

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

JUNE 1, 2018

SAM BILLS (865) 525-1329

BO BILLS (615) 371-5928



It has been another mostly sideways market for the S&P this week though volatility picked up quite a bit with 1% moves both to the upside and downside the norm. Today's gains turn the index positive for the week. For the month, the S&P turned in a good month – up over 2%. We remain in the middle of the trading range bounded by the January highs and February lows. Historically, June is one of the weakest months though you would not know it from today's surge. There are reasons for some optimism.



While small caps have been on a tear for the last month, large caps have been lagging. It is not often that the tail wags the dog so large caps need to lead or at least narrow the gap for the market advance to remain healthy. The Nasdaq did just that this week as it approaches its March highs. Leadership from both the Nasdaq and small caps will be difficult for even the most strident bear to argue with.

Our Point

This morning's job report was well-received by Wall Street as futures (already up) kept rising into the opening bell. All of the major indices are up close to 1% with the Nasdaq up close to 1.5%. Small caps, which have been a theme of this missive for a number of weeks, have continued on their tear. Aided by a surging US dollar, small caps may take a rest as the dollar approaches significant resistance and the small caps themselves are due a breather to consolidate. If that is the case, large caps (and more specifically the S&P) should see some money flows and higher prices. June remains an historically weak month but each year is different and this year could be an exception. The positive jobs report all but clinches an interest rate hike when the Fed convenes in mid-June. The question will soon turn to whether or not the Fed raises another one or two times after the June meeting. Rising rates due to an improving economy is not a bad thing but the risk is that the Fed will overshoot and raise rates too fast squelching the momentum of the economy. It is a delicate balance and one the Fed has bungled many times before so time will tell. Our portfolios enjoyed an excellent May and are close to fully invested. We'll invest the remaining small amount held in money market when/if the S&P confirms the uptrend shown in small caps and now technology. As always, we remain ready to react should the market surprise us to the downside. It's been a wet few weeks but next week promises lots of sunshine. We hope you can get out and enjoy it.

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.