BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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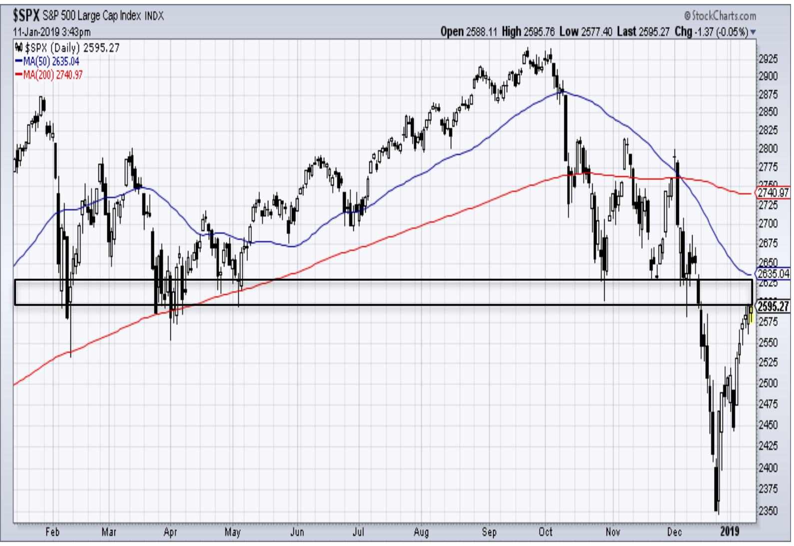
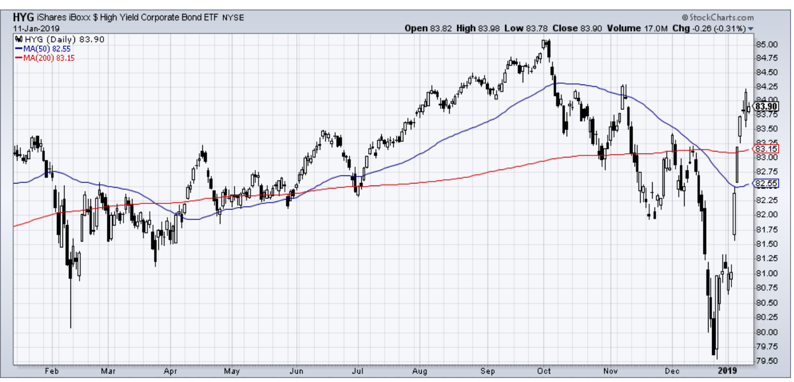


As we said in our December 21st note, "it is very likely that we will see a very strong counter-trend rally in the coming days." Since December 24th (the next trading day), the S&P has surged 10% but is still down over 11% from its September highs. The market is fast approaching very significant resistance in the 2600-2630 range. What it does from here will tell us much about the validity of the current rally and whether or not a return to the lows of December is in order. The market is becoming overbought so some weakness next week is likely. We are at a key juncture – a break to the upside here would bode well for the end of the correction. However, a failure at these levels will likely lead to a return to the December lows.



High-yield bonds are an excellent indicator of what the market thinks of the economy. The recent performance of this important sector provides some optimism that the worst might be over. On a relative basis, high yields look even better than the major indices and have crossed back above their 50 and 200 day moving averages. HYG is only 1.5% from its September highs. We always have our eye on the high-yield market and its current behavior is very encouraging.

Our Point

The current market rally has been impressive but, to this point, has not done much to undo the technical damage done to the market over the prior 3 months. The two week rally is in line with a typical counter-trend rally, retracing half of the decline. The major indices all sit at important resistance so we should soon know whether or not we are out of the woods. 4th quarter earnings will begin rolling in next week so the market will have data to justify its movements. Though earnings expectations have been ratcheted back some, company earnings will be compared to 4th quarter 2017 numbers which was a very strong earnings quarter. The comparisons could lead to disappointment in current earnings. Fed Chairman Powell continues to deliver somewhat divergent views leaving many to wonder where the Fed is headed next. However, it is looking increasingly likely that the Fed will not hike rates this month and will probably indicate that only one more hike is forthcoming this year. Of course, that could all change depending on the strength of the economy. Regardless, the market has gotten the message that the Fed will be more accommodative. The new stance has provided short-term fuel to the markets but a slowing economy will not be good for the markets longer-term. As of now, the government shut-down has had little to no effect on the market but that could change if it lasts too much longer. Government economic reports could be delayed and credit reporting agencies are already talking about a downgrade to government debt if things aren't resolved soon. There remains much risk in the market and we continue to bide our time. We have made no changes to our portfolios but that will quickly change should the markets push much higher from here. We continue to identify areas of strength in the market for buy candidates when the time is right. Patience and prudence continue to be our mantra. How about them Vols!? Enjoy your weekend.