**BILLS ASSET MANAGEMENT**

# BAM MARKET NOTE

**MARCH 22, 2019**

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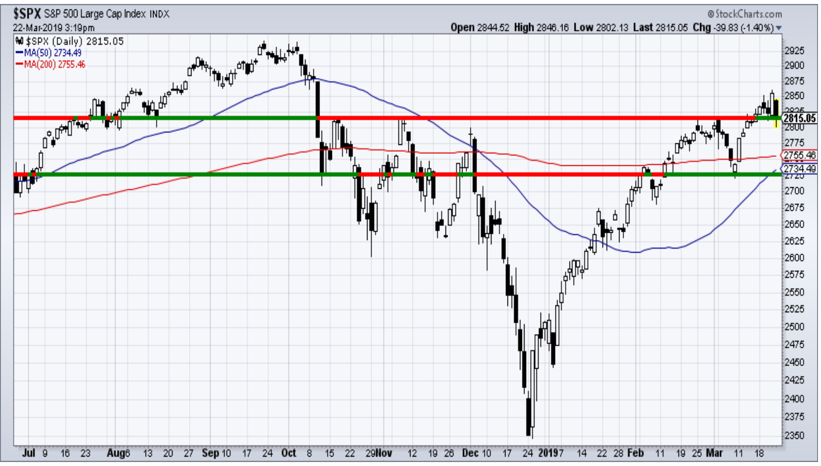
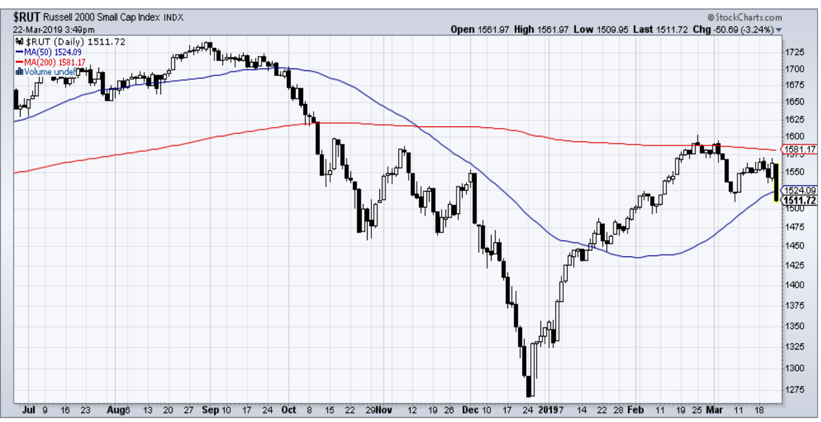



Despite today's weakness the markets will finish the week close to where it started. After breaking out above the long-held resistance, the S&P spent the week bouncing around this important level. Broken resistance becomes new support and, to this point, the S&P is holding at support. Should the market break down next week, the next logical support would be the recent low at the 2725 -2740 levels. With weakness to end this week, it would not be surprising to see a challenging start to next week's trading.




As we highlighted last week, the relative weakness in small caps was cause for concern. The current week's performance of the Russell 2000 serves to heighten that concern as the relative weakness has accelerated. In fact, while the S&P remains up a bit for the month, the Russell is down over 4% since the beginning of March. The divergence between large caps and small caps is not likely to last long. If today is any indication, large caps may follow small caps down next week.

## Our Point

It has been a topsy-turvy last few weeks. March started with a small correction that had the hallmark look of something more ominous. However, the S&P rallied over the last 2 weeks recapturing all the early March losses and breaking out of the intermediate term resistance. Finally, today's significant weakness raises the specter of deeper losses next week. The Fed seemed to set the stage for a continued rally when it announced its interest rate decision mid-week. As expected, interest rates went unchanged. The big news, however, was the dovish shift for the remainder of 2019. The Fed has moved from 3 expected 2019 hikes in late 2018 to no expected rate hikes for the remainder of the year. Additionally, the Fed indicated that it expects only 1 rate hike in 2020. The continued abrupt shift in Fed expectations leaves more questions than answers. Does the Fed see weakness in the economy that is not yet readily apparent? The bond market seems to think so as the 10 year treasury yield is falling precipitously. Since March 1st treasury yields have fallen over 11%. Falling rates are helpful to businesses as their borrowing costs decrease but also indicate a weakening business environment. Over the last 10 years the bull market has been largely fueled by low interest rates and market liquidity. At some point lower interest rates won't serve to help the market and will instead serve to indicate a troubled economy. Are we at that point? We don't believe so but that day will come and will surprise many. We made no portfolio changes this week and remain approximately 65-75% invested. Our holdings in utilities and real estate remain market leaders and beneficiaries of the lower interest rate environment. Utilities, for example, were up .7% today despite losses of 2% or more for the major indices. Spring is officially here and the weekend weather reflects that. Get out and enjoy the sun in between watching your favorite March Madness games.