BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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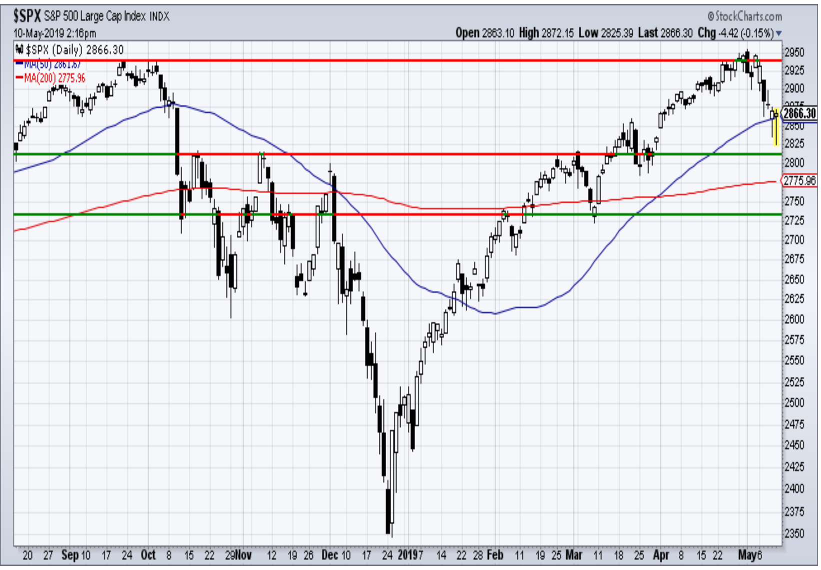

The quiet of the last few weeks is a distant memory as this week brought lots of noise. The week started with a tweet that sent the markets into a fit. Monday saw the S&P shed 45 points before rallying at the end of the day. The index ended down a modest .5%. Tuesday was more of the same as losses mounted with the S&P down over 70 points before a late day rally shaved those losses to a more manageable number. Thursday and Friday have followed the script of Monday and Tuesday – early morning weakness followed by late day strength. It is bullish (or at least a lot less bearish) when the markets rally into the market close. While we aren't out of the woods yet, today's action provides some optimism. Support lies in the 2800-2825 area and below that in the 2730 area. Resistance are those pesky highs now some 2.5% above.

Relative strength of the Russell 2000 (small caps) to the S&P 500 (large caps) has been declining since late February. However, that began to change as May started. With recent weakness, small caps have again turned down. We believe that relative strength of small caps must turn up to sustain another significant bull market rally. The numbers on the chart are irrelevant but the direction of the relative trend is something to be monitored. Last Fall, small caps portended upcoming weakness. They are likely to provide similar clues this year.

Our Point

We mentioned last week how quickly things can change and that was certainly the case this week! Despite all the noise and the large intraday moves, it hasn't actually been that bad. At this point, it looks like the market will finish the week down around 2-3% depending on the index you are following. Waking up Monday morning to see the futures down over 500 Dow points after a Trump tariff tweet left many wondering if we were in for a much steeper decline. However, by the end of the day losses were pared. That scenario played out all week as the on again/off again China tariff talk led to increased volatility. At this point, it doesn't appear that any significant progress in the talks were made and, as President Trump promised, big beautiful tariffs were imposed at midnight last night. Absent a break-through in talks, It is likely we will face more tariff tantrums as we go through the summer and fall. All things considered, the markets have weathered the storm pretty well. With the S&P failing at resistance at the highs of last year, it will take some work to get back through that level. The markets will need a catalyst of some sort to push through those levels. With earnings season beginning to wind down, the Fed already on the sidelines, economic measures looking good, it is hard to imagine what might push markets higher. Certainly a favorable resolution with China would be a spark but that seems a ways off. The summer doldrums may be starting early and we could be in a trading range between 2700 and 2900 on the S&P. The markets make a living out of making fools of many people so rather than try and predict what will happen, we will simply follow the charts. We were tempted to make some changes in our portfolios during the course of the week but late day strength kept us in the market. Several positions have declined enough to get our attention but have not yet reached our sell stops. We will see what next week brings. Enjoy your weekend.