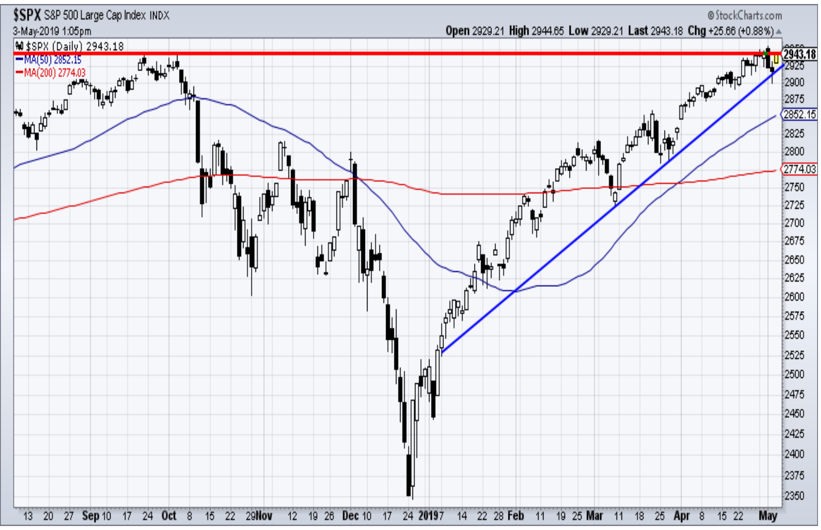
BILLS ASSET MANAGEMENT

BAM MARKET NOTE

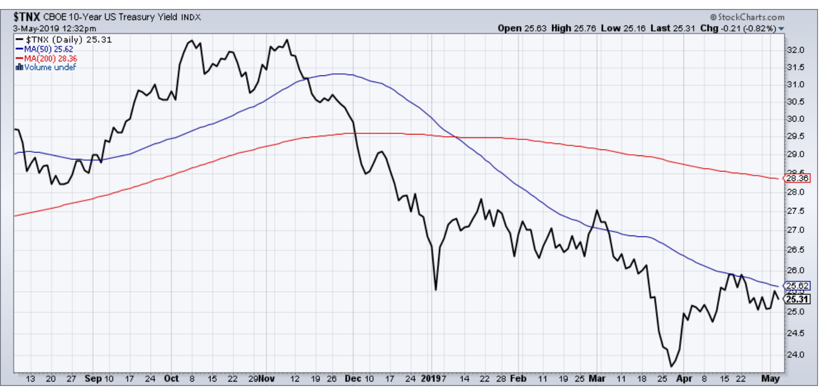
MAY 3, 2019

SAM BILLS (865) 525-1329

BO BILLS (615) 371-5928



This week the S&P broke briefly above resistance before pulling back Wednesday and Thursday. Buoyed by the blow-out jobs report, the widely watched index is making another run at resistance today. The back and forth is constructive and the longer the index remains at these levels, the more likely a break out becomes. It should be noted that resistance is not black and white and that a slight break above would not indicate the all-clear. It would not be surprising to see some congestion around current levels before the market tips its hand on the next big move. We are nearing the end of the traditional strong market period so the markets may need an external push to generate the next big up move.



With last week's strong GDP print and this morning's strong jobs report, one could reasonably expect interest rates to surge higher. However, the bond market is yawning and rates are actually pulling back today. Bond traders don't seem to believe that inflation and/or Fed rate increases are a current concern. In fact, it appears the bond market is more concerned with deflation. Bond traders are often more prescient than their equity brothers so interest rate movement remains a very important piece to the market puzzle.

Our Point

As expected, the Fed made no changes to current interest rates though some construed Chairman Powell's language indicated a hint of a more hawkish posture. The market sold off on Wednesday and Thursday. Today's rally puts us back where we were earlier this week. For the time being, the stronger than expected jobs report this morning puts a damper on any talk of rate cuts. As mentioned above, the bond market indicates that deflation is more of a concern than inflation. The combination of green shoots in the economy and a Fed that is standing pat (for now) is welcome news for Wall Street. Despite a week filled with lots of data, it appears we will end the week about where we started. The markets remain right at or just above resistance. On another positive note, small caps (not shown) are showing relative strength today and are just above their resistance levels. As we have mentioned here ad nauseum, the behavior of small caps has been a big worry. Continued strength in the Russell 2000 next week, would likely provide the fuel for the S&P and NASDAQ to move further above last year's highs. The "sell in May" crowd is already making some noise but it should be noted that over the last 10 years May has actually been one of the best performing months. It appears this bull has further to run but it could be setting up for a discomforting summer. With barely a blip since the December 24th lows, the markets have come a long way with little in the way of a correction or even a pause. Does anyone even remember the carnage in October through December of last year? Investors would be wise to remember and not get too complacent. All looks very good now but that can change quickly. We made no portfolio changes this week but continue to watch small caps and will likely add equity positions on their continued strength. After a busy last several weeks, I am looking forward to a quiet weekend to get some house projects done. May your weekend be quiet and restful with a few things checked off your to-do list.