BILLS ASSET MANAGEMENT

BAM MARKET NOTE

JUNE 7, 2019

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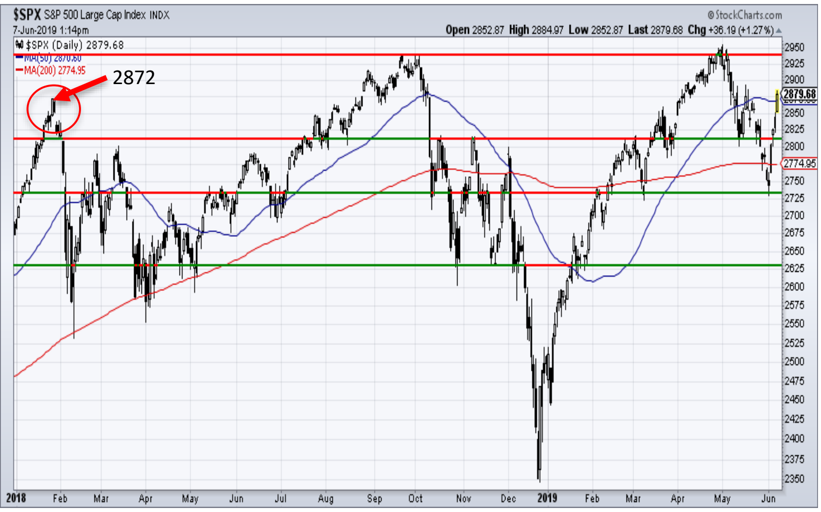
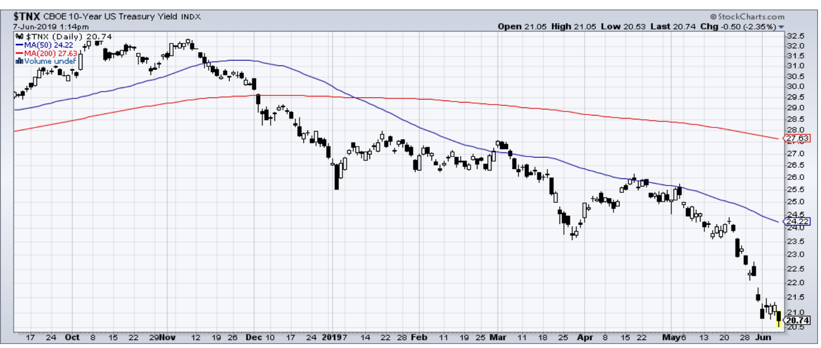


May ended with a whimper but June has started with a vengeance! The S&P was down on Monday, hitting and holding support at the 2725 area. Since then, large caps have taken off. Initially fueled by an oversold market and likely short-covering, the index has gained back over half of May's losses in just 4 trading days! It has been an impressive rally but leaves the market overbought heading into next week. The rally has been fueled by a cooling (and possible resolution) of the Mexico tariff threat as well as continued talk of interest rate cuts. We can debate the wisdom of rate cuts (and certainly have) but the reality is that Wall Street loves the free flow of money and the liquidity it provides. Despite all of the market gyrations, the S&P remains right where it was in January of last year.



Interest rates are in free-fall indicating that the bond market certainly believes that a rate-cut is imminent. Utilities, real estate and other interest rate sensitive sectors continue to be beneficiaries of the lower rates. Surprisingly, financials have rallied despite the falling rates and have become an area of the market to watch.

Our Point

This continues to be a news driven market which can lead to big swings in either direction. Despite the rally this week, it would only take an errant tweet over the weekend to send investors back into a selling mood. In the intermediate term, nothing much has changed. The S&P tested support and is now back in the trading range that has defined this market over the last few months. Large cap indices are all back in that trading range while small and mid caps continue to exhibit relative weakness. The weakness remains a thorn in the side of the bulls. This morning's monthly jobs report was a disappointment for the economy but a positive for the market as Wall Street cheers more punch in the punch bowl. The weak report makes it more likely that the Fed will cut interest rates in June or July. It is a dramatic shift in Fed policy after raising rates last December and indicating more rate hikes were anticipated. The abrupt change in policy has led to a decreasing confidence in the Fed. It could be argued that the Fed has artificially suppressed rates for several years. Artificially suppressing rates for a long period of time can lead to significant economic problems. Corporations and individuals alike take on more cheap debt than they are able to service should things take a negative turn. Similarly production and employment become unsustainable. This Fed experiment will not end well. That said, the punch looks to be flowing again and could extend the current bull market further than many expect. Markets are likely to bounce around in the current trading range for the foreseeable future. We made a few portfolio adjustments earlier this week as we took advantage of the rally to let go of a few of our underperforming positions. We will hold the proceeds in cash until we see what the next down-leg looks like. The markets should pull back next week and will provide clues on where the market is headed next. My oldest daughter (Emily) had a co-ed baby shower this past weekend that was, by all accounts, a unique and fantastic celebration! Our first grand-baby is due next month (still looking for grandparent names so suggestions welcome!) and we are beyond excited. We are heading to a "stock the bar" wedding party this weekend for a nephew that is getting married in 3 weeks. It's a busy and fun time! We hope your summer is as full as ours.

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