BILLS ASSET MANAGEMENT

BAM MARKET NOTE

JULY 12, 2019

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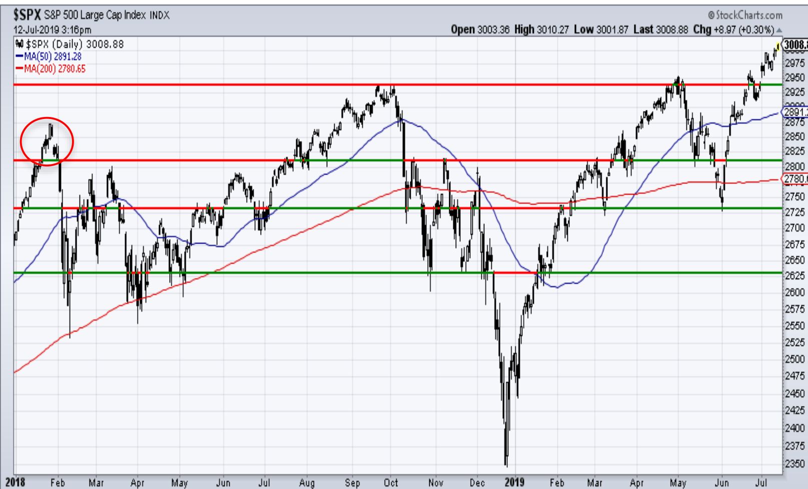

It is getting close to time to update the accompanying chart that I have been carrying forward for several months! In June, the S&P broke through and then pulled back from their highs before surging back above over the prior highs to start July. It has been an impressive move and the talking heads are falling over themselves with giddiness! Despite the new highs (and we are not complaining), the S&P is up less than 5% (3% annualized) since January 2018 (red circle). So despite the new highs, the index is just above the rate of inflation over the last 18 months. Let's not break out the champagne just yet. That said, it does feel good to be above 3000 on the S&P.

Interest rates have risen over the last week. The increase may reflect the decreased likelihood of a .50% Fed Reserve rate cut or may be an indication that investors are leaving the safety of treasuries and moving into equities. Probably a bit of both and something to keep an eye on over the coming weeks. The increase in rates has affected bonds as they have paused over the last several days. Bonds of all types have been an excellent source of risk adjusted returns this year so an exodus from treasuries into equities could shift bonds out of favor.

Our Point

The blow out jobs report last Friday put a damper on those investors hoping for a ½% rate cut at the end of the month and raised the specter of no cuts. The Fed seemed to put that to rest in comments throughout the week hinting that a rate cut of some sort was still on the table. To us, it seems counterproductive for the Fed to cut rates while continuing to reduce its balance sheet (pushing and pulling at the same time). The balance sheet reduction is scheduled to run through September. It will be interesting to see what happens both on the rate cut front and the balance sheet front come the Fed meeting on July 30 and 31st. The Fed is walking a tight rope and disappointing market expectations would be painful. Politics have always been a part of the Fed (despite their supposed independence) but it seems particularly pronounced in the current environment. Second quarter earnings start rolling in next week and that will be the talk leading up to the Fed meeting. Expectations are low so the possibility of positive surprises is increased. A good start to earnings season would likely lead to another leg up in the markets as investors scramble to chase the rally up. The markets are getting a little extended here so a pull-back of some moderate amount next week would not be unexpected. The old highs now mark significant support and those investors with cash on the sideline should consider buying at that level upon a successful retest. Lest you think I would go a market note without mentioning the relative underperformance of small caps, it remains a big concern (and potential opportunity when/if it shifts). We filled out a number of portfolios this week and added an investment in the insurance sector. Insurance is in a strong low volatility up-trend. We are continuously monitoring our holdings and will make changes as market conditions warrant. July has a recent history of weakness and with the recent run-up, earning reports, Fed meeting, not to mention tariff talk (tweets), an increase in volatility would not be surprising over the coming weeks. We are on baby watch at the NashBills house as our first grand-baby is due any day now (19th is the official date). The new addition will mark Sam and Nancy's 5th great grandchild. We're gonna need a bigger beach house! As always, enjoy your weekend!

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