Bills Asset Management

BAM MARKET NOTE

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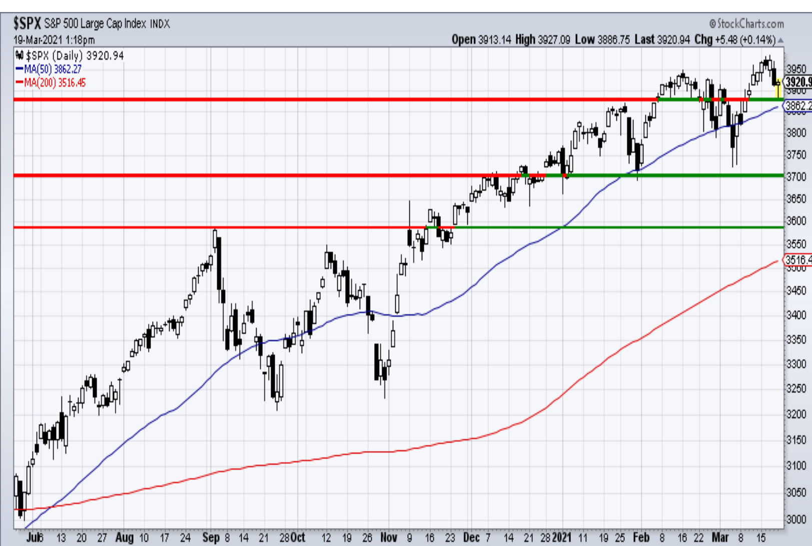
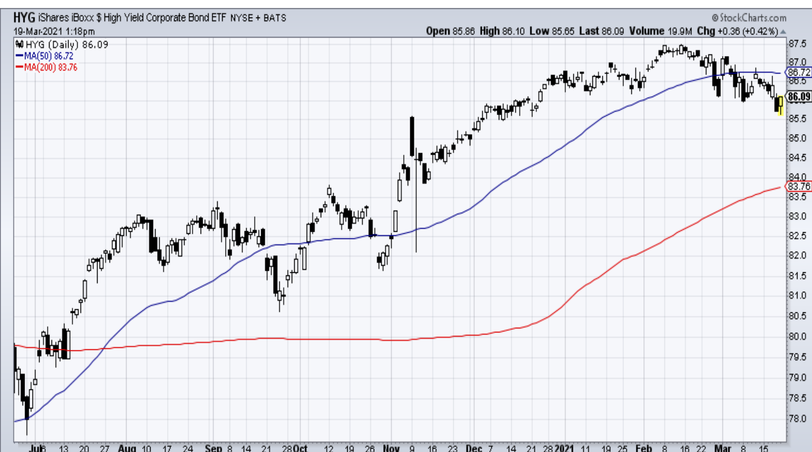


Last week's strength gave way to weakness, as all of the major indices are down for the week. The S&P and Nasdaq look to finish the week down a modest ½% and ¾%, respectively. The Russell 2000 which has soared over the last 4 ½ months succumbed to some profit taking and is down over 2% for the week. The S&P touched support at the 3880 level this morning before bouncing. The bounce off of support is encouraging and could mark the end of this mini pullback. However, it would not be surprising to see this support level tested again over the coming week or two. At this point, the weakness is not really anything to get overly excited about. That would change should support at 3880 fail to hold.



As long-time readers know, we pay a great deal of attention to high yield bonds. They are often "canaries in the coal mine" when it comes to future market movements. High yields began to show weakness in mid-February and have since steadily trended down. Some of the downward pressure can be attributed to the increase in interest rates. However, high yield bonds also respond to changing economic expectations. The steady decrease and the break of the 50-day moving average is of concern. The downtrend will need to reverse for us to gain more confidence in the current environment. Further weakness would not bode well.

Our Point

Interest rates continued their upward move this week. The 10-year treasury rate increased another 6% this week and is now up almost 90% from where it was to start the year! As we discussed a couple of weeks ago, rising interest rates are not necessarily bad for the markets, but the pace of the rise present current issues. A large part of the current weakness is the direct result of interest rates that have gone too far too fast. The increase brings up the specter of inflation and fears that the Fed will need to taper and/or raise the federal funds rates. Chairman Powell's Wednesday press conference at the end of the 2-day Fed Reserve meeting seemed to allay some fears of Fed actions but it hasn't stopped treasury rates from rising. Chairman Powell greatly improved the US economic growth forecasts and reiterated the Fed's expectation of holding rates steady through 2023. We continue to believe that market reaction to the increase in treasury rates is overdone and will settle out over the coming days/weeks. The value vs growth theme played out again this week with value up one day and growth up the next. There continues to be rotation back and forth between these two broad areas of the market. We will have to see how the relative strength battle resolves and will make the necessary portfolio adjustments. For the week, we made no portfolio adjustments. Many of our income-oriented holdings have stalled with the increase in rates but importantly have not turned down. We will continue to evaluate these positions and will substitute with better performing positions should these positions turn down or continue to move sideways. Today and this weekend mark one of my favorite times of the year. After a one-year reprieve, the NCAA dance is alive and well with games going on all day today and this weekend. I will be torn with staying inside and watching games or going outside and enjoying the sunshine. Perhaps, I will move a TV outside! Have a great weekend and may your brackets do well.

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