BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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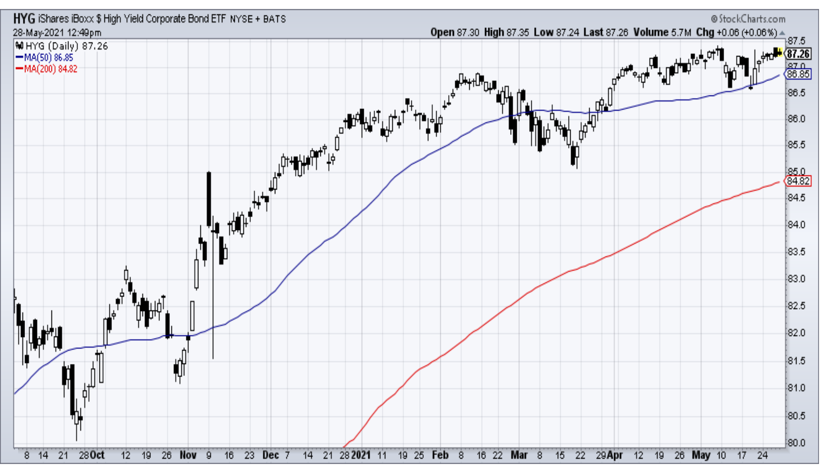
The S&P has been embroiled in a trading range since the middle of April with a couple of short-term breaks to the upside and a couple to the downside. The index is nearing the top of the range again so we should soon see if a new leg of the bull market is starting or if a further period of consolidation (or weakness) is forthcoming. Today marks the end of May trading and the index has gone nowhere this month. Considering the start to the year, nowhere is not all that bad. June will bring a new set of challenges with battles over spending in Congress, continued inflation concerns, potential tax changes, etc. Not to mention the start to some of the summer doldrums.



High yield bonds continue to show little concern for a weakening economy but have not exactly set the world on fire. They are also in a 2-month trading range and are nearing the top of that range. The stability of high-yields is encouraging but it would not take much for this important sector to turn down and create a warning sign.

Our Point

The markets have weathered the small correction that materialized earlier this month and the S&P is making a run at its highs. The other major indices are not faring as well and have lagged the large cap S&P 500. It is hard to imagine the markets starting a new bull run without the NASDAQ and/or Russell 2000 leading the way. The value stocks found in the S&P 500 continue to dominant the markets and growth has continued to be a drag. Inflation concerns will only heighten with new Washington spending. The proposed White House budget has an astounding $6 trillion in spending. It is a full 25% more than the fiscal year 2021 budget and the most ever (in constant dollars) since World War II. With the spending over the last 2 years, inflation is a foregone conclusion. Last month's disappointing jobs report will heighten the importance of the May report that is due out next Friday morning. Another significant miss would raise valid concerns on the recovery. However, a good report with favorable revisions to April's data could create a buying surge. Changes in the capital gains tax rate is something also to monitor. The Administration has proposed raising the rate to an amount equal to ordinary income (up to 39.6%). While this would only affect higher income taxpayers, any change in rates would lead to a flood of selling. The only way to get around that would be a retroactive application which seems highly unlikely (though it has been floated). Trading volumes will begin to lessen as summer gets into full swing. Lower volume increases the chances for more volatility. We continue to believe that there is more risk in the market than is plainly visible. As such, we continue to advise some measure of caution. We made no changes to our portfolios but continue to develop a buying list for any pullbacks. Have a great long weekend and give thanks and remembrance for all those that have fallen to ensure our freedoms.