BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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The market continued its volatility this week but looks to finish the week mostly unchanged. Normally, unchanged is not a positive but in this market, we will take a pause in the selling and a return to some level of normalcy! Resistance at 5675 on the S&P was tested three times this week but was turned back each time. The bulls will need to muster some buying pressure to get through this level to continue the repair of the damage done over the last month. Absent some good news coming on the economy, tariffs and/or war front, a return back down to the lows or slightly below would not be unexpected. Investors should remain cautious but a buying opportunity is developing, and traders should be preparing a shopping list now.

We talked about the breakdown of high yields last week. However, the breakdown was short-lived as HYG recovered back above its 50-day moving average. The quick recovery is encouraging and indicates that bond traders are not yet overly concerned about the economy. We will continue to monitor high yields as they often are a forward indicator of more serious issues within the economy.

Our Point

It was a little disappointing this week that the market did not have the bounce we are fully expecting. However, a pause in the selling has begun the healing process of the technical damage done to the markets over the last few weeks. The lack of significant follow through on any strength indicates that there are still sellers looking to get out of the market. That will change as sellers are washed out and buyers emerge. We suspect that any break above the S&P resistance noted above and, more importantly, the 200-day moving average will result in an explosive short covering rally. However, I am getting ahead of myself. The bulls still have much work to do – one step at a time. A retest of the recent lows over the next few weeks remains a distinct possibility (if not a probability). That said, we are likely to get a rally up to and perhaps above the 200-day moving average before that might happen. Much will depend on the upcoming developments on the tariff front (April 2nd remains a key date to watch) and the first quarter earnings that will begin rolling out in less than a month. The markets got what they wanted from Chairman Powell on Wednesday. The Fed chair shifted a little bit to the dovish side and continued to indicate that rate cuts are likely over the coming months. It wasn't a full-throated dovish tone but the announced reduction in quantitative tightening (the Fed systemically reducing the bonds on its balance sheet) will provide more liquidity in the marketplace and is significant. Headlines will continue to drive market action next week, but we will get a few economic reports that could move the markets. Manufacturing and services PMI will come out on Monday which will provide some clues on the economy. The PCE inflation report comes out on Friday. Additionally, we will get some sprinkling of Fed speak as a few Fed members give speeches. As usual, there will be much for the market to process and digest. It should be noted here that headlines have been increasingly warning of an impending recession. We believe that the current risk is very much overstated. While the economy is slowing, there is little in the way of evidence that the risk of a recession is marginally greater today than it was a few months ago. That could change but nothing in the data points to a significant increase today. We didn't make any changes to our holdings this week and are comfortable with the cash that we have on hand. We are continuing to develop our shopping list and are looking forward to putting that cash back to work as market conditions improve and dictate. March Madness is officially underway with games throughout the next 3 days. It is a wonderful time of the year! My quest for a perfect bracket was broken about 3 pm yesterday! Here is hoping your bracket is a winner and that you enjoy your weekend wherever it finds you.