# BILLS ASSET MANAGEMENT

## BAM MARKET NOTE

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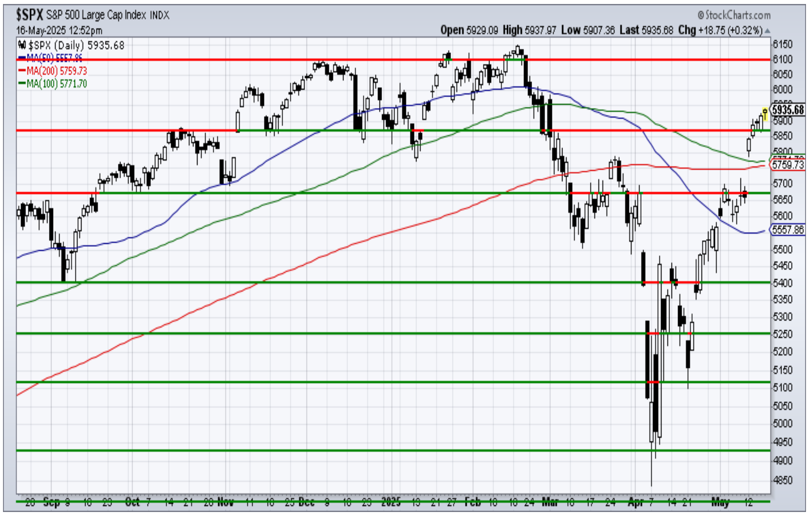
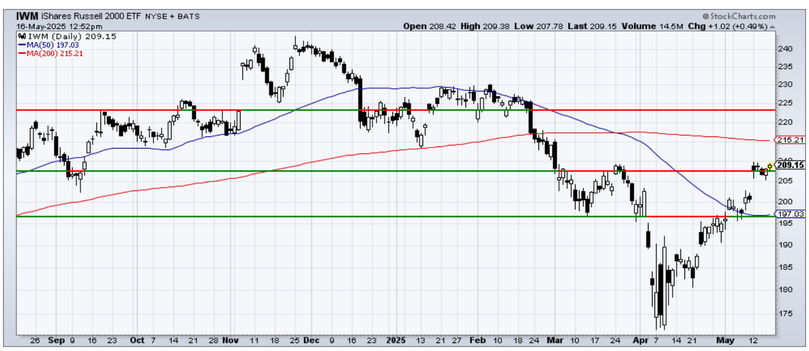
## MAY 16, 2025




After basing last week and moving sideways, the S&P surged on Monday after favorable tariff news coming out of last weekend's meetings with China. The 90 day pause in China tariffs sent the market surging Monday morning. Importantly, the markets held those gains and have built on them the rest of the week. The S&P looks to finish the week up nearly 5%. Since the April 8th bottom, the S&P is up 19% and is less than 4% from its all-time highs. The surge on Monday made short work of the confluence of resistance at the 100 and 200-day moving averages. With those 2 moving averages converging, it would not be surprising for the markets to pullback to those levels over the coming week or two. As noted last week, we believe that any weakness should be bought. At this point, the upside bias is much stronger than the downside risk.




Small-cap stocks had a similar bounce as the S&P but still remain nearly 15% below their all-time highs. Small caps have been a laggard for several years. That said, continued strength in small caps would be further confirmation that a new leg in the bull market is upon us. We don't currently hold any small cap positions but are watching this chart for potential opportunities for this area to play catch-up with outsized returns.

# Our Point

Stock markets around the world breathed a sigh of relief as both the US and China paused their tariff trade war for 90 days. The pause takes some of the emotion out of the trade talks and, perhaps, provide an opportunity for the two countries to negotiate a fair deal. It should be noted that nothing has been solved so these gains will evaporate should trade talks falter. The move provides Washington with space to continue and, hopefully, formalize new trade deals with various countries. Indications continue that deals with the likes of India, Japan and others are relatively close. Completing these deals over the coming weeks will put more pressure on China and other countries to further negotiate. The possibility of more trade deals provides the market with a bit of a floor. However, as we get closer to the end of the 90-day pauses, volatility will pick up significantly if progress is not being made. The fear of increased inflation due to the tariffs took a hit this week as both the CPI and PPI released inflation numbers at or below expectations. One month's data doesn't make a trend, but the numbers are moving in the right direction. As we noted last week, the better inflation numbers were not unexpected for us and will put pressure on Chairman Powell and the rest of the Fed to reduce interest rates in the coming months. Surprisingly, Fed Funds futures did not move much on the inflation readings. The futures indicate 2-3 rate cuts for the remainder of 2025 with the most likely start at the Fed's September meeting. More good news came this week with the Trump administration securing significant investments in the US economy by the Gulf states. The increased investments will provide liquidity in our markets that could prove to be another catalyst as those funds move into our economy. Earnings continue to wind down with just a few market movers reporting next week. Both Home Depot and Lowes report next week which will be watched for signs of slowing with the consumer and the construction industry. Much of the rally off of the lows has been driven by individual investors. With hedge funds and other professionals still underinvested or even short the market, more money will come into the market with each day that the market continues up. The flow of new money could see another surge up with any additional good news on the trade, economic, or tax fronts. We remain nearly full invested and made no changes in our holdings this week. We will take advantage of any weakness to invest the small amount of cash we have available. It should be a quiet weekend here with yard maintenance high on the agenda. This time of year, everything needs cutting every few days! We trust you will have a quiet and relaxing weekend too wherever it finds you.