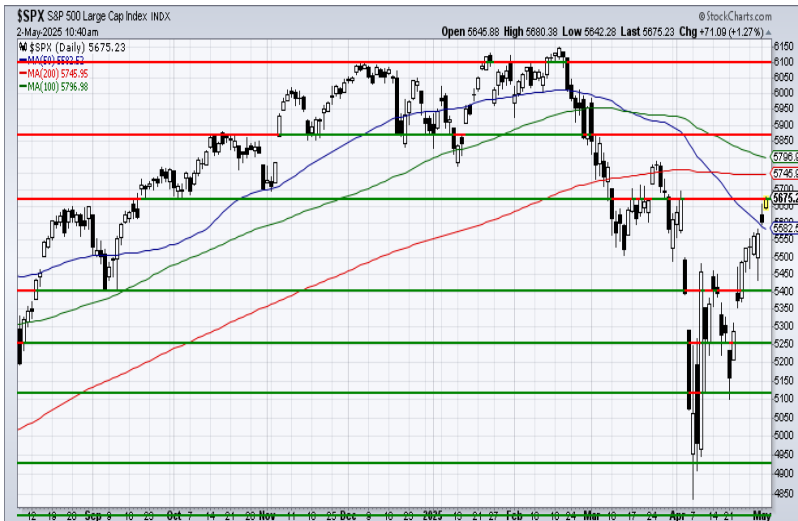


BILLS ASSET MANAGEMENT

BAM MARKET NOTE

MAY 2, 2025

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The markets continued to rally this week. The S&P looks to add another 2.5% on to its strong gains from last week. The much-followed index has now recovered all of the losses post the April 2nd tariff announcement. The markets showed no hint of slowing down this week but are getting increasingly over-bought. We expected some pullback last week, but strong earnings and favorable tariff news kept the bulls buying. With several areas of resistance just above current levels, we do expect a pause/pullback next week. As mentioned last week, we continue to believe that the worst is over, and that weakness should be used as an opportunity for more aggressive investors to add market exposure. Risk remains elevated as headlines could still roil the market. However, the possibility of good news is also present and could lead to another leg up.

The chart to the left shows the relative strength of Value stocks vs Growth stocks. The down arrows show when growth is outperforming value and vice versa. As you can see, throughout last year and even into the early part of this year, growth outperformed. That changed in mid-February as tariffs took center stage and value stocks showed relative strength. With the tariff pause, the markets have shifted again with growth stocks surging. The chart provides additional evidence that the worst is behind us.

Our Point

The monster week we discussed in last week's note did not disappoint. With 4 of the magnificent 7 stocks reporting, market movement was assured. Microsoft and Meta started the party with blow out earnings on Wednesday afternoon. Both companies significantly exceeded expectations and were rewarded accordingly with large single digit gains on Thursday. Apple and Amazon released Thursday afternoon, and their results were less stunning but were largely better than expected. With Apple's large exposure to China, its results were of more concern to the markets. Apple is down 4% today. All things considered, the earnings from these 4 companies eased market concerns that an earnings cliff was coming. The PCE report showed inflation little changed providing some hope of a more dovish Federal Reserve. However, this morning's strength in employment poured a little water on dovishness. While it is widely expected that the Fed makes no changes in interest rates next week, their statement will, hopefully, provide more clarity on its path forward. Wall Street is increasingly pricing in a 25-basis point cut at the June meeting. The movements in the treasury yields support such a cut but Chairman Powell has consistently been behind the curve. The Wednesday Fed press conference will largely determine the direction the market takes next week. Imminent trade deals continue to be rumored but none have been completed to this point. With India and Japan apparently close, announcements of one or both of these agreements would provide a boost to the markets and provide optimism that more deals are forthcoming. As mentioned in prior notes, the US is in a much stronger position than China to weather any tariff issues. The cracks in China may be showing as news came out this morning that China is making overtures to the US government to start negotiations. The Fed meeting is the largest market mover next week, but earnings will also continue to come in. Palantir on Monday afternoon will provide more information on the state of the AI market. As mentioned above, the S&P is nearing significant resistance in prior support levels, the 200-day and 100-day moving averages, and Fibonacci levels. Absent trade deals, these levels will likely provide significant resistance to the current market run. We would expect some modest pullback next week. We made several changes earlier this week buying a couple of bond funds and equity positions. We put to use some of our excess cash but have a little in reserve for our conservative and moderate portfolios. We will likely move to a fully invested posture on any pullback. It continues to be an interesting market. We are on baby watch here in Nashville as Carter and Landon are expecting their first born any day now. We are beyond excited for them. Hoping for a baby filled weekend! Have a great weekend wherever it finds you.

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