

BILLS ASSET MANAGEMENT
BAM MARKET NOTE
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Our Point

Overnight Israel launched a significant attack on Iran's nuclear facilities and leadership. The attack appears to be very successful with extensive damage done to Iran's nuclear infrastructure and numerous military and nuclear scientists eliminated. The news rattled the markets in after market trading as futures fell on the worries of a new war front in the Middle East. It is too early to know what Iran's response will be, but they will surely have one. As Israel indicated, this initial salvo is the start of an extended campaign to completely eliminate Iran's nuclear capabilities. Israel is hoping that their strike did enough damage to hamper any retaliation. As we have noted a number of times in our 15 years of writing this note, event risk is usually very short-lived. Ultimately, the market responds to what will affect company earnings over the longer term. After the initial panic, event risk fades unless it is likely to affect the US economy in some significant way. While this current event risk is far from over, it does appear that the markets are taking the news in stride and are not overly concerned. While the VIX spiked this morning – up 22% at the open and back between 20 and 25, it has since settled back into the high teens. Likewise, the major indices, which were down over 1% at the open, have recovered and are showing modest losses at this time. We will likely see some expanded volatility as the attack plays out and a decline of 2-4% (as noted above) would not be surprising. The markets have come a long way in a short period of time so the Middle East conflict may provide an excuse for some profit taking. We don't think it will last long as many investors missed a large part of this rally and are looking to get on board. With new highs in sight, we are likely to reach them in the coming weeks. Before last night's attack, the big news of the week was the low inflation numbers. To this point, those calling for higher inflation due to the tariffs have been proven wrong. While some inflation is probable with the tariffs, we don't believe that it will be long lasting nor put a large drag on the economy. The lower inflation numbers will certainly put the Fed in the spotlight and increase the pressure on them to lower rates sooner rather than later. We'll see what the Fed has to say as they meet next week and will make a decision on rates. There won't be a rate cut next week but their comments will set expectations for the remainder of the year. We made no changes to our holdings this week but continue to look at opportunities to upgrade our holdings as market conditions change. 25 years ago, I left a good job to join my father in his second career – investment management. It was a risk but the opportunity to work with my dad was too good to pass up. It was such a blessing, and I am forever grateful to him. Happy Father's Day to my dad and to all the dad's out there. Enjoy your weekend wherever it finds you.

Before last night's bombing of Iran, the S&P looked to have another solid up week with gains approaching another 1%. Israel's preemptive strike on Iran rattled the markets. Overnight index futures showed losses of 2% at the market open. The index did open down sharply but has since recovered much of those early declines. We'll see how it closes going into the weekend. The S&P remains in a strong uptrend and there is no cause for alarm at this point. In fact, the behavior of the markets this morning continue to indicate that they want to continue slogging upward. However, the markets have had a good few weeks so a pullback in the 2-4% range would be healthy and would set up a run to the market highs set in February of this year. Buying any dip in prices looks to be a prudent investment strategy.

Long time readers know that we follow small-cap stocks closely. In year's past, we have made a lot of good returns on small caps. However, over the last few years, the Russell 2000 has lagged the market significantly. Over that time, we have dabbled with investments but have yet to be rewarded. At some point, small caps will play catch up and develop a sizeable rally. Over the last couple of weeks, small caps have developed a bit of relative strength. Will it last and provide a good buying opportunity? We don't know but are certainly watching.