

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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BO BILLS (615) 371-5928
CARTER BILLS (615) 585-6867



Despite the increased Middle East conflict and the worry that the US will get more involved, the markets continue to take the news flow in stride. The S&P is little changed this week. Over the last 2 weeks, the index is down around .25%. The sideways market has consolidated the gains over the prior few weeks and has negated any overbought conditions. The market is poised to break to the upside on any good news. However, with the state of the world as it is, we could also see a small pullback to support or even the 200-day moving average. Support looks to be relatively strong and an excellent place to add exposure if you are holding cash. New highs remain in sight, and we are very likely to see them over the coming weeks.



World tensions have done nothing to sour high-yield bonds as they continue to churn higher. The low volatility uptrend remains very positive and indicates that bond investors are not at all concerned about the US economy. The chart indicates the chance of recession at near zero over the near term.

Our Point

The war between Israel and Iran continued this week with the big question of whether or not the US will get more involved. President Trump indicated that a decision would be made over the next couple of weeks. The pause provides some opportunity for diplomacy and allows Israel to further degrade Iran's defenses before any US strike. The markets have handled the uncertainty very well this week which leads us to believe that any positive developments could lead to a sharp relief rally. As we discussed last week, the Israeli/Iran war is still an event risk that has little bearing on the US economy. If that changes, then the conflict could start to roil US markets more. As expected, the Fed made no changes to the Fed Funds rate and "remain data dependent." It does feel like the bad blood between Chairman Powell and President Trump is coloring the words and actions from the Fed. Inflation continues to decline, and the economy is showing some cracks. In our view, a rate cut is overdue. However, the Fed gave no indication that rate cuts were possible until the 4th quarter of this year. Hopefully, we will get a bit more clarity when the Chairman testifies before Congress next week. Powell is sure to be grilled by Republicans while garnering praise from the Democrats – politics in motion and not always a pretty sight. Chairman Powell is out of a job as soon as his term expires in May of 2026. Trump is not doing himself any favors by constantly berating Powell, but regardless the Chairman seems set on defying what the President wants. Said or unsaid, lower rates is what every president wants! As Chairman Powell's tenure gets closer to ending, the markets will begin focusing on his replacement. Trump is likely to nominate someone that is much more dovish and helpful for the markets. The PCE inflation report comes out next week which will give new data points for the Fed to consider. Lower inflation readings will continue to put pressure on the Fed and could spark a small rally. A poor reading will bolster the Fed's case that inflation remains sticky. We'll know more next week. We made no changes to our holdings this week as all of our positions are performing as expected. Should we reach the highs over the coming few weeks, we may take some profits to generate cash for any pullback. For now, however, we remain fully invested. Summer officially arrives today and right on schedule we will get temps in the 90's over the next several days. It will be a hot and humid weekend with lots of sunshine. I will be traveling next Friday but Carter will be at the controls and will put out next week's note. Have a warm and relaxing weekend wherever it finds you.