

BILLS ASSET MANAGEMENT
BAM MARKET NOTE
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The conflict in Iran has introduced undue volatility in the markets. After largely holding support at the 100-day moving average over the last few months, the S&P breached that level this week. The bulls are trying to hold support, but it may be too much to ask in the midst of world turmoil. While the markets have been relatively resilient and have mounted a charge to pare losses on the down days, this morning's weakness has the market back testing support at the 6700 support line. Risk is elevated and caution should be exercised. The bull market remains intact but a break below support at 6700 would raise additional concerns of a more significant correction.



Part of the increase in volatility is due to the rapid rise in oil prices. Crude oil has spiked from \$65 a barrel to \$81 just this week. The 25% increase has raised the possibility of a return of inflation and a weakening economy – the US and the world. Short-term spikes will have little long-term effect (see last July) but a prolonged increase in prices will begin to have real effects on the global economy. It all hinges on the success (or lack thereof) of the current campaign in Iran and the availability of the Strait of Hormuz as a safe shipping lane. Things can change quickly – caution is warranted – panic is not.

Our Point

It's been a volatile week. Last Friday's weakness preceded the weekend's missile attacks on Iran. While the campaign looks to be going well from a military standpoint, the effect on the market has been uncertainty. As noted here ad nauseum, the markets despise uncertainty. How long will the conflict last? Will other nations be drawn in? Will ground troops be required? How much will oil prices increase? These questions will be answered over the coming days/weeks and the uncertainty will slowly ebb. Until then, volatility is sure to continue! Despite all of the uncertainty, the markets have weathered the storm well. The S&P remains just a little over 3% from its highs. The more aggressive Nasdaq is just 6% off its highs. Annual 10% corrections are not unusual, and we may be in the midst of something along those lines. A decline of that magnitude would not be unexpected but neither would a quick resolution in Iran and a market that approaches new highs over the next few weeks. The market is very fluid right now and is reacting to news flows that can change very quickly. While risk is elevated, it has been impressive that the market is holding up as well as it has. A further example of the market's resiliency was the market response to this morning's very disappointing jobs report. Expectations were gains of 60,000 new jobs but instead we saw a decline of 92,000 jobs. The market sell off accelerated down on the news but, as of this writing, the major indices have stabilized and recovered some of the early morning losses. The pattern for much of this week has been weakness in the morning and some strength in the afternoon. We shall see if that trend continues as we head towards the close this afternoon. We made no changes to our holdings this week, but several positions are nearing our sell points. A disciplined approach to investing will significantly lessen the chances of life changing losses and we are committed to being disciplined in our process and analysis. We are excited to get another hour of daylight this weekend – especially in light of the spring like temperatures! Don't forget to reset your clocks and get to bed early Saturday night. Enjoy your weekend wherever it finds you.

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