

BILLS ASSET MANAGEMENT
BAM MARKET NOTE
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Our Point

Wow! We have seen yet another tremendous week on Wall Street. The indices showed no signs of slowing down despite the lingering headlines out of Iran and the Strait of Hormuz. The S&P 500 and the Nasdaq look to close the past 5 trading days with gains of 2.5% and 5% respectively. What a difference two months can make! The market has now logged six consecutive weeks of growth from the lows put in at the end of March. While the strength and resilience of the current rally are nothing short of spectacular, we expect the market will take a breather at some point over the next few weeks to work off some of the overbought conditions. A pause or mild correction to digest some of the recent gains would be healthy and would help to set the stage for higher prices in the second half of the year. Earnings season is winding down with more than two-thirds of S&P 500 companies having reported. Results have been excellent across all market sectors with approximately 75% of companies beating their EPS estimates. Those overwhelmingly positive reports have provided the fuel needed to keep this rally rolling. A few notable names remain, namely Walmart and Nvidia, but as the earnings calendar thins out, the market will begin looking to other sources of data for direction. This morning, one of those key data points arrived. The April jobs report came in well ahead of expectations, with the U.S. economy adding 115,000 nonfarm payrolls against a consensus forecast of just 65,000. The unemployment rate held steady at 4.3%. Markets cheered the numbers, but it is worth noting that a strong labor market gives the Federal Reserve less reason to cut rates. With inflation still running above the Fed's 2% target, the "higher for longer" interest rate narrative remains alive and could prove to be a headwind in the months ahead. Another potential headwind that we will be monitoring is the calendar itself. We are now firmly in May, and while it has not proven to be the case so far this year, May marks the beginning of a seasonally weak stretch for equities. The old Wall Street saying "sell in May and go away" is rooted in decades of data that suggests the period of May through October yields lower market returns, on average, when compared to the winter months. Weakness is not guaranteed and seasonality can be overridden, particularly in years like this one with strong earnings momentum driving markets higher. However, it is a factor worth folding into our market outlook as we move deeper into spring. Looking ahead to next week, President Trump will travel to Beijing for a summit with Chinese President Xi to discuss trade, Taiwan and the ongoing conflict in Iran. Markets will be watching closely, particularly for any news around an extension to the existing trade truce. On the economic data front, the April CPI and PPI reports will also be released next week and will command significant market attention. Inflation has been creeping higher in large part due to the surge in energy prices tied to the Strait of Hormuz disruption. So far, the market has looked past the elevated readings, expecting inflation to recede as the situation in the Strait moves toward resolution. We will see next week whether that patience holds. On a more personal note, it will be a weekend of celebration for the Bills family - tomorrow is my son Roan's first birthday! It has been such a joy watching him grow from a newborn to now rapidly approaching toddler status. And of course, Sunday is Mother's Day. To all the mothers out there, we hope you enjoy a wonderful and relaxing day with your families.