BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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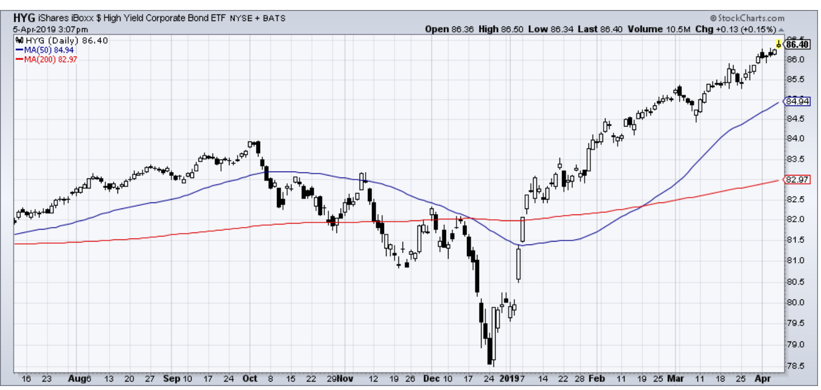
Last week we highlighted the last line of resistance before the S&P could make a run at the highs of last year. Large caps have now broken through resistance and are on their way to the highs – just 50 points from current levels. Interestingly, there has been a lot of ups and downs since January of last year but the market has gone nowhere over the last 14 months (marked by the blue arrows). With the recent run being so strong and the traditionally strong market period nearing its end, it would be logical for the market to at least pause at the highs (if not turn down a bit). However, the recent 4 months have been anything but logical.



High yield bonds are often a very good barometer of the economy. As you can see, the high yield market doesn't seem to show any worries about the economy weakening anytime soon. Absent a small pull-back in early March, high yields have been strong throughout the rally that started at year-end. We will continue to watch high-yields for early signs that the economy is losing its luster.

Our Point

The jobs report this morning served to alleviate some of the fears that presented themselves with last month's extremely weak reading. The 196,000 new jobs stood in sharp contrast to the 20,000 reported last month leading many to believe that the February report was an aberration. To many, the report was neither too strong (leading to interest rate hikes) or too weak (signaling a weakening economy). The market is taking the news in stride with modest gains today but it has already been a good week for the markets. We have been harping on small cap and interest rate weakness for several weeks but both followed through on their strength from the end of last week allaying some of our concerns. Small cap strength would be a welcome addition to this market and would push the rest of the market up through last year's highs. The Russell 2000 is some 10% below its highs so it has some catching up to do and will be a solid investment choice should its strength continue. Internationally, China is showing strength (perhaps on optimism of an upcoming trade deal). We suspect that the US markets have already priced in a positive resolution to the trade deal so any disappointment on that front could result in a sharp move down for the markets. Europe has continued its strength despite the many Brexit questions. Earnings season will kick into high gear over the next couple of weeks and could be a market mover. While expectations have been lowered, investors will focus on forecasts for the remainder of the year for clues on the economy. With the rally in treasury rates, our position in the utilities sector has weakened a bit. We will be watching that position closely and may end up upgrading that holding next week. The rest of our portfolio is performing well and as expected. Small caps are an area of interest and will likely be added if the recent strength in the Russell 2000 continues. Well my March Madness bracket was busted going from the sweet sixteen to the elite eight (yes I had Tennessee winning it all – hard to not let your heart rule your bracket). On a positive note, I did manage to win the office pool! Hopefully, your team is playing this weekend and your brackets are still afloat. Enjoy the weekend sun and summer like temps.