

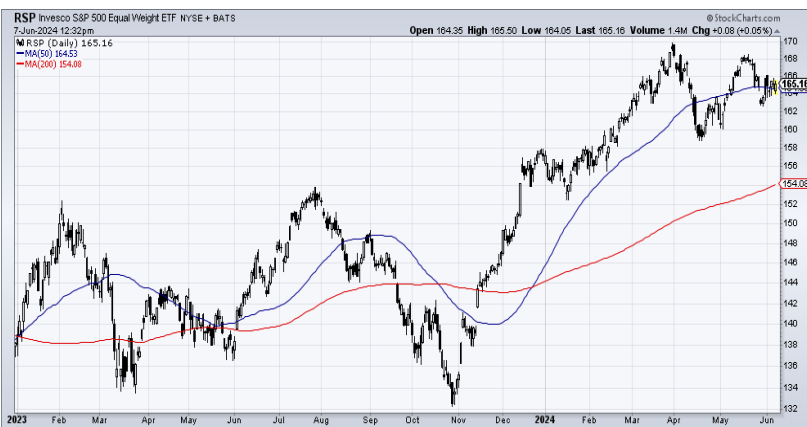
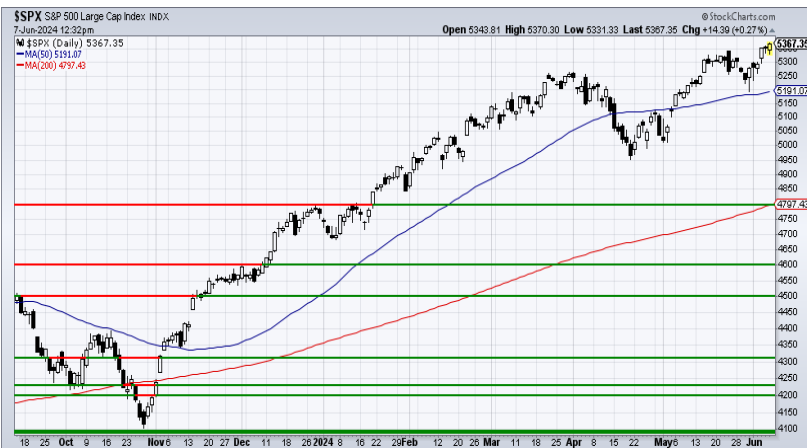
BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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Another week and another up week. Despite roaring jobs numbers and a pause in talk of interest rate cuts, the S&P continues to move up. Morning weakness is giving way to strength as the day goes along. That is a theme of the current market. The pullback came as expected and hit our most optimistic target. Further weakness last week would have been a welcome reset. However, the market just wants to go up. The largest of the large caps continue to carry the market and breadth leaves a lot to be desired. That said, you can't argue with the market action. Enjoy it while it lasts.

While the cap-weighted indices are reaching new highs, other parts of the market are not nearly as rosy. For example, the year-to-date equal weight S&P returns of RSP are less than half of the S&P (40% to be exact). Small caps are just eking out a YTD gain and mid-caps have returned just a little more than half of the S&P. The bifurcation in returns is reminiscent of last year and continues to illustrate the influence of the Magnificent 7 stocks and the narrowing breadth in the market. It is something to watch and one concern we have in the current environment.

Our Point

This morning's jobs report caught all of Wall Street by surprise. The expected print was 180,000 but the reported number was 272,000! It was an impressive number when nearly all economists thought that job growth was slowing. The upside surprise had the markets selling off at today's open. Good news is bad and bad news is good! The thought being that the job growth (good for the economy) will put the brakes on any rate cut talk by the Fed. Fed fund futures now indicate a significant drop in expectations for Fed rate cuts in either July or September. However, after early morning weakness the stock indices have recovered their losses and have moved into positive territory. In fact, we have seen this bullish pattern several times over the last couple of weeks. It is bullish for morning weakness to turn into afternoon strength as often novice traders make knee jerk moves in the morning and more seasoned investors trade in the afternoon. It remains an unusual market. Perhaps traders are taking stock of the household job survey which showed a large negative number (-400,000). The jobs report indicates how many new jobs employers created while the household survey indicates how many households have a job. The apparent dichotomy could be explained by people getting multiple jobs (jobs report) but not everyone having a job (household survey). So, perhaps, the jobs report is not as impressive as it may seem. The market may be taking stock of the negative and still holding onto hope of interest rate cuts over the next few months. Next week has the potential to be a volatile week. With CPI and PPI reports coming out on Wednesday and Thursday of next week with the Federal Reserve meeting in between the two releases, we will have lots of inflation data to parse through. While the Fed will not change interest rates at their meeting, their comments will be closely watched. With the backdrop of new inflation data, major market moves can be expected on surprises in either direction. It will be an interesting week. We made no changes to our portfolio this week and remain mostly fully invested. Next week is another important week and we will be taking notes. Have a great weekend wherever it finds you and Go Vols – let's go to Omaha!

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