BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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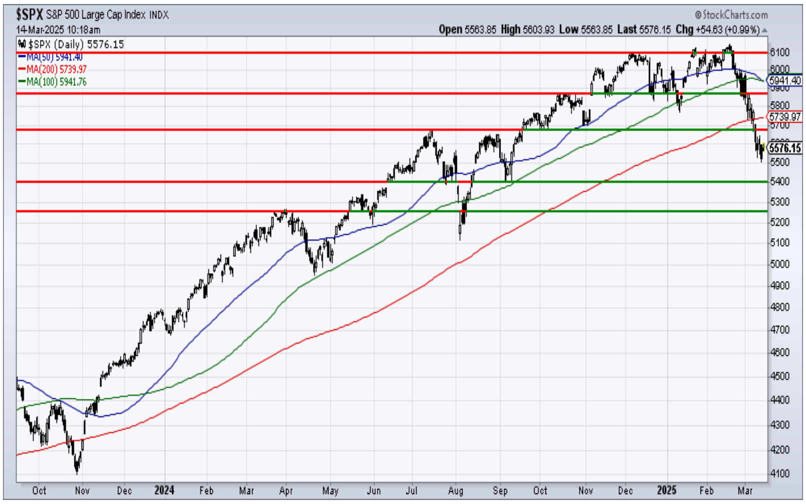
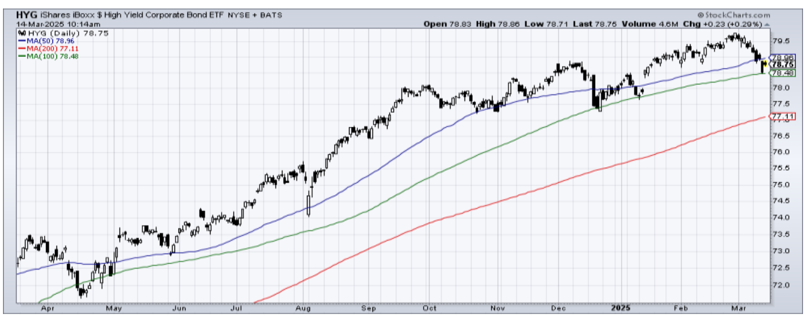
MARCH 14, 2025





As we mentioned last Friday, the market was resting at an important level. The level failed and led to another down leg in the markets. The 200-day moving average provided little support as investors continued to de-risk with the uncertainties surrounding the economy. We were at a similar point back in 2023 when the market fell a like amount (10%) and then quickly bounced. There is no way to know if we will get a similar bounce and recovery but the longer we stay below the 200-day moving average the more danger the markets have of breaking down further. We don't expect that to happen but in the current environment anything is possible. 5400 (3% decline) on the S&P is the next target to the downside. Caution remains the order of the day.

High yield bonds had held up well through February but started down a couple of weeks ago. They have now pierced the 50-day moving average and tested the 100-day average yesterday. The market is rallying today, but over the last several weeks rallies have faded into the close. We will need to see some strength to finish the day and some follow-through to begin to repair the technical damage done over the last month. The break-down of high yields is concerning and should not be ignored.

Our Point

Good news in the markets has been a rare commodity over the last month. I won't repeat myself and regurgitate the list of uncertainties we have discussed over the last several weeks but will say that many of them remain uncertain. We have gotten a sprinkling of some good news this week with a decline in inflation with the CPI and PPI reports coming in below expectations. Additionally, energy prices and interest rates are falling – both good for the economy. Finally, it appears that a government shut down will be avoided as Congress votes today on a 6-month continuing resolution. We will take any good news we can get! To this point, the good news has continued to be overshadowed by the remaining question marks. The markets are very oversold, and a powerful rally of some import will come soon (we thought it would come this week – today may be the start). We would caution investors to not get too excited on such a rally as it is more likely than not that the markets will need some time and back and forth to begin to repair the technical damage done to the market. As some of the uncertainties are resolved, the markets will adjust and begin to form a base. April 2nd remains a key date for the markets as that is when the new tariffs are due to be enacted. Whether or not they actually go into effect is another question. Regardless, the markets will respond quickly to whatever is done. The markets have priced in a bunch of bad news so additional good news has the potential to turn the market around and begin the recovery process. We remain very optimistic in the mid to longer term but continue to preach caution and patience. A very good buying opportunity is developing but we are not quite there yet. We would like to see the bottoming process begin and the start of the repairs needed before sounding the all clear. Next week we will get retail sales data (an insight into the state of the economy) and the Fed Meeting and interest rate decision. The Fed is unlikely to make any changes to interest rates but will address their expectations of future rate cuts. With the current market and economic uncertainty, many are expecting to hear dovish statements from Chairman Powell. Such statements could be a catalyst for a rally. The absence of any dovish statements could lead to another leg down and more uncertainty. There is no lack of information to process! We made no changes to our holdings this week but may take advantage of the expected rally to reposition our holdings a bit. Nashville is full of SEC colors this week as the SEC basketball tournament is in town. Tennessee will tip off later today in its quest for a #1 seed in the NCAA tournament that starts next week. Hopefully, it will be an orange weekend. Enjoy yours wherever it finds you.