BILLS ASSET MANAGEMENT

BAM MARKET NOTE

JUNE 28, 2019

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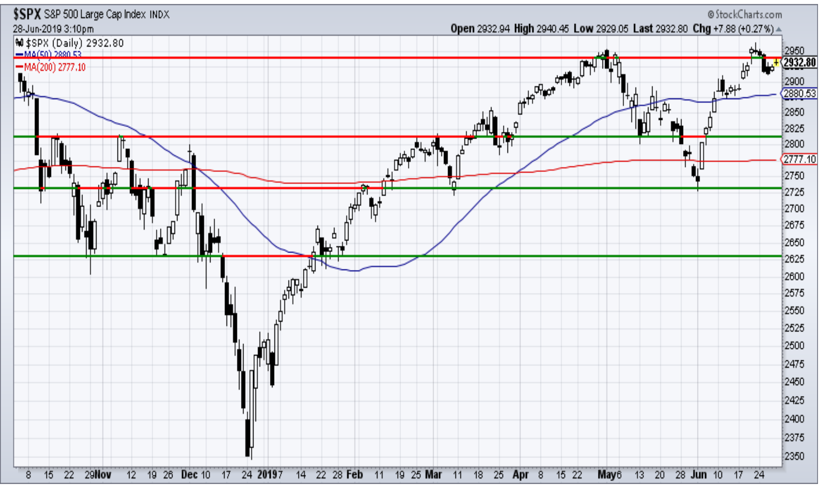
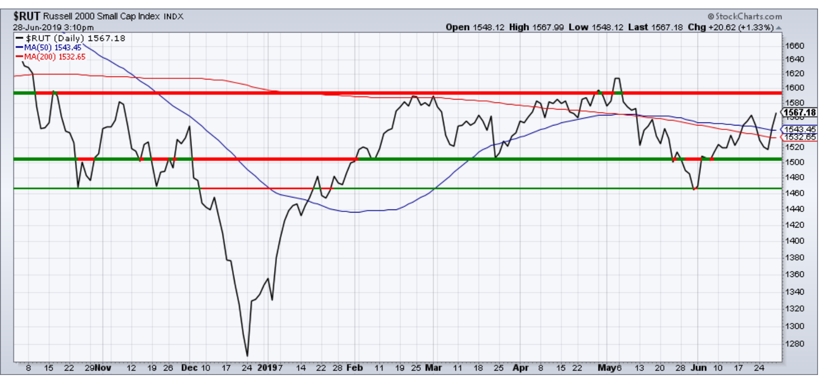


After briefly breaking through resistance, the S&P fell back below the highs this week. The widely watched index remains right at resistance. This evening's much anticipated meeting between Presidents Trump and Xi will determine the next move for the market. A favorable (or at least favorably perceived) meeting will likely push the market higher while an unfavorable meeting will assuredly lead to a sell-off. Any sell-off should be contained by the support levels marked by the green lines. A perceived stalemate with no end in sight could lead to a quick retest of the late May lows. It is an unpredictable event, so we are left waiting for some clarity.



While headline events like tonight's meeting are impossible to trade, an investor can look at the charts to determine the market's bias. It has only been 5 trading days, but the Russell 2000 looks to be trying to reverse its longstanding relative underperformance. While the S&P is flat to slightly down for the week, the Russell looks to finish up around 1%. Strong gains yesterday and today may be a positive harbinger of things to come. Of course, that could all be undone by bad headlines out of the G20.

Our Point

While all eyes were on the Fed last week, this weekend we head to Osaka for Trump's meeting with China's President Xi. While it is very unlikely that we come out of the weekend with a new trade deal, market participants will be parsing the tweets, press releases, photo ops, etc… for clues on the tone and progress of the meetings. Perceptions will determine where the markets head next week and beyond. In environments like this, it is extremely difficult to make investment decisions. Headline events are that way and betting either way could hurt one's feelings and pocketbook! A wayward tweet or a frown in a photo op could lead to a significant sell-off. Longer term the market appears to want to go up. However, July marks a month known for its weakness over the last several years. With good news out of the G20 largely priced into the market, any whiff of bad news could result in a quick and painful decline. Throw in a shortened trading week (July 4th holiday), and there are the makings of early fireworks on Monday, Tuesday and Wednesday. With the markets at or near their prior highs, we believe the risk to the downside is greater in the near-term than benefits on the upside. That could easily change with positive news this weekend but until we see how the market responds, we would advise some additional caution. The renewed life in small caps is very positive and we will be watching to see if this continues or is just a momentary blip. Bonds continue to do well in this low (and going lower) interest rate environment. High yield bonds have rallied with the market and provide a strong clue on how the market views the economy. Other bonds have also done very well on a risk-adjusted basis and continue to be a good investment for excellent returns and lower volatility. We made no changes in our portfolios this week but remain ready to adjust/add/remove holdings as market conditions warrant coming out of the meeting this weekend. The markets will close early on Wednesday and shut down on Thursday. They will re-open on Friday for what promises to be a low-volume day with many traders making a long weekend of the 4th. If next week is quiet, we will likely join the rest of Wall Street and will take a week off from our market note. However, if there are significant developments we will send out the note as scheduled. In either event, enjoy your weekend and your celebration of the 4th! We plan to catch at least one firework show.