Bills Asset Management

BAM MARKET NOTE

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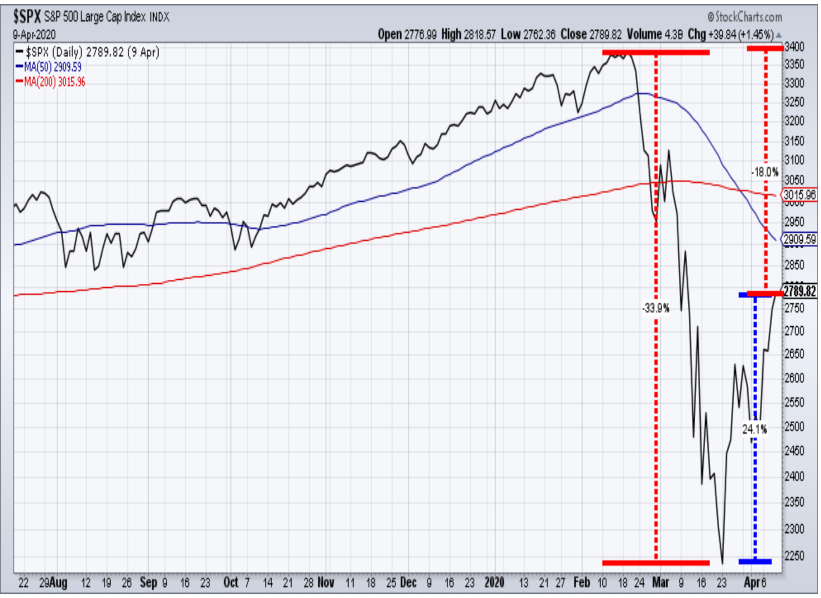
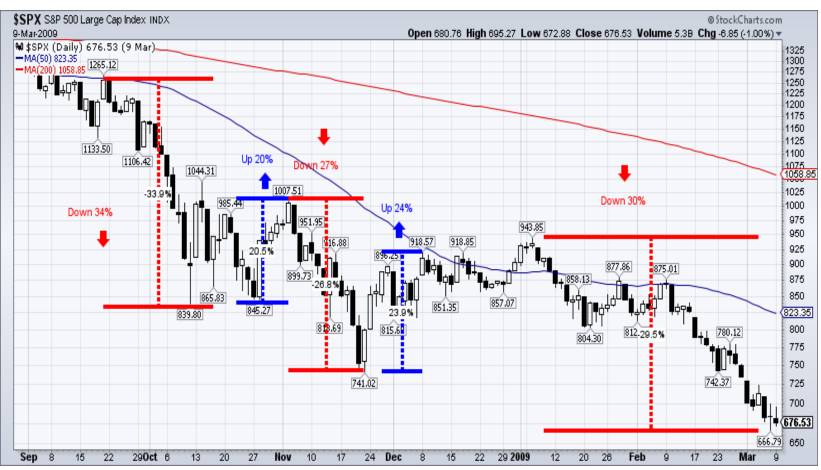


The markets have staged an impressive rally over the last couple of weeks. The S&P has rallied 24% off of the lows of March 23rd. The rally was interrupted by a few scary days in late March but the rally resumed heading into this long holiday weekend. Despite the impressive gains, the S&P remains 18% below the highs set just 2 short months ago. It has been a whirlwind to say the least. As mentioned here over the last few weeks, strong counter-trend rallies are the norm in fast moving bear markets. Until proven otherwise, we are in a bear market with a number of uncertainties still present in the markets. Have we “bent the curve” on the virus? Have we seen the worst of it? When will the economy re-open? How quickly will people resume “normal” activities? What will be the ultimate effect on the economy? The answers to these and many other questions will determine the staying power of the current rally.



The chart presented shows the 2008 bear market. While not a perfect analogy (markets don’t repeat but they do often rhyme), it may give us an idea of what to expect over the coming weeks and months. After a waterfall decline of 34%, the markets staged an impressive counter-trend rally of 20% (sound familiar?). The rally was followed by a deeper decline of 27% to set a new market low. Another counter-trend rally of 24% began before the final low was met with a 30% decline to set the bottom. While we have no idea if the current market will play out in a similar fashion (the 2008 crisis and today’s markets have many differences), we do believe that despite the rally that extreme caution is warranted.

Our Point

Many in the media are proclaiming that the worst is over. That may well be, but history would suggest otherwise. We will certainly know more when the markets start their next down-leg. With the markets over-bought in the near-term, we will probably see that down-leg next week. If the market can establish a footing and develop a series of higher highs and higher lows, then we will feel much more comfortable in waving the all clear. The damage to the US economy is ongoing and a moving target as long as it stays closed. We don’t yet know the extent of the damage but it is significant and will likely reverberate for many months after the current crisis is averted. The technical damage to the markets is also significant and will take a long time to repair. It would be extremely unlikely for the damage done over the last few weeks to be recovered as quickly as many now, caught up in the euphoria of large daily gains, seem to think. Much more likely is a period of back and forth as the markets digest the ongoing news – both good and bad. The unemployment numbers are staggering. On Friday, the Federal Reserve surprised the market by injecting 2.3 TRILLION more into the markets in the form of a lending program and the government purchase of certain financial instruments to prop up the market and provide some stability. While one can argue the merits of the plan, the result was a resounding cheer on Wall Street. The Fed and Congress and throwing everything they can at the problems and aren’t done yet as another small business bill is being formulated in Congress. Despite the green arrows this week, it remains a dangerous market. We remain in cash and market neutral and will await more clarity before risking our client’s principal. Patience and prudence remains a reasonable investment philosophy in these volatile markets. I like my chances in this year’s Easter Egg hunt as the competition will be sparse. Enjoy your holiday weekend and Facetime, Zoom, Skype, etc. with those you wish you could be enjoying Easter with.