Bills Asset Management

BAM MARKET NOTE

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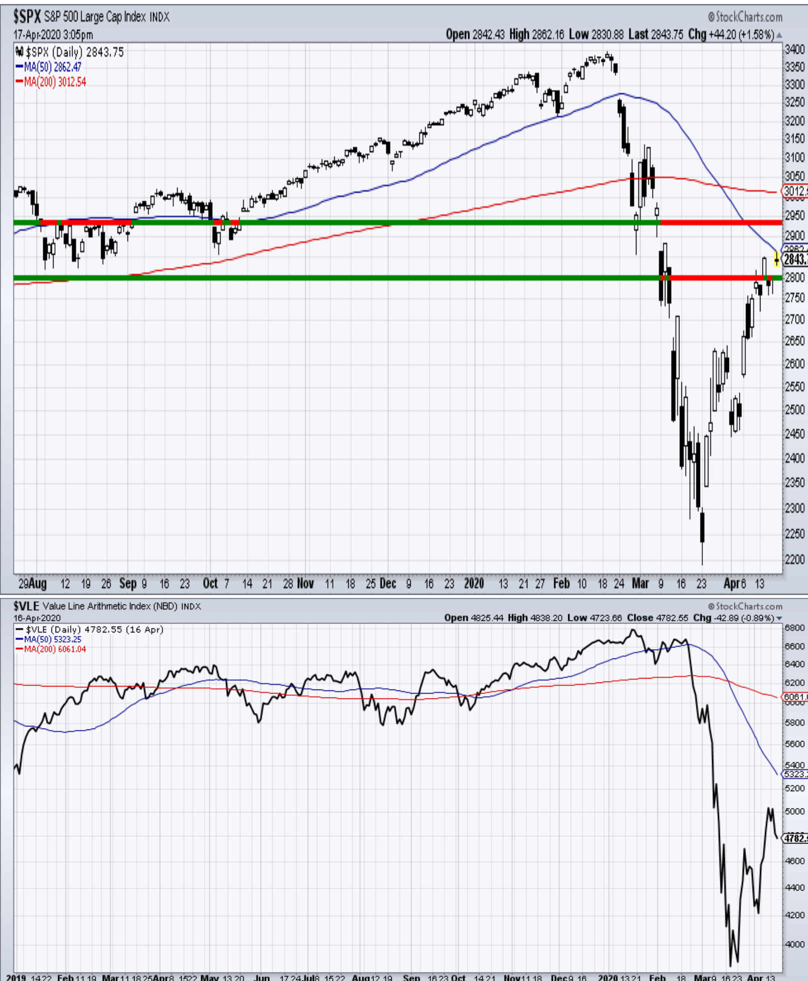

The S&P started down this week but is rallying today on hopes of a new virus treatment drug. We hope the news comes to fruition but we have been down this road before. The new Gilead drug has shown great success in a very limited test (125 patients) so it is far from a certain cure. The market is also rallying today on hopes that some parts of the economy can re-open in the next week or two. The rally that started some 3 weeks ago has been powerful and the S&P has recovered a little over half of the losses incurred from the February high. The index now resides squarely in a zone of resistance. If (very big IF) this is the end of the crisis, then the S&P will likely climb through the upper range of resistance around 2900-2930. A move beyond this level is unlikely with all of the uncertainty remaining in the market. The upside benefit of 2-4% does not justify the risk to the downside.

As we have noted in past missives, the Value Line Index (VLE) is, perhaps, a better representation of the market as a whole. Rather than the 500 largest companies found in the S&P, the VLE contains over 1700 companies of all market capitalizations and better approximates the equity portfolio of the "average" investor. While the S&P has recovered over half of its recent losses, the VLE has only recovered a little over 30% of its losses. Interestingly, the VLE is down today while the other major indices are showing broad gains. It is truly a strange market.

Our Point

The markets remain headline driven. While the virus headlines (thankfully) have been mostly positive, the economic headlines have been dismal and promise to get worse in the coming weeks and months. By the market's reaction to the dueling headlines, they are much more concerned with the virus (rightfully so) then the economic impact. We suspect that will shift in the coming weeks as the virus is contained and the economy reopens. The economic damage is significant and, to an extent, unknown until we see how the reopening goes and how consumer behavior has been affected. As we mentioned last week, the 2008 bear market acted in a similar manner. We continue to anticipate that the market will weaken over the coming days/weeks. During 2008 the market fell some 50% and the US GDP fell to a negative .14% in 2008 and a negative 2.54% in 2009. In contrast, Goldman Sachs estimates that 2020 GDP will be a negative 6.2% (assumptions are a negative GDP of 34% in the 2nd quarter followed by a robust recovery in the 3rd and 4th quarters). Yet, the S&P is down "only" 15% off its highs. Either there is some sort of disconnect or the markets are pricing in a quick bounce back later this year and next. Time will tell, but until a vaccine is created and distributed, the effects of the virus will continue to reverberate through the economy for quarters to come. It may be far longer than expected for certain areas of the economy to recover – if they do. Life will change throughout the world as social distancing, while relaxed, will become a normal part of daily life. Businesses will adapt and there will be winners and losers. That is a subject for another note as there remains work to do to get out of the current market challenges. We have made no changes to our portfolios and remain in the safety of money market funds and fully hedged market positions. While it is difficult to see the market going up without participating, there is much greater risk to the downside than opportunities to the upside. Patience will be rewarded. Enjoy another quiet weekend.

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