Bills Asset Management

BAM MARKET NOTE

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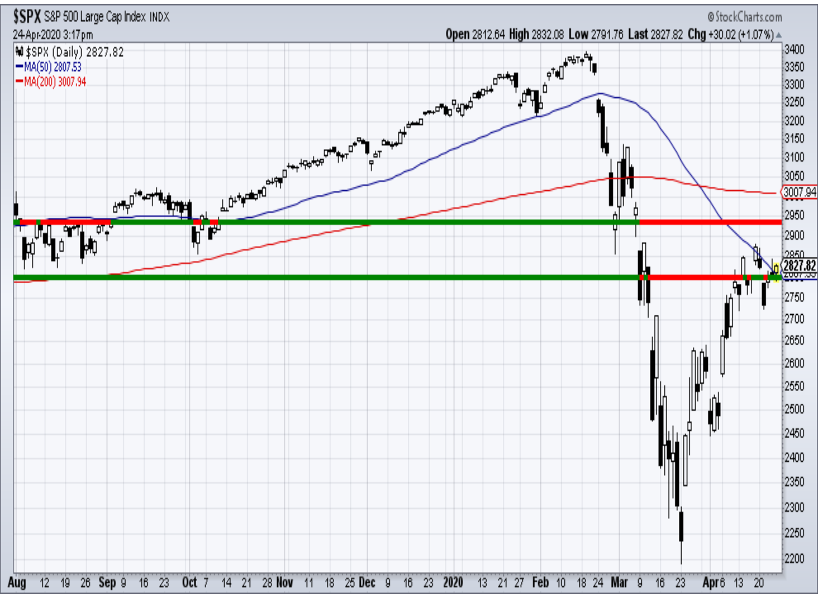
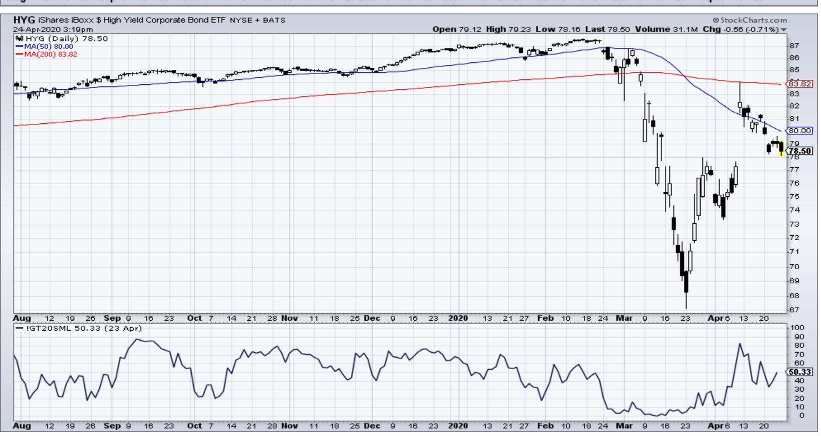


The markets have pulled back a bit this week but the move has been measured. The S&P looks to finish the week down around 1.5%. In the grand scheme of things, the relatively small move is welcome for a market that a few weeks ago was moving 3 times that amount in a day! After falling below the broad trading range earlier this week, the index is now back in the range bounded by 2800 on the downside and 2940 or so to the upside. In the near-term there seems to be much more risk to the downside than upside potential. There remains much uncertainty. The initial wave of the virus seems to be waning in many parts of the country. We'll know much more once cities start their gradual reopening. Atlanta and other parts of Georgia will be places to watch as they begin their reopening today. Will we have a second wave? Will the economy bounce back quickly if all goes well? Will we have a second shutdown?



High yield bonds are often a good place to look to get a view of the way Wall Street views the economy. HYG surged earlier this month as the Fed announced the unprecedented backstop on high yield bonds but have since drifted lower. Since the April 9th peak, HYG has fallen almost 5% while the S&P is up over 1% over that same time period. That does not bode well. Some of the weakness can certainly be attributed to the collapse in oil prices as many high yield bonds reside in the energy space. High yields often foretell economic weakness so this important area should be monitored closely.

Our Point

It has been a relatively quiet week for the markets. While the virus headlines have largely been good, the economic devastation continues unabated. Just over the last 4 weeks, jobless claims have reached 26 million wiping out all of the job gains over the last 10 years! The obvious question is how many of those jobs will come back and when will they come back? We believe in the American spirit but the uncertainty surrounding these questions will likely put a lid on any upside in the markets. We mentioned last week that the market was rightfully focused on the virus but that the economic damage would become a much greater factor in the coming weeks. With the modest good news on the virus front, we are starting to see that shift. Despite the quiet week, volatility will be the norm over the next several weeks as headlines will continue to dominate the news cycle. The Fed's unprecedented stimulus can only do so much. The United States is a consumer driven economy and until workers can get back to work, the stimulus will only buy a little time. With many states beginning the process of reopening, we will begin to see how quickly and how seamlessly workers and, more importantly, consumers will be to get out and spend. Earnings and forecasts this earning season (to the extent they are given) will be dismal and will largely be discounted by the market as nobody can actually make a forecast in the current environment. We have no doubt that our lives will return to normal and the economy will come roaring back but it will continue to be a bumpy ride for weeks to come. We made a few changes to our portfolios this week. We purchased gold and treasuries on the defensive front. We also made an allocation to a bond like fund that shows great potential for upside gains. We continue to hold an outsized part of our portfolios in cash and will wait for more clarity on the market before making any significant equity allocations. We remain healthy (though in need of a haircut) and hope you and your loved ones are also healthy and safe. This will pass – enjoy another weekend of honey-do lists, walks and Netflix.