

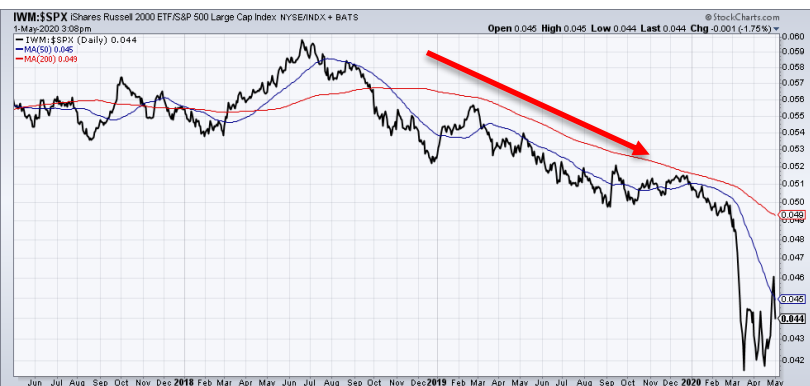
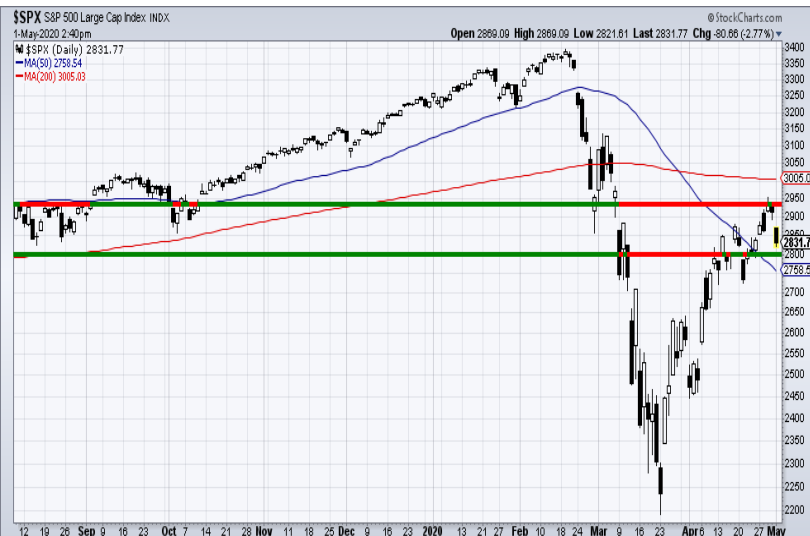
# BILLS ASSET MANAGEMENT

## BAM MARKET NOTE

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After a record setting April, the markets have pulled back the last two days. It should be noted that the explosive April was on the heels of a much more perilous March. The S&P remains 17% off of its recent highs and has recovered about half of the losses since the February 19<sup>th</sup> peak. It remains a volatile and risky market. While CNBC and other financial pundits have cheered the end of the “bear market,” much uncertainty remains and a revisit to the March lows remains a distinct possibility. The S&P touched the upper end of the risk range on Wednesday before falling back to the lower end of the range today. After such a big move in April, it is not surprising to see some weakness here. The question is whether the markets are digesting gains or if they got ahead of themselves and are setting up a deeper decline. At current levels, the risk to the downside remains much greater than upside potential.

The Russell 2000 has been a long-term underperformer relative to the large cap indices. Since mid-2018, relative performance of the Russell has significantly lagged the S&P. The recent rally in small caps and, more importantly, its outperformance was encouraging. However, the index has given up much of its gains over the last 2 days. While markets can go up without leadership from small caps, it is a much tougher hill to climb. For the recent bounce to be sustained, small caps will need to at least perform in line with the large caps or, better yet, recover its recent leadership role.

## Our Point

Optimism on the virus front was tempered by the reality on the economic front. Early week gains were given back yesterday and today and the market looks to close down on the week. The S&P retraced a little over 60% of the March losses but stalled right at the resistance we have been watching for several weeks. It was a logical place for the index to pause. After such a powerful rally off of the bottoms, a pullback of some significance is not unexpected. The next down-leg will be instructive on the short term direction of the markets. We have started that down-leg now. A break below the bottom of the range that extends below the April 21 S&P lows at 2736, would nullify the uptrend and set the stage for a much deeper fall. However, if the S&P can muster some strength next week, then some level of consolidation should be expected in the current range. Headlines will continue to drive market action. Continued positive news on the virus front in the form of treatments and the success of various state re-openings will go a long way in muting the inevitable dismal economic news that is forthcoming by way of earnings and various economic measures. However, if treatments stall or if re-openings don't go as smoothly as hoped, then we will likely see increased volatility and downside risk. Much of the economic news currently coming out reflect data through March 31<sup>st</sup> - only 1-2 weeks of the economic shutdown (New York shutdown on March 20<sup>th</sup>). The news is likely to get much worse on the economic front as the shutdown heads into its 6<sup>th</sup> week with no end in sight for New York and other hot spots. The market is forward looking and there is no doubt that the US economy will bounce back. However, there remains great uncertainty on when and how quickly the economy will recover. Despite the historic April gains, investors should not be afraid to take some profits (or less losses). Market risk continues to be extremely high. Caution should be taken and your investment portfolio should reflect a high risk environment. We made no changes in our portfolios this week and remain invested in a number of defensive positions. Despite today's slide, our portfolios should be up for the day and the week. Spring has sprung and it will be a beautiful weekend – get outside, take another walk and enjoy the warm weather.

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