BILLS ASSET MANAGEMENT

BAM MARKET NOTE

MAY 8, 2020

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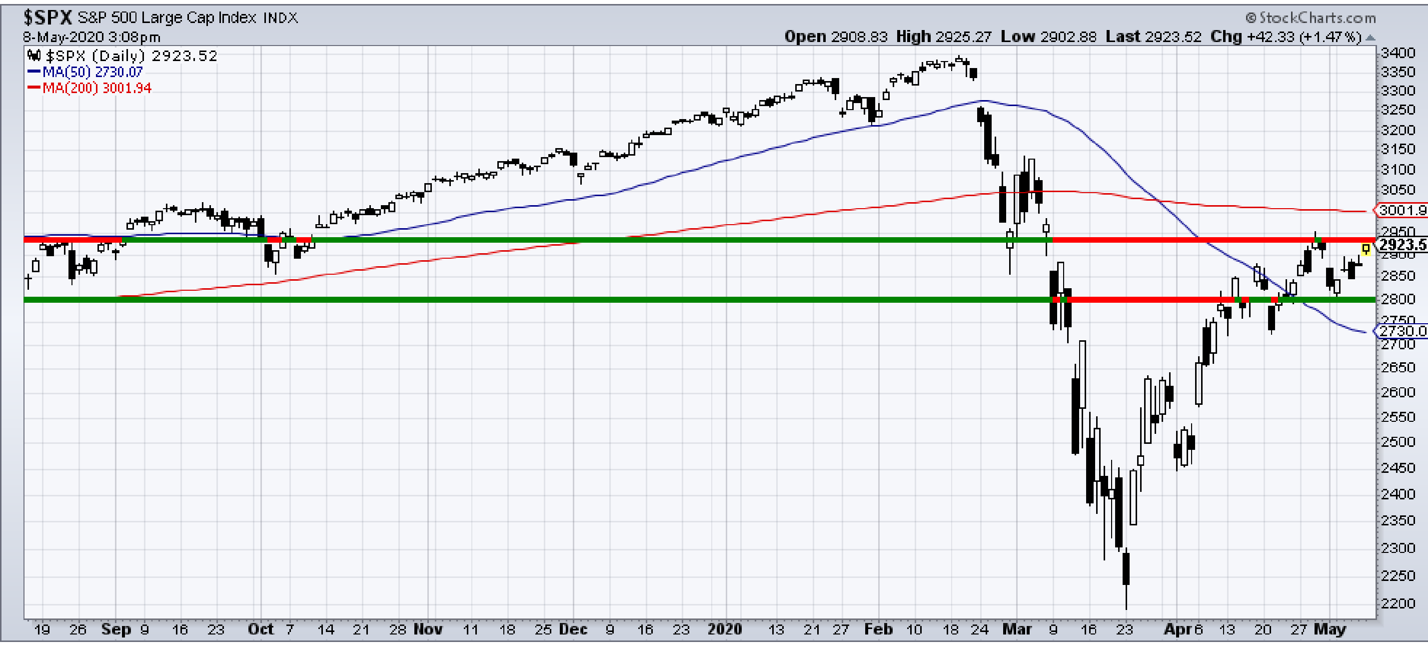

Our Point

After moving down a bit last week, the S&P is on the move upward this week. Despite today's horrific jobs report, the S&P is up 1.5% today. The market is looking forward to, what it hopes is, a successful reopening of economies and a quick recovery of jobs in various industries. The Fed emptied the kitchen sink and threw all that it could at the pandemic. The result was a stemming of the losses and the rally that we have seen since the nadir on March 23rd. The S&P remains embroiled in the trading range that we have been watching for the last several weeks. It is now near the top of the range so some weakness next week would not be unexpected. A sustained push above the top of the range would be encouraging but it seems unlikely as the uncertainties surrounding the virus and the recovery remain. The talking heads on CNBC touted the "better than expected" jobs report for the reason the market jumped. Perhaps, but it is hard to get too excited when you are applauding job losses of only 20 million and an unemployment rate of nearly 15%. Many of those jobs will return but there are also a number of them that won't. Businesses will shutter, cut back, and realize that, in the new reality, they can operate more efficiently and with fewer people. No one really knows what things will look like going forward. We think it will be a much longer period for recovery than the current rally on Wall Street would lead one to believe. These are one of those times that we hope we are wrong. There are, however, some reasons for optimism. High yields have stabilized and are up with the market this week. Small caps are showing some relative strength today (though it is just one day). Technology has been the winner thus far as the quarantine has affected them the least. We will have to see if the inevitable reduction in advertising dollars has an affect on the likes of Facebook and Google. Despite the strength in technology, the Nasdaq composite remains 7% off of its February highs. Earnings have largely been discounted as expectations have been managed. That will change as we get out a little further from the current virus concern and turn more to the longer-term effects on the economy. We suspect that some of the rally is the result of FOMO (fear of missing out) as retail investors jump into the market based upon the headlines of the recent market gains. We remain wary of the rally and would advise continued caution despite the gains. We made no changes in our portfolio holdings and remain defensively positioned. Our holdings are performing well and we are comfortable with them in the current environment. We believe a better buying opportunity will present itself over the coming weeks for more aggressive holdings. I learned a new word this week – derecho. A derecho is a rare weather phenomenon that can cause hurricane force winds far, far away from the ocean! Nashville had the misfortune this last week of suffering through one of these rarities and its 80 mph winds. While our house was in the path, we were spared any major damage and just got a free pruning of dead and weak limbs in our trees. Many others in our area were not as fortunate and lost trees and had extensive damage. We were without power for 4 days which was our only real challenge (cold showers are not all that fun). We are back to normal here and gearing up for Mother's Day. Enjoy your weekend and celebrate the mother's in your life.