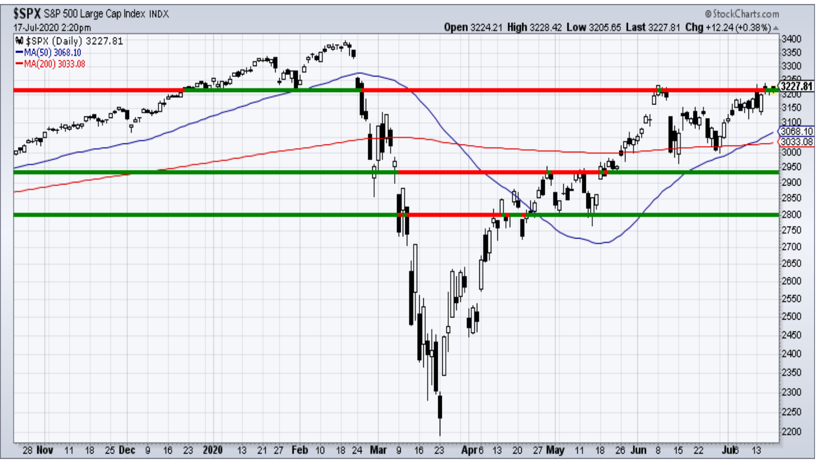
Bills Asset Management

BAM MARKET NOTE

July 17, 2020

Sam Bills (865) 525-1329
Bo Bills (615) 371-5928



The S&P has mostly treaded water this week but does look to finish the week up a little. The resistance at the June 8 highs continues to thwart the bulls and is a line in the sand for the bears. The tension between the two camps builds. A break to the upside from here would set the stage for another rally up to the 2020 highs set in February before the pandemic erupted. The S&P has closed right at resistance for the last 2 days and is hovering there in trading today. Earnings will continue to provide headlines for the next few weeks. The markets remain overbought so a bout of weakness from the trading range highs seems likely.

We have written about the VIX a few times over the last few months. As a measure of "market fear" or lack thereof, the VIX is a good indicator of risk in the markets. When the VIX is trading in the teens and lower 20's, outsized market moves are much less likely. However, a VIX above 25 often indicates increased risk and volatility. The VIX now trades at 26 and is about where it was just prior to the June 8 highs in the S&P. The falling VIX is good for the markets. However, the price as at a key demarcation point. Just as in the trading range of the S&P, the bears have a line in the sand here. Investors would be wise to look at the VIX and where it heads over the coming few days/weeks.

Our Point

Market action has been a bit muted this week. Earnings have been dismal but more positive vaccine news kept the losses in check. Several of the banks issued better than expected earnings – due in large part to the record fees they received from the Paycheck Protection Program (PPP) loans they issued. Notably, these earnings should be non-recurring so they are one time blips that banks will need to compare to in upcoming quarterly earnings releases. In any event, banks were rewarded and enjoyed a solid week. Other earnings were not so warmly received. Netflix was pummeled last night after disappointing Wall Street. It shares are trading down 7% today. After leading the market off of the March 23rd bottom, technology has taken a little breather. Market rotation to new relative leaders is a healthy market development. We will be watching to see if the trend continues. Earnings will continue to be in focus as earnings season intensifies over the next couple of weeks. Amazon and Microsoft headline next week's earnings with Apple and Facebook reporting the last week of July. Each of these earnings releases will be market movers. Volume will continue to dry up a little as we get deeper into summer and traders take some time off. Lower volume can increase volatility and headline risk. Earnings, re-openings, and coronavirus news will continue to dominate the headlines. Election polls are getting a lot of press but we suspect that most investors are ignoring these early polls as much can (and will) happen between now and election day. However, as we get closer to November 3rd, these polls will have more and more effect on the markets. Regardless of where you stand on the political continuum, there are stark differences in the candidate and party positions. The current election will have a larger than normal effect on the markets. While we try not to get political in these pages, we will comment on potential market effects as we get closer to election day. Our portfolios remained static this week and continue to trend up with the market. We are at another potential inflection point, so we continue to monitor the markets closely. Risk remains elevated to the downside. We continue to hope that you and your families remain safe and healthy. Enjoy your hot and sticky weekend.