Bills Asset Management

BAM MARKET NOTE

December 4, 2020

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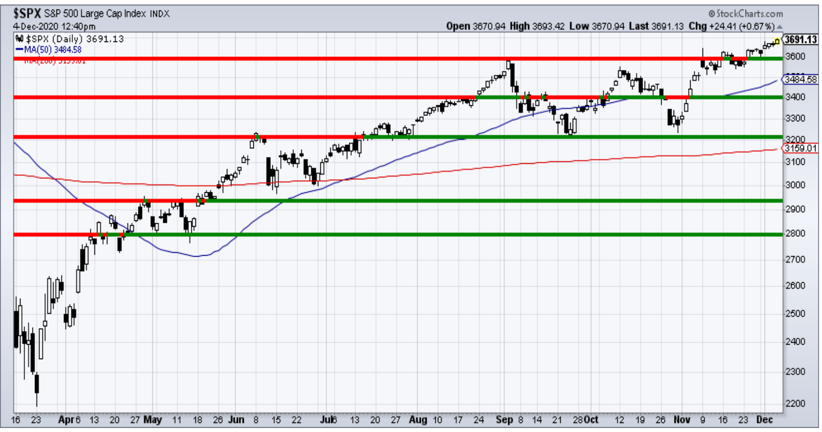
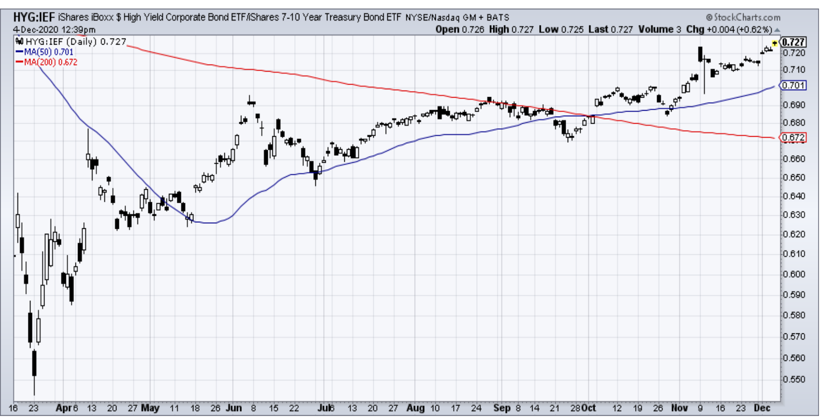


The weakness we expected has not yet materialized. The S&P has continued to trend up and now stands about 2% above support. The breakout is confirmed and 3600 remains important support. We continue to believe that the market will show some weakness over the coming week or two and will likely revisit support. Any weakness should be used as an opportunity to evaluate your portfolio and add/adjust positions to your risk tolerance. The markets are in the traditionally strong market period, so the expectation is that higher prices are more likely than not over the next few months.



The relationship between high yield bonds and treasuries is an important one. When high yields are showing relative strength, then it is a healthy market environment. The current chart of this relationship shows an accelerating outperformance of high yields to treasuries and further accentuates the risk on investing environment we are in. When treasuries begin to outperform high yields and this line turns down, then market participants would be wise to reign in holdings. Watch this chart and stay invested as long as the current relationship holds.

Our Point

Wall Street is shrugging off the weak jobs number this morning and the increasing virus cases throughout the country. The increasing likelihood of a stimulus package and vaccine hopes are trumping any bad news for now. Of course, should stimulus talks falter or vaccines prove less effective or have difficulty being produced and distributed, then all bets are off. The market looks out 6 to 12 months in advance and what they see is a return to some normalcy and a government that remains fiscally accommodative. The Biden administration's nomination of Janet Yellen as Treasury Secretary was greeted by cheers at the corner of Wall and Broad. Yellen is a known commodity and was shown to be fiscally dovish during her stint as Federal Reserve chairman. The markets have an amazing quality of efficiently dealing with all information thrown at it, but it doesn't like to be surprised. Yellen's appointment and likely confirmation is not a surprise. The Georgia Senate race continues to be a wildcard. Polls (for what they are worth) continue to favor the Republicans and the split government that the markets desire. However, the races have tightened over the last week and this is a development that bears monitoring. Democratic control of the Senate would likely roil the markets as it would lead to significant policy changes and surprises – again, Wall Street doesn't like surprises. The status quo or modest changes to policy is almost always the preferred outcome for the markets. We are entering distribution season for mutual funds. With the distributions, investors could see large one day changes to the prices of their holdings. The dividends received, however, make the investors whole and the net result is only the daily change in the underlying assets of the fund. Do not be alarmed if you see one of your holdings apparently go down significantly without further investigation. Distribution season could also bring some additional volatility as fund managers are forced to liquidate holdings to generate the cash necessary for the required distributions. Once distribution season passes (usually around mid-December), the market should settle in for continued strength into year-end and beyond. We made no changes to our portfolios this week and are fully invested. We will be looking for opportunities to get a little more aggressive over the next week or two. We enjoyed a scaled back Thanksgiving but still had all the food! We hope you enjoyed your leftovers and trust you have something fun planned for the weekend.