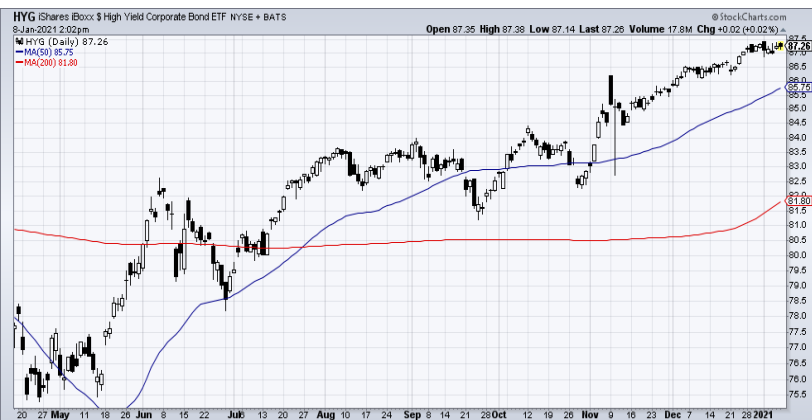


BILLS ASSET MANAGEMENT
BAM MARKET NOTE
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2021 is off to a great start on the stock market front. The S&P has started the year with a healthy gain of over 1% this week. While large caps started well, small caps have soared with the Russell 2000 up over 5% this week! The S&P is in uncharted territory as it is near its highs. The index does look a little stretched above its 50-day moving average which provides some cause for concern. However, the markets can get more over extended. It is worth noting that when the index gets too over-extended (see June and September on the chart), it becomes susceptible to quick falls and reversions to the mean. There is nothing in the current environment that says that is coming soon. However, the further away from the moving averages the index gets the greater the chances for a sharp and quick reversal.



High yield bonds are confirming the strength of this market and show no signs of weakness. High yields have trended steadily up since November of last year. HYG remains firmly above the 50-day moving average. Weakness in HYG and other high yields would be a warning shot to the rest of the market but that is not present now.

Our Point

Well that didn't last long! After a relatively quiet 5 days to start the New Year and what everyone hoped would be a more normalized year, we got riots in Washington and a Capitol that was over-run with protesters. Despite the chaos, Wall Street shrugs. As we have discussed here for several weeks, we believed that the elections in Georgia held the potential for greater market volatility. To this point, we were wrong as the markets overlooked the Washington power shift and, instead, turned its attention to the greater possibility of new stimulus and government spending. Market liquidity is trumping all other news and events at this point. The new Democratic Senate is likely to be more willing to provide new and greater stimulus than a Republican held one. Additionally, the ability of the Congress to move forward with any new stimulus is made much easier after the blue sweep in Georgia. We will have to see if the fears of government over-reach are realized with one party holding the majority of power in Washington. The biggest stock market story so far has been the torrid run that small caps have had to start the year. Small caps will be among the biggest beneficiaries of new stimulus. The increased participation of small caps that began in November is a welcome sight and further illustrates the optimism on Wall Street. As we have mentioned in past notes, new market trends will emerge over the first few weeks of the year. We are beginning to see some of that and will see additional ones as the new administration reveals more and more of their plans. We made no changes to our portfolio this week but stand ready to adjust our holdings to new and emerging trends. Our portfolios have started the year on a positive note, and we remain optimistic and bullish for 2021. There will be volatility to come and certainly some rough patches but we believe that 2021 will be another good market year. It is playoff time for the Titans and I will be spending the better part of the weekend watching football. We hope you are able to do something this weekend that you enjoy too! Titan Up!