Bills Asset Management

BAM MARKET NOTE

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

The market has broken to the downside with the S&P falling below the first line of support. The index now lies in the trading range that persisted for December and part of January. A test of the next line of support at the 3700 level (4% below current levels) is not out of the question. The S&P found some support at the 50-day moving average and bounced off of that level on Tuesday and Thursday of this week. It dipped below the important moving day average earlier this morning but has now rallied above it again. In the short-term it appears there is some support at the moving average, but it will take some inertia to get back above broken support – now resistance. In our view, a move down to support at 3700 would be a place to add significant risk to your portfolio. Similarly, a break back above resistance at 3880 or so would be a reason to consider adding some risk back in your portfolio.

Interest rates have soared over the last few weeks with the widely followed 10-year treasury surging 40% this month and 13% this week alone. The interest rate increase has affected a wide variety of bond funds. However, there is not a direct correlation between interest rates and the equity markets. However, it appears that traders are using the rising rates as an excuse to sell rather than a reason to sell. Interest rates are not going to continue going up at the current pace and will likely settle somewhere between where they are now and where they were to begin the year.

Our Point

While sharp one or two-day declines can be scary, there is really nothing out of the ordinary with the current weakness. As we have discussed in these pages over the last couple of weeks, the markets were over-extended and overdue for a pullback of some kind. Investors have, to their detriment, become accustomed to a slow trudge upward so the increased volatility has spooked some of those investors. However, in the context of the last few months, the decline is extremely modest and has done nothing to the longer trend of the markets. We do not believe that the current weakness is anything more than a normal pullback in an otherwise up market. Of course, if the decline accelerates and breaks another level of support, then we will re-evaluate. We continue to believe that weakness should be bought. The increased rates discussed above may be reason to reconsider bond holdings but are not, to this point, a reason to abandon any equity positions. While the S&P decline has been modest (2%), the decline in technology has been more violent. The NASDAQ 100 has declined over 5% in the last two weeks and has given back much of their gains for the year. Small caps continue to be the place to be. Despite falling 3% over the last couple of weeks, they remain up solidly for the year and continue to show relative strength to the rest of the market. Investors would be wise to consider adding to or taking a position in small cap issues on any additional weakness. Our portfolios were not immune to the recent weakness and declined with the market though at a lesser pace. We plan to use the recent weakness to add a little more risk to our portfolios and to upgrade a position or two. Next week could see several changes. After several days of frigid temperatures and ice and snow, we saw sunny skies and spring like weather this week. It was a welcome reprieve. We, for one, are hoping for an early spring! Have a great weekend and do something fun.

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