

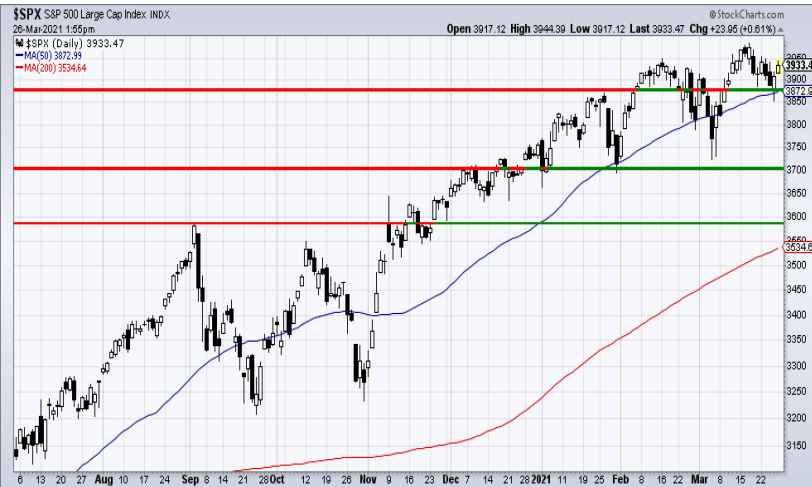
# BILLS ASSET MANAGEMENT

## BAM MARKET NOTE

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It has been an unusual week. While the S&P looks to finish the week up a little, it has had selling pressure for much of the week. Yesterday's intraday bounce, *may* mark the end of the recent decline. The large cap index broke support at the 3880 level earlier yesterday but rallied into the close and finished on an up note – successfully testing that support. The S&P is adding to those gains today – providing more evidence that the recent selling may have run its course. With the end of the quarter next week, there will be a bit of a tailwind for the index to add to those gains as new money comes into the market.



We have been touting small caps for several weeks and enjoyed a nice run in our holdings. However, small caps have been punished over the last 2 weeks as profit-taking took hold from the major rally that began last November. The Russell 2000 as shown by the ETF IWM, had fallen almost 10% before yesterday's late afternoon surge. Support at 205 was nearly tested. The bounce yesterday afternoon and today's follow through may also bring an end to the recent slide. We remain bullish on small caps with small cap value being favored over growth. Value stocks typically do better than growth in a rising rate and increasing inflation environment. Rates and inflation are likely to continue to tick up as the economy recovers and strengthens. A break below support would lead us to rethink our bullish stance.

## Our Point

The winners of earlier this year gave way to the relative losers over the last week and a half. Small caps have been hit particularly hard though other areas of the market suffered a similar fate. We continue to have a high conviction that small caps will regain their market leader status in the near and intermediate terms. Despite our conviction, we will let the charts guide our investments. Growth stocks like those found in the Nasdaq 100 have also come under selling pressure over the last few weeks. The Nasdaq 100 has stabilized a bit bouncing over 3% since its bottom earlier this month. This market will go nowhere without the participation of the Nasdaq and small caps. Next Wednesday marks the end of the 1<sup>st</sup> quarter. This will be an important earnings season. With vaccinations increasing, Covid numbers declining, warmer weather approaching, and restrictions being lifted throughout the US, there is likely to be pent up demand for goods and services that many refrained from over the last several months. While first quarter earnings reports may not indicate this, company projections and future earnings guidance should begin to expand and reflect the optimism that the worst of the pandemic is behind us. After rising 70% since the end of January, the ten-year treasury yield took a breather this week – falling 7%. The steep rise in rates caused quite a bit of stir so the reprieve this week was a welcome sight. Our portfolios gave back some of our gains from earlier this year as our small cap holdings took a hit. We are optimistic that this group has stabilized and will resume its uptrend. We made no changes to our holdings this week but are watching several of them for further weakness. Capital preservation remains at their heart of our investment philosophy so despite our thoughts on what the market should do, we will always try to respond to what it is doing! Have a wonderful and relaxing weekend.

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