BILLS ASSET MANAGEMENT

BAM MARKET NOTE

SAM BILLS (865) 525-1329
BO BILLS (615) 371-5928

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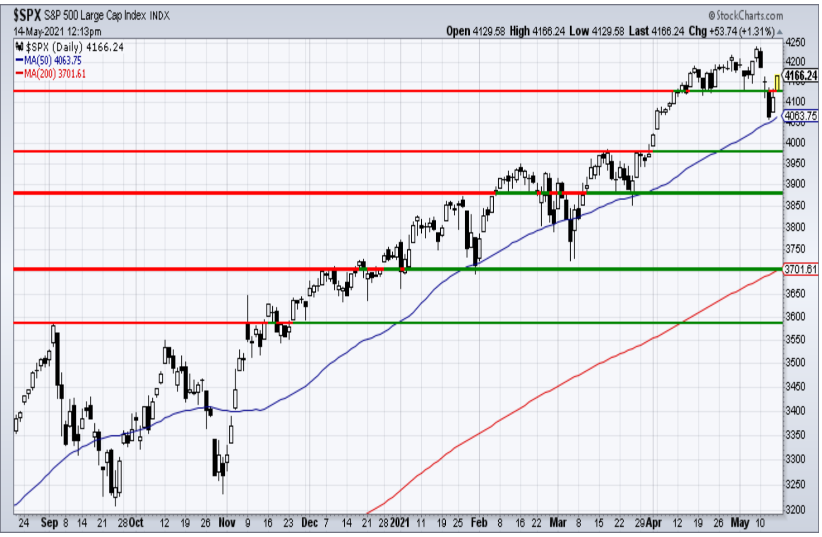

The much-anticipated correction came this week and now the question becomes … is it over? The S&P suffered a short but relatively violent 3-day correction where it shed 4% off of its value. Since then, it has recovered a little over half of the decline. The index did break through support on Wednesday and came close to the rising 50 day moving average before bouncing back up above support today. The close today will be worth watching to see if the index closes with strength or weakness. A drop back below support at the 4130 area would not bode well for next week. It's too early to say that the worst is over as volatility has definitely increased. However, the bounce yesterday and the follow through (to this point) today is very encouraging.

The picture for the NASDAQ is worse. The tech laden index has been rolling over since mid-April and is down 5% since April 26th. On Monday, the index tested and held its 50-day moving average but gave way on Tuesday. Tech stocks are mounting a rally today to try and overtake the 50-day moving average. This will be some mild resistance and we'll be watching where this important index closes today to get a clue on the direction for next week and beyond.

Our Point

The correction has been relatively mild to this point. A deeper correction would not be unexpected. A correction back to the 4000 level (4% lower from today's prices) on the S&P would work off a lot of the market excesses and wouldn't change the bull market we are currently enjoying. Troubling economic data continues to come out. Last week's colossal disappointment in the jobs market, was followed this week by a significant decline in consumer sentiment and a flat retail sales number. Both consumer sentiment and retail sales numbers missed consensus estimates significantly. Inflation continues to be a concern as prices on a variety of items are outpacing expectations. The Fed has tried all week to downplay its significance with numerous speeches by numerous Fed officials. The speeches have calmed some fears. However, inflation looks like a foregone conclusion with the amounts of money that have been injected into the economy (with more likely on the way). After selling one of our holdings last week, we made no other changes this week. A couple of our positions came close to hitting their sell stops but the rally yesterday and today has given them a little breathing room. Hopefully, next week will bring a little more clarity. We are sitting, waiting and wishing for market direction. If the market strengthens next week, we will likely be adding a position or two. However, another round of weakness could force our hand on a couple of positions. I will be traveling next Friday so won't be posting a weekly note. However, as always, if the markets take a significant turn, I will post a quick update. It looks to be a gorgeous weekend here – I hope it is where you find yourself! Have a great weekend and see you in two weeks!