

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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SAM BILLS (865) 525-1329

BO BILLS (615) 371-5928



The large cap S&P has gone nowhere this week and remains right at its highs and the resistance of those highs. The trading range remains. A break-out would need to hold for a couple of days to be validated. With a Fed meeting next Tuesday and Wednesday, it is likely that any break-out will wait on the results of that meeting. A good reading of the Fed meeting could push the market through resistance while a bad reading could easily drive the market down to the bottom of the trading range. At these levels, it is not the time to get aggressive and investors would be wise to hold what they have until the Fed meeting has passed.



While large caps have stalled, small caps (Russell 2000) have begun to strengthen a bit. The relative performance of small caps to large caps has turned up over the last few weeks. This is a positive development. Should it continue, it would be a sign that investors are willing to take on more risk and would be a positive for all areas of the market. The renewed strength of the growth portion of the Russell 2000 adds more weight to the market's potential appetite for risk. IWO (the growth portion of the Russell 2000) has doubled the performance of the S&P 500 over the last month.

Our Point

As typical of many summer weeks, the market spent the week meandering in a very tight range. The resistance at the highs remains strong and a barrier to higher prices. As mentioned last week, there will need to be a catalyst for the market to break through resistance. The Fed meeting next week could be that catalyst and could lead to a breakout to the upside or a break down into the trading range. At market inflection points, economic news and readings of the Fed thoughts take on greater importance. We are at such a point. The Fed is not likely to change their thinking and prior guidance on interest rates but could begin hinting at tapering its bond buying. For what it is worth, many economists believe that tapering will start early next year. Chairman Powell's discussion of any reductions in its bond buying strategy could be a market mover if it is anything other than what the market currently thinks. We made no changes to our portfolios this week. At these levels, we will respond to either the breakout or the breakdown. The markets will not tread water much longer and we will likely see a move, one way or another, next week in response to the Fed meeting. Hold what you have, wait for direction, and respond accordingly. At least that is what we are doing. The cool and low humidity days are a distant memory, and it appears summer has arrived. It is going to be hot and muggy in Middle Tennessee this weekend, but I plan to enjoy it anyway! I will be spending some of it comfortably cool inside watching a little of the baseball Vols. Stay cool and have a great weekend.