Bills Asset Management

BAM MARKET NOTE

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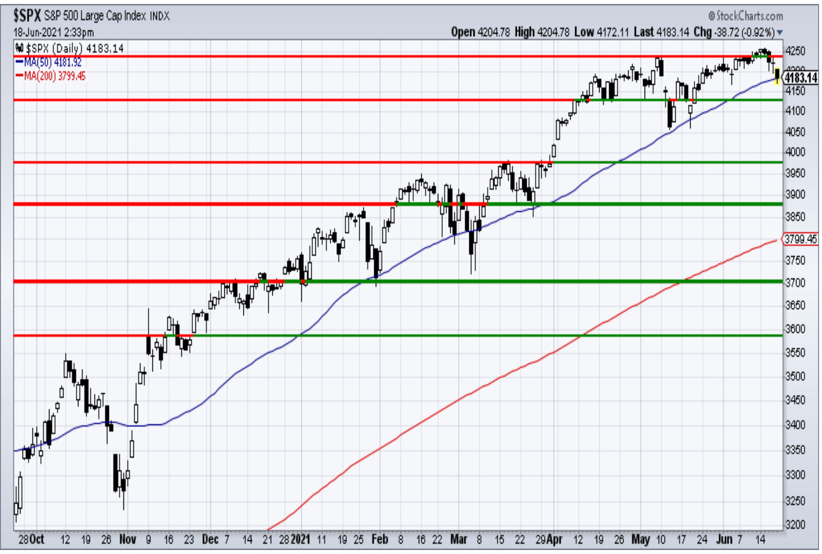
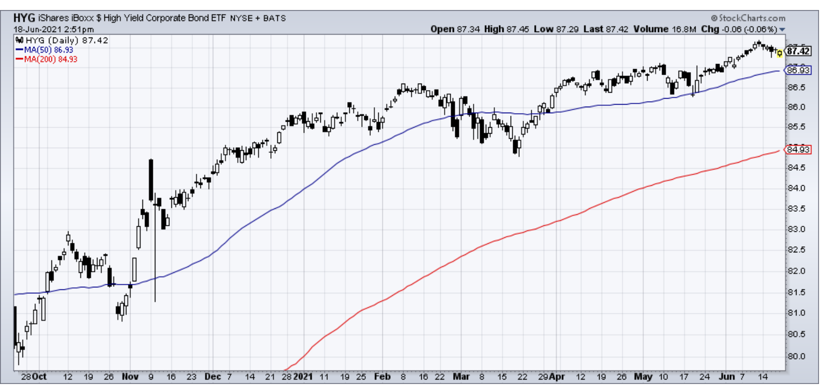


As we have been discussing the last couple of weeks, the S&P has been treading water at the top end of the range and waiting for a catalyst to break one way or another. The Fed meeting this week was a natural catalyst. While no big news came out of the two-day meeting, the market was marginally disappointed and spent Wednesday afternoon, Thursday and today shedding some of its gains over the last two months. The large cap index rests where it was on April 16th – just over 2 months ago. The losses have been muted and the index is finding some support at the 50-day moving average. However, it is increasingly likely that a test of the bottom of the range (just 1% from current levels – 4125 level) will come over the coming days. That will be a line in the sand for the markets.



High yield bonds often show economic weakness before the broad market. While the decline has been very modest to this point, the turn down in high yields is very noticeable. Should high-yields break through their 50-day moving average it would be reason for growing concern that a normal correction could be the start of something more concerning. Among several other things, we are watching the S&P trading range and the performance of high-yields.

Our Point

The Fed meeting has come and gone and there were really no big surprises. However, reading between the lines and parsing words from Chairman Powell, many economists now believe that tapering of the Fed's bond buybacks will begin later in 2021 rather than in the first quarter of 2022 as many expected before the Fed began to speak. We don't have a full on taper tantrum in the markets as the Fed was its usual nebulous self. But, the markets are definitely a little on edge as the idea of the liquidity punch bowl being moved is unsettling for a market used to mountains of government stimulus and liquidity. Traders are not used to seeing red numbers on their screens so more selling could beget even more selling. This is especially true in today's markets as there are a number of inexperienced "Covid traders" that spent much of the pandemic trading stocks and don't really understand that markets can actually go down! The Fed Economic Policy Symposium held annually in Jackson Hole, Wyoming takes on added significance this year. The meeting at the end of August is where many expect the Fed to announce more concrete plans to taper their bond purchases. Of course, we will get many hints between now and then, but those dates are days to circle on your investment calendar. Between now and then, we'll have the usual slate of economic news, and we'll get a better read on the economic recovery. With the summer beginning and trading volumes drying up as traders vacation, market moving news will have increased effects. Volatility could pick up significantly. While the losses have been relatively minor to this point, we did make a few changes to our portfolios and increased our cash position by selling a couple of holdings. We will hold the cash and wait for a better entry point once the dust settles. More changes could be coming next week as we continue to evaluate each of our holdings on a daily basis. With Father's day this Sunday, I am reminded of how much my dad means to me and what a privilege it is to be the dad to three wonderful kids! Happy Father's day to all the dads out there and reach out to yours if you are able. Today also marks my 33rd wedding anniversary to the woman that makes me smile every day! I have much to be thankful for. Have a great weekend.