BILLS ASSET MANAGEMENT

BAM MARKET NOTE

JUNE 25, 2021

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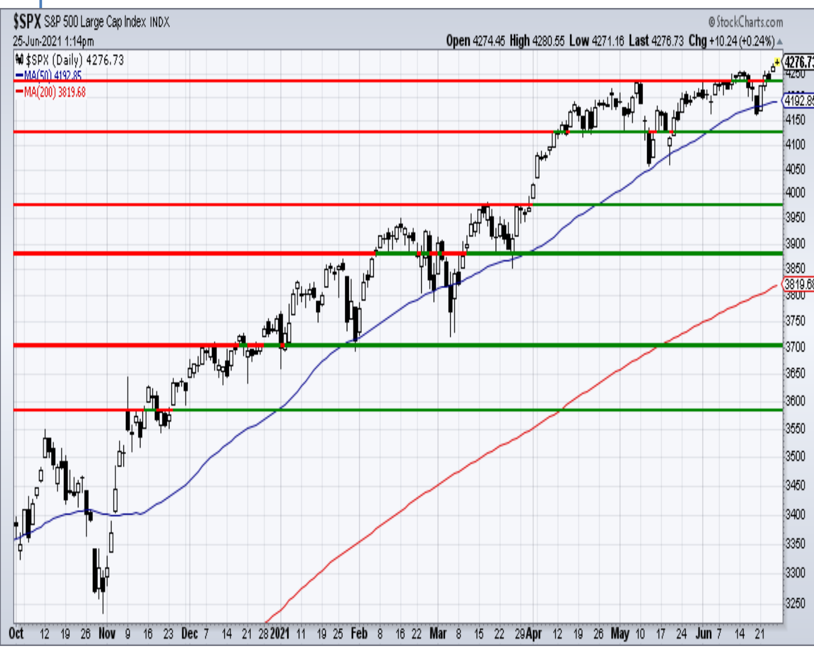
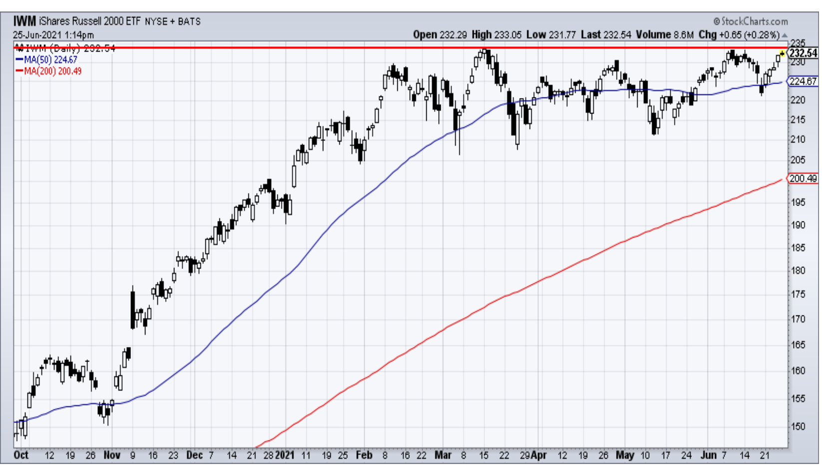


This market continues to astound! What looked like a sure bet for a deeper correction has now reversed to new highs. The S&P got a welcome bounce by the announced “framework” for an infrastructure deal between the White House and Congress. The “correction” lasted all of 4 days with only a modest 2% decline. There is currently no appetite to sell, and buyers are coming in on every hint of weakness. Eventually, that will change and selling will be met with more selling. However, that is not where we are today. The S&P continues to churn upwards. With the market continuing at these levels, we do continue to advise some caution (but certainly less than last week!). The market remains over-extended and moving deeper into the traditionally weak part of the year. Remain vigilant and wary.



Small caps have been in a wide trading range since February but are on the cusp of breaking out to the upside. Follow through from here would be VERY positive for the market as a whole. Small caps declined over 4% in the recent correction but have recovered all of those losses over the last several days. The renewed strength in small caps bodes well for the rest of the market and indicates a more risk on environment. The NASDAQ (not shown) is exhibiting even more strength which furthers the risk on argument. The strength in small caps and tech stocks is very positive and should not be ignored.

Our Point

The markets have weathered every bout of weakness this year with an even stronger bout of strength. It is unusual (but certainly not unprecedented) for a market to move up this long with only small declines along the way. It remains very likely that we will see a decline of some significance (10% or greater) over the coming months. The S&P has had no more than a 4% drawdown all year. The recently announced deal on infrastructure spending led to a surge in the markets. However, there remains much work for this deal to make it through Congress. There is already talk of conditions of the deal to include a much larger “human infrastructure” package after the true infrastructure bill is done. The “human infrastructure” deal is likely to stall in Congress and could hold up the whole thing. Wall Street will likely punish stocks if neither gets through as the desire for more and more spending remains unabating. Second quarter earnings will begin coming out in a couple of weeks and will drive the market throughout the month of July. The June jobs report comes out next Friday and could move the market. The next few weeks will be key to determining if the recent surge is here to stay. We have our doubts despite the strength in small caps and tech. We made no changes to our portfolios this week and have a little bit of cash on hand. We are in no hurry to put this money to work and will hold and remain a little cautious until the jobs report and, perhaps, beyond. Enjoy your hot and humid weekend.