BILLS ASSET MANAGEMENT

BAM MARKET NOTE

JULY 16, 2021

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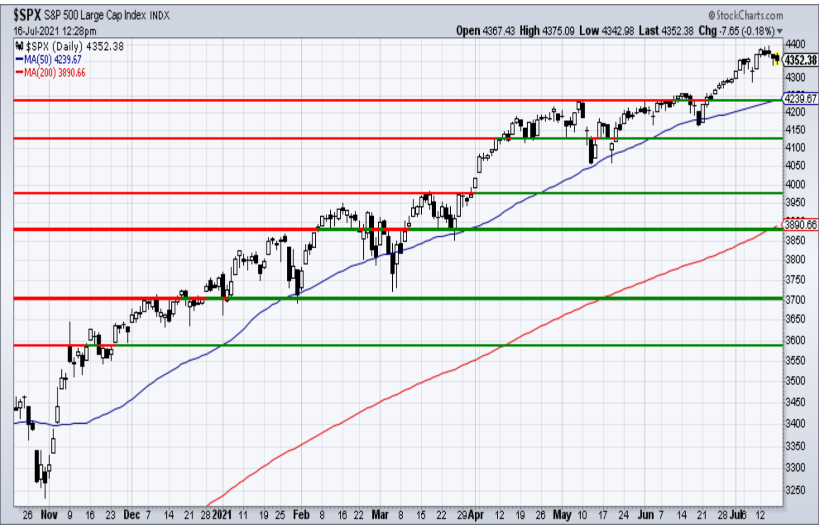
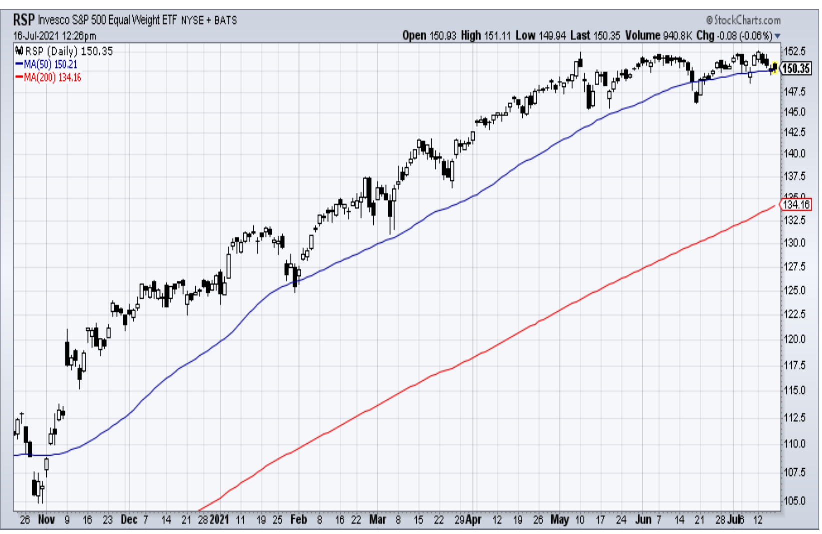


The S&P has drifted down most of the week. Early morning gains this week have quickly been evaporated as selling has come in. The losses have been small but the change in the market could be a warning of more weakness ahead. As of this writing, the S&P is down less than ½% for the week. To this point, mostly positive earnings have been met with shrugs or sell offs. Much of the positive earnings have already been priced in so it will take blow-out earnings or bullishness for future quarters to push this market higher. The markets have received neither with the early reporters. Earnings will continue to dominate over the next few weeks so there will be lots of potentially market moving news. Buckle up.



We have talked about the waning breadth in the market over the last few weeks. Another chart that illustrates that much of the recent price gains are coming from fewer and fewer stocks is the equal weighted S&P 500 (RSP). The S&P 500 is cap weighted meaning that the bigger names in the S&P 500 account for more of the index value than their smaller counterparts. RSP strips out the cap weighting and treats all of the 500 components equally. As you can see, RSP has traded sideways for the last two months (the S&P 500 has drifted upwards and has made new highs). RSP is testing its 50-day moving average while the S&P 500 is well above it. The divergence is concerning and is another warning that things may not be as they seem.

Our Point

The latter part of July, August and September mark the traditionally worst time to be invested in the markets. With the warning signs present, the run-up in stocks, and the seasonality upcoming, it is time to prepare for some market weakness. Of course, this market has been incredibly resilient, and this year could be different, but ignoring the signs could be detrimental to your portfolio. Nobody ever lost money taking profits. Inflation continues to be an overriding concern despite the Fed's transitory explanation. In fact, this week, the Fed has begun walking back some of its inflation talk as more and more data comes in showing the reality many of us are feeling as we go to the grocery, the gas pumps, restaurants and other retail outlets. We are also seeing more and more supply disruption (that is certainly part of the inflation story) that may not be fixed for some time. Covid and the lock downs did damage to more than just the health of individuals. In our view, there is certainly more risk to the downside than upside potential. That is not to say that the market can't move up in the short-term, but we believe the next major move in the markets will be down. A healthy correction here would not mark the end of the bull market but, rather, would potentially extend the life of the bull as some of the excess is removed. The next few weeks will be instructive. I will be traveling next Friday so in the absence of significant market news, there will be no market note next week. I don't often brag about my children in these pages but did want to brag about my youngest. She is quite an artist – check out her work here. I had the opportunity to accompany her yesterday to deliver her latest portrait. I am so proud and blessed by each of our three kids! Enjoy your weekend wherever it finds you.