

BILLS ASSET MANAGEMENT
BAM MARKET NOTE
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When we wrote this note 2 weeks ago, the S&P was in the midst of a correction and looked poised to head down to the bottom of the trading range. In fact, we were almost sure that it would head down that far! Mr. Market had other thoughts and since then the S&P has logged gains 9 of the last 10 trading days. The day-to-day gains haven't been spectacular, but they have been steady. After finding some support at the 50-day moving average on June 18th, the S&P is up a little over 4% and continues to make new highs on a daily basis. All is peachy – right? Under the surface, there are a number of troubling signs as the breadth of the rally is not confirming the new highs – at least not yet. While the index as a whole is moving up, the gains are being driven by fewer stocks than is normal. In fact, the number of S&P 500 stocks above their 50-day moving average is just over 55%. Back in April that number was over 90%. So, we have a troubling divergence where the number of stocks participating in the rally is relatively low while the index as a whole continues to move upward. When you have more Generals than Soldiers it can be worrisome. Hmmm...



We have shown this chart a few times over the last several weeks. Small caps often lead the markets up and down. While the larger cap indices have raced to new highs, the small caps have continued to languish in a wide trading range. They have yet to break out to new highs and are down today while the rest of the market is up. It is another cause for concern. I would like to see small caps break to the upside before getting too excited about the rest of the market. It wouldn't take much upside but that has been the case for several months now.

Our Point

The June jobs report was released this morning and Wall Street breathed a sigh of relief. The labor market looks to be stabilizing and new jobs reported were in line to slightly above expectations. With the last two monthly jobs reports in line with expectations, the shocker of a report back in April seems like an aberration. The markets rallied on the report and have strengthened a little during the day. Over the long holiday weekend, traders will continue to parse the report for further details. With the market continuing to stretch more and more to the upside, it would not be at all surprising for some profit taking next week. We'll see if support between 4200 and 4250 on the S&P holds on any weakness. If it does and if small caps can catch a bid and move up through resistance, we will have a much easier time thinking that another bull market leg has started. For what it is worth, July is historically one of the poorest monthly market performers. We made no changes to our portfolios this week and remain mostly invested with a little bit of cash. Happy 4th of July and I hope you have plans with family and friends to cook out and enjoy each other. We will be heading to Kelly's brother's house for fried catfish and fireworks! Be safe.

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