Bills Asset Management

BAM MARKET NOTE

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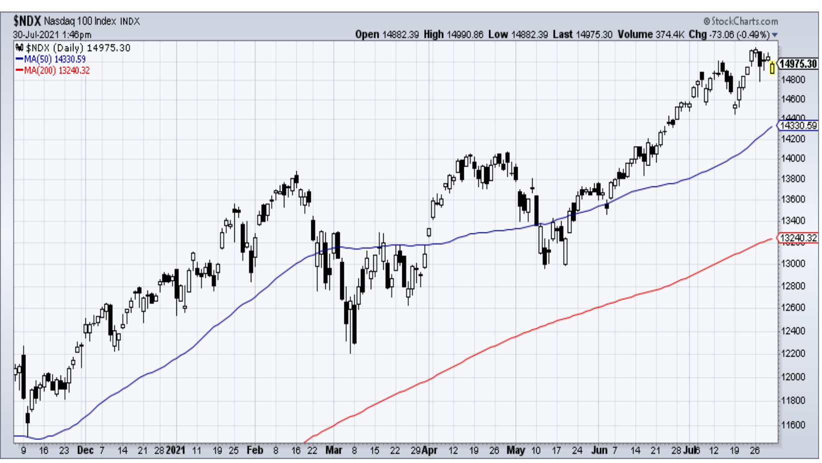
The major indices have taken a breather this week after racing to new highs last week. For the week, the S&P looks to close down modestly. It has been a quiet week with little volatility. Since hitting new highs on Monday, the index has been treading water and remains a stones throw away from its highs. Earnings season is beginning to wind down so traders will begin parsing other data to see where this market is headed next. Earnings have been largely good and in line with expectations. However, Amazon released disappointing earnings yesterday and is dragging the tech heavy Nasdaq down today. The S&P is feeling some of that as well. Upside resistance for the S&P rests at 4420, while weakness should find some minor support in the 4385 area. Beyond that the 50-day moving average has been a good support level throughout this year. It currently rests at the 4284 level. The indices remain overbought and subject to reversal. We continue to advise a level of caution with the market at current levels.



As noted above, the NASDAQ has struggled a bit more this week than the S&P. For the week, the tech index is down close to 1%. The largest of the tech stocks (Apple, Amazon, Google, Microsoft, Facebook, Netflix, etc.) have led the upward charge in the major indices over the last several weeks. If the weakness in the NASDAQ persists, it could mean trouble for the rest of the market. At present, the minor weakness is of little concern but that could change quickly should sellers emerge.

Our Point

The usual culprits for market worries continued this week as inflation remains a big concern, Covid reemerges, economic growth numbers disappointed, and market breadth continues to be troublesome. With that backdrop and the fact that we are entering what is usually the three worst market months of the year, it makes some sense to remain a little cautious. New calls for mask mandates and the fear of shutdowns in some areas of the country are something to watch carefully as the Delta variant runs its course. The monthly jobs report arrives next Friday, and the Fed is basing a lot of its talk of a strengthening economy on the jobs picture. The report always has the potential to be a market mover and next week will not be an exception. Inflation and supply chain issues remain troublesome and appear to be more than just transitory. We shall see. Despite the recent highs, the market remains susceptible to an uncomfortable sell-off. While we have been warning for a month or so, the higher the market goes, the greater the risk. To this point, the market keeps climbing that wall of worry. Below the surface of the new market highs there are a number of worrisome undercurrents. We have some cash available and have made some selective purchases this week. We will continue to evaluate the market daily and will respond accordingly. Enjoy your weekend and stay cool!