

**BILLS ASSET MANAGEMENT**  
**BAM MARKET NOTE**  
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Another week and another grind upwards. Despite a very calm and mundane week, the S&P continues to eke out gains on almost a daily basis. After a Monday decline, the large cap index looks to finish with 4 up days and a healthy ½% weekly gain. Market breadth has improved but plenty of divergences remain. Despite a continued Covid resurgence, falling consumer confidence, real inflation concerns, the impending fall of Afghanistan, etc., the markets remain buoyant and over-extended. Don't let the heat lull you into complacency, caution remains warranted.

Small caps, however, have not been so buoyant and are near the bottom of their long-term trading range. The 50-day moving average has kept a lid on prices over the last month. While large caps look to be up this week, small caps look to finish the week down ½%. The divergence has not hurt the market yet, but it won't stay that way. At some point in time, small caps will either join the party or will lead the market downward. The long-term trading range holds the key – a break below the bottom of the trading range would lead to the long-awaited correction in the markets. A break to the upside would add fuel to an already extended market. Keep a close watch.

## Our Point

Inflation data continues to reaffirm what many of us are seeing every day. Prices of everything are going up. The likely passing of the \$1.5 trillion infrastructure bill and the possibility of the much larger \$3.5 trillion add on “human infrastructure” bill will only add to the inflation scares. While wages are going up, they are not keeping pace with the increased prices of goods and services. On a side note, social security recipients could see a 6% or more increase in 2022 benefits. The increasing inflation data is likely to put pressure on the Fed to taper their bond buying and/or talk more seriously about raising interest rates. The late August meeting at Jackson Hole takes on added importance this year. The annual symposium always holds the potential for market moving news but is even more anticipated this year. A growing number of Fed Board members are increasingly more and more hawkish. However, Chairman Powell is looking towards reappointment and is likely to push back on the hawkish talk and has the ear of the current administration. Many are expecting much more definitive plans for future interest rate policy to be unveiled. We expect some volatility leading up to the meeting and beyond. Be wary and keep your sell stops. We made no changes to our portfolios this week and remain mostly fully invested in a combination of equities and low volatility alternative and bond funds. Though it is 140 degrees outside, football season is here! Though hard to get excited about pre-season games, beggars can't be choosers and I will watch at least some of my fair share of games this weekend. Let's hope the cooler weather follows soon. Enjoy your weekend with your favorite people and your favorite cold beverages.