

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

JANUARY 3, 2020

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The markets roared into 2020 with all the major indices posting strong gains for the opening day of trading in the new decade. It certainly looked like the market was off to the races again. However, news out of the Middle East sent world markets tumbling overnight and it has spilled over into US markets today. The selling has been contained and orderly to this point. However, the potential for escalation with Iran has the markets worried. Headline risk is always there but markets should settle down over the next few days as long as things don't heat up significantly. As it stands now, the S&P has given back a portion of yesterday's gains so it is nothing to panic about, but certainly something to keep an eye on. With the markets overbought and overdue for a pullback, it may not take too much uncertainty to trigger a sell off of some significance.

As you can see from the chart of the 10 year treasuries, there has been a flight to the safety of government bonds with yields dropping almost 5%. The one day decline is not particularly troublesome but this chart is something to watch. A further decline in rates would indicate that more money is moving out of the equity market and into the refuge of treasuries. With the Fed likely on hold for the foreseeable future, rate movements should foretell market uncertainty. On another note, high yield bonds have barely moved today indicating that the bond market is not particularly concerned that the current Middle East confrontation will have any lasting effects on the economy.

Our Point

The markets finished 2019 with a bit of a whimper in what turned out to be a fantastic year for equities. Not to be lost, however, is the fact that equity markets had declined 20% leading into the start of 2019. Despite the large gains for 2019, the 15 month gains (from October 2018 through December 2019) is a bit more tempered. Nonetheless, it has been a good run for the markets. Election years tend to be positive. With an accommodative Fed, an economy that keeps on chugging along, and some cooling in the trade rhetoric, all signs point to 2020 being another positive year. Of course that could change in a heartbeat, but with the information available now, investors should be optimistic that the markets should continue upward. We would not expect a repeat of 2019 as the markets are beginning the year at much higher valuations. Volume is light this week as traders continue to nurse their hangovers from New Year's Eve. Trading should pick up next week and we will get a better picture of where this market is headed in the short term. A 5-10% correction would not be surprising over the coming few weeks and the Middle East tensions may provide the necessary catalyst for a sell-off. Unless the US economy is affected (watch high yield bonds), the sell off would be an opportunity to shore up your portfolio and pick new winners for the new year. Small caps looked to be establishing a period of outperformance but trailed large caps the latter part of December. If that trend continues, we will likely reposition some of our current holdings. We have made no changes to our portfolio over the last 2 weeks. Our holdings have done well over the last month but we are always seeking out the best opportunities. With many market changes expected in the first few weeks of the year, adjustments to our portfolios are likely over the next few weeks as we see the new market leaders. 2020 started off orange as the Vols finished an extraordinary run after their dismal start with a come from behind victory. Hoping that our Titans can do the same tomorrow. We hope you had a wonderful end to your 2019 and that 2020 is your best year yet!

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