

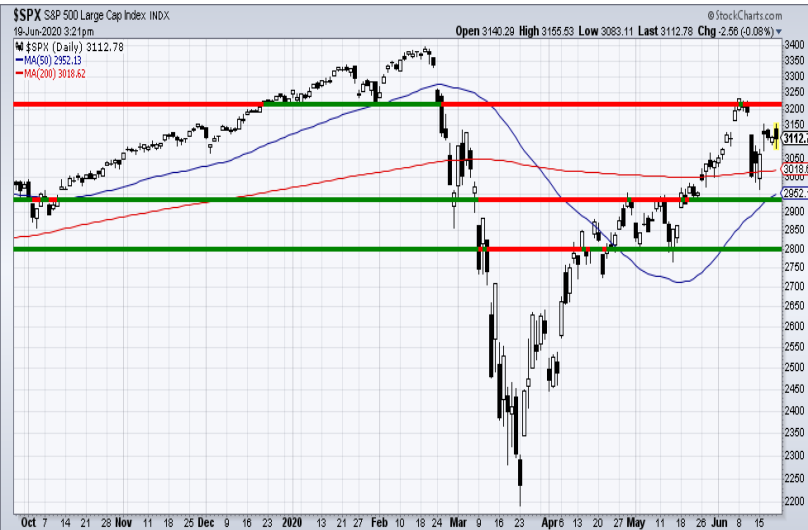
BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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The market has bounced a little this week after last week's sharp decline. As of this writing, the large cap index looks to be up 2% for the week. Today (Friday) has been a volatile day. Futures were up sharply this morning only to reverse course through the day. It appeared that the market was off to the races again, but selling this morning had all the major indices down around 1% before some late buying. In this fast moving market, we will have to see where it closes. The intraday swings have been commonplace over the last couple of weeks and speaks to the uncertainty in the market. After almost a month of low volatility mostly small up moves that stretched the S&P up to the 3200 level, we have seen a little more wariness the last 2 weeks. We may be stuck in another trading range between 3200 and 2950.

The VIX is one measure of investor uncertainty. Typically, a VIX above 25 indicates increased fear in the market. While that does not mean that the market will fall, it does mean that uncertainty and fear in the markets are elevated and outsized moves to the downside become more likely. At the peak of the pandemic, the VIX reached levels not seen since 2008. We have since steadily declined as Wall Street has become more comfortable with the new normal. Despite the decline, today's levels (mid 30's) are a further indication that risk remains elevated in the current environment.

Our Point

The scary drop Tuesday through Thursday of last week gave way to a little buying this week. However, the sharp drop is a needed reminder that the market remains on edge and that (despite the rally off of the March 23rd lows) risk is elevated. Earnings season is right around the corner and it will be an ugly one. Poor quarterly earnings will surprise no one. Instead, Wall Street will pay more attention than usual to forward guidance and looking past the current quarter earnings. With uncertainty high, it will be difficult for companies to provide guidance with any sense of confidence. The resilience of the markets can't be overstated. Protests, looting, riots, increased division within the country, renewed fears of coronavirus, fears of a slowing economic re-opening and recovery, etc. have done little to halt the market's enthusiasm. Even last week's decline was halted rather quickly. It certainly doesn't hurt that the Fed (the ECB and others too) continues to do and say anything to allay market fears. This week it was Chairman Powell's announcement that it would begin buying individual corporate bonds to shore up the markets. While the policy was part of a Fed statement made weeks ago, the follow through of the policy took the market by storm and created a quick buying frenzy. While many have argued rightly, whether or not the Fed is straying too far from its mandate, the psychological result continues to be that the markets are "protected" from going down too much by an increasingly accommodative Federal Reserve. The market psychology may be put to the test over the coming weeks. Policy arguments aside, the aggressive Fed is good for the markets in the short-term. Longer term they are creating issues that will have to be resolved. We made a few adjustments to our portfolios this week adding to an existing position to move more closely to a fully invested posture. We remain mostly fully invested in a variety of low volatility funds and small equity positions. Lest one think that low volatility means low yielding, our two largest low volatility holdings are up over 37% since the March bottom with little day to day volatility. They are providing unprecedented risk adjusted returns. Happy Father's Day to all the dad's out there and we hope you are celebrated this weekend. I am thankful for mine - PapaSam.

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