Bills Asset Management

BAM MARKET NOTE

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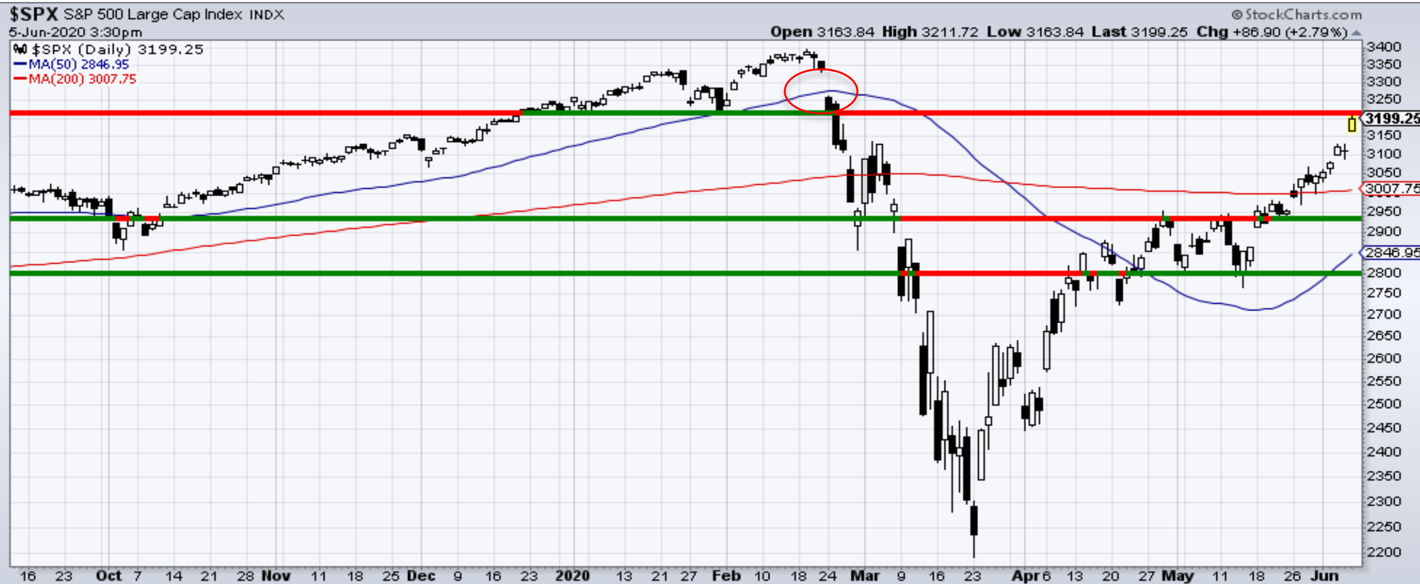

Our Point

Well the experts certainly got that number wrong! Economists and Wall Street gurus alike were predicting another mammoth job decline in the report that hit the tape this morning. Instead of the expected 8 million job losses, the economy posted a gain in new jobs of 2.5 million. For those old enough to remember Get Smart, they "missed it by just this much!" The unemployment rate also showed gains. While expected to rise to 20%, it actually declined to 13.3%. The continued unemployment is still dismal and many people remain unemployed and desperate; but the positive news was welcome news for an already buoyant market. The market soared on the open and has managed to hold most of those gains through the day. We suspect that many of the gains this morning were due to short-covering. Since so many expected a poor showing this morning, many were betting on a market decline. When that didn't materialize, they were forced to cover their shorts. In fact, it can be argued that at least a significant part of the surge over the last couple of weeks may be due to some market participants continuing to bet against further increases. With each leg up, they are forced to cover their shorts and the cycle continues until they are all washed out. That may have happened this morning as many were forced to throw in the towel. With the market extending its overbought position, a decline of some significant degree is becoming increasingly likely. However, those investors that have missed most of this rally should be readying their buy list as a correction here should be viewed as an opportunity to add to their positions. The astounding market rise in the midst of the innumerable calamities has been stunning at best. The market has weathered impeachment, a pandemic, a complete economic shutdown, and widespread riots. We'll have to see if we get locusts next! We do remain in the traditionally weak time of the year. With the market stretched to the upside and, despite the current euphoria, much repair and economic uncertainty remains. By almost all accounts, the re-openings have gone well with no huge spike in new virus cases. With the protests and riots (and lack of social distancing) over the last 2 weeks, we will definitely see in the coming week or two if the virus scare has mostly passed. An uptick in cases could lead to another market scare though any watershed decline certainly seems unlikely. We continue to advise some level of caution. The S&P has soared above significant resistance at the long-standing trading range, the 200 day moving average and the psychologically important 3000 and 3100 round numbers. It hit 3200 this morning but was turned back as some resistance remains at current levels as shown above. The gap shown by the red circle marks the next significant hurdle before the market fully recovers. The S&P remains a little over 6% from its pre-pandemic highs. Market rotation has continued this week with the stars of 2 weeks ago taking a backseat to other stocks and sectors that have lagged. The rotation should continue to be watched as it will determine what market areas will lead the next upward surge following any pause or correction. We have made no changes to our portfolios this week and remain nearly fully invested. We will likely make adjustments on any pullback to further hone our portfolios and adjust to market conditions. Despite the low-volatility structure of our portfolios they have largely kept up with the markets and continue to provide excellent risk-adjusted returns. Have a great weekend wherever it finds you.

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