Churchill Management Group

Monthly Market Update

April 7, 2017

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

The Trump rally took a breather in March with most of the indices ending flat for the month. A period of consolidation is expected after an impressive four month run that saw the major indices gain 13-20% from November through February. The big question is how long a pullback lasts and whether it develops into anything more than healthy consolidation. So far, the internals have held up and most of the leadership has outperformed the general indices. The narrative for this market remains the same as market participants balance the positives from Trump's agenda against a backdrop of high valuations, excessive sentiment, and the Fed's push towards normalization.

The economic data has improved and appears to be painting a brighter picture. The prospects of an improving jobs market encouraged the Fed to raise rates in March and project more rate hikes later this year. As usual, rate decisions will be data dependent. While the markets are expensive on a historical basis, history shows that periods of overvaluation can continue for long periods of time. In addition, those valuations can change in a big way if deregulation and tax reform are achieved. All of the savings from regulatory compliance and lower taxes would flow directly to the bottom line of companies.

Our overall view of the market has not changed, we remain cautiously bullish. The technicals have been the primary driver of this market as demand for stocks has pushed markets higher. Investors appear to have recalibrated their stock holdings to discount the pro-business and growth reforms the new administration is pushing. The hope is that fiscal stimulus can lead to greater economic output and improved profitability. While we have warning signs from the fundamental and sentiment indicators, these conditions can be poor timing indicators as they can take a long time to resolve. We will monitor our technical indicators for any indication of weakness in the market. For now, the breadth of the market, the major moving averages, the trend-lines, and leading stocks have shown consistent strength. While we are mindful of the growing fundamental and sentiment concerns, it remains a bull market until proven otherwise. As always, we will be closely monitoring all of our indicators and will take action should it be necessary on both sides of the coin.

TACTICAL OPPORTUNITY

Despite the recent bumps, there have been little sells signals. Some of the post-election plays have slumped a bit, such as Eagle Materials and JP Morgan. We are watching them closely, but so far they appear to be going through normal corrections. On the strong side are Chipotle, which is rebounding from over-sold conditions, and Amazon, which was up close to 6% last month despite a sluggish market.

FULLY INVESTED

ETF SECTOR ROTATION

With the "Trump Trade" tapping the brakes during March, there was a slight pull back in what had been the leading sectors post-election. Down the most have been the Financials, off around 7% since March. It is not surprising to see the Financials give a little back and the group remains 18% higher than it was on Election Day. Industrials and Energy were down slightly more than the market's 2%, while the best sectors - Tech, Discretionary, and Utilities - were just flat. There has been no change to the model as it remains overweight in Tech, Financials, Healthcare and Industrials and neutral in Materials and Discretionary.

All of the groups in the broad markets were down, with the Small Caps down around 4%. Again, they were the group that had been up the most so it makes sense that they would take a pause. The internationals showed some life, with both Emerging Markets and European Markets up around 2%, but still lacking abuy signal. We are mindful that this group has been full of head fakes over the past several years.

EQUITY GROWTH AND VALUE

Given the way the market has flip flopped over the past few years we have noted here that the strategy for Equity Growth and Value has been to remain passive. That strategy continues to do well. Recent weakness has been from the expected areas noted above, such as the Financials. The best results have been coming from Tech and FANG stocks Amazon and Facebook. The portfolio remains stable for now.

EQUITY DIVIDEND INCOME

Dividend payers have been slightly lagging the market after having been so strong for the past few years. Our holdings are leaning heavier in Financials right now, so we are keeping a close eye on that group as it settles in. The ten-year treasury is still a very low 2.35% (about where it was in November), keeping this group attractive on a relative basis.

For a full description of each strategy, please click here.

Best regards,

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