Churchill Management Group

Monthly Market Update

June 7, 2017

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

The month of May brought more of the same for 2017. We saw another month filled with political noise and terrorism fears on one end, and a resilient market with incredibly low volatility on the other end. In a time of much uncertainty, the markets continue to rise with lots of certainty which continues to be the theme of this late stage technical rally.

The markets remain driven largely by positive technical action. The NASDAQ continues to lead the pack while the rest of the indices are trying to catch up. After 3 months of sideways consolidation, the Large Cap indices have broken out to the upside, clearing previous resistance levels. While the Small and Mid-Caps have yet to confirm a breakout, the NASDAQ, S&P 500, and DJIA have resumed their uptrends. Breadth on the NYSE has also notched new highs, a positive sign that indicates broad participation in this market. We will keep a close eye on the Small Cap names as a prolonged divergence can lead to a breadth divergence. For now, the technicals remain healthy.

While the U.S. economic data has been poor and valuation excessive for years, corporate profits have surprised on the upside after a poor 2015/2016 showing. Corporations are enjoying the sweet spot of rising revenues without major wage cost pressure. This dynamic is increasing profit margins across the board which has been a tailwind for U.S. equities this year. Outside of the fundamentals, the markets have positively priced in the many market-friendly promises of the new cabinet. Tax reform, deregulation, and massive infrastructure spending have been dangled in front of the markets repeatedly. Will we or won't we get many of those promises and to what extent? These are questions that will have to be answered and the markets will correspondingly be re-priced.

On the cover, the markets remain bullish until proven otherwise. Despite the often bleak headlines in the papers, the markets are roaring near all-time highs every week. We are constantly monitoring our fundamental, technical, and sentiment indicators for any deterioration but until we get a change in what has been a positive technical environment, we will remain constructive on this market.

TACTICAL OPPORTUNITY

Mostly positive results during May as the portfolio was led by growth holdings such as Qorvo Inc, Google, and Amazon, all up 7% or more for the month. There was a lag from the Financials and some of the more industrial holdings, but forced sell signals have been extremely rare, keeping the percent invested of the model high.

FULLY INVESTED

ETF SECTOR ROTATION

May was a continuation of the growth story from April. Technology continues to lead, up 5% compared to the markets up 2%. Utilities, Consumer Staples, and Industrials also outperformed. Financials & Materials continued to lag for another month, as they wait for the promised political winds to take hold. Energy was the second worst performer for the second month in a row, dropping around 3%. The model remains overweight Technology, Financials, Healthcare and Industrials.

In the broad markets, Growth continues to outpace Value while Large Cap was better than Small for the month. Again, the story there was the Value stocks like Financials and Materials, as well as Small Caps surged post-election and have been treading water since. It should be noted that most of the lagging groups have not performed badly; they just have not kept up with the Growth side of the ledger. Our recent addition of Euro ETFs had a good month, while still no buy signal on Emerging Markets even though they have been performing well.

EQUITY GROWTH AND VALUE

As noted above, winners came from the Technology Growth area. One area of concern over the month came from media stocks such as Fox and CBS, enough to force us to swap them out. Despite a lag from Financials, Financial Services is an area where we have seen improvement. Top performers were Broadcom, Applied Materials, Qorvo, and Intuitive Surgical.

EQUITY DIVIDEND INCOME

With the story being more Growth, the Dividend group has lagged though it still has been positive. Interest rates again ticked down slightly for the month helping the Utility group. Holding the portfolio back has been the above mentioned Financials and Energy holdings, as well as some Materials/Industrial stocks. For several months the story has remained similar, the Dividend stocks have been trending sideways appearing to be attempting to catch their breath while digesting what will be in store from the Fed and legislators.

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

Best regards,

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