Churchill Management Group

Monthly Market Update

July 7, 2017

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TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

After a solid run so far in 2017, the leading Technology stocks took a mild breather in June. The NASDAQ fell nearly one percent last month while the Small and Mid-Caps benefitted with gains of 3.3% and 1.45%. Some areas within Technology, like the semiconductors, have been hit disproportionately harder than others, but the NASDAQ and all major indices remain in a confirmed uptrend.

The recent heightened volatility within the leading technology stocks does warrant some scrutiny but the overall market Technicals remain solid. Most of the major indices are within a percent of their all-time highs, with the exception of the NASDAQ which is a mere 2% off the high. In addition, the positive action from the Small Caps has translated to greater participation and improved market internals, pushing breadth on the NYSE to new record highs.

As has been par for the course, despite a plethora of reasons for this market to go lower, it remains near all-time highs. Recent hope for economic improvement and a rebound in corporate earnings have helped offset the geopolitical concerns which have been creating daily headline worries. Despite the better than expected earnings, the broader economy has remained sluggish and the market friendly Federal Reserve may soon turn foe as it is debating further rate hikes in this sub-par economy. The FOMC minutes showed some members have expressed concerns that elevated asset prices and the low equity premium could lead to financial instability. Something to keep an eye on, but the market remains positive for now. We will continue to look to our indicators and the markets to guide us rather than speculate. We will keep you informed.

TACTICAL OPPORTUNITY

A minor step back in the Technology sector and some other areas in the market forced a few stops to be triggered, but for the most part the portfolio is at the higher end of the percent invested spectrum and has been performing well. Past winners, such as Google and Netflix, gave back some of their advances as did the semi-conductor group which impacted Qorvo inc. General broad strength, though, and some good months from Health stocks like Celgene, Financial JP Morgan, and Industrial Goodyear Tire netted to a good month. No significant changes in the model.

FULLY INVESTED

ETF SECTOR ROTATION

No changes during June for the model. Weakness for the month came from the Consumer Discretionary and Consumer Staple stocks, as well as Technology, Utilities, and Energy. The top winners were the rebounding Financials, which had been lagging after their initial post-election surge, along with Healthcare. The model remains overweight Technology, Healthcare, and Financials and underweight Energy and Utilities. The broad markets were generally strong with Small Caps up around 3% (compared to a basically flat S&P 500). For the Internationals, Euro stocks pulled back about two percent, while Emerging markets were nearly flat. We have a Euro position but have yet to open one in Emerging Markets.

EQUITY GROWTH AND VALUE

Winners outpaced laggards with strength from names like Fed Ex, Celgene, Metlife, Bank of America, and Intercontinental Exchange all up more than 8% for the month. As noted above, weakness was felt from some Technology holdings and in particular semi-conductors which until June had been on a great run. Light activity continues to be the theme.

EQUITY DIVIDEND INCOME

Dividend stocks were essentially flat for the month following. Weaker were Utility stocks as there was a rise in the 10 year treasury. Good news came from a couple of Oil stocks, as despite general weakness in the Energy sector, Oil prices did increase. Also strong were Health stocks such as Abbvie, and Financials such as HSBC Holdings.

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

Best regards,

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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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Monthly Market Update

May 9, 2017

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

The markets managed to have a positive month in April but have been largely consolidating since March. The consolidation phase has been relatively mild with all of the major indices seeing less than a 5% drawdown. The NASDAQ, aided by positive earnings and revenue growth from most of the high profile tech names, was the exception. The NASDAQ has consistently seen new highs throughout the last couple of months. The fact that we have seen a shallow drawdown can be viewed as a bullish sign especially given the emphatic rally we have had since the election.

Little has changed in the fundamental landscape as the broad economic indicators are still muddling along. Unemployment is down but it has to be viewed in the context of a lower participation rate. The one big positive has been the optimism resulting from Trump's agenda. That appears to be the primary driver for stocks as investors recognize that some combination of deregulation, tax reform, and an infrastructure bill is likely. Investors have been re-allocating portfolios to discount that fact.

Our view is that we are in a later stage technical rally and that has been a fitting description. After breaking out of an almost two year consolidation pattern that included two double digit declines, the major indices broke out to the upside and have not let up since. The breadth on the NYSE has led the way and continues to make new highs, indicating broad participation in the rally. We also have seen the leading groups and stocks break out and follow through. This has been highlighted by the technology sector where upbeat earnings have been a wind in their sails. It is fitting as technology has been the only group over the last few years to see consistent top and bottom line growth. In general the earnings landscape has been better.

Overall, we are very aware that valuations are high at a time where our central bank is inching towards normalization. Combined with excessive readings from our sentiment indicators and what appears to be an underpriced geo-political landscape, things are not all positive. Our experience tells us that Fundamentals and Sentiment dictate the long term outcome but Technicals are the driver of the short to the intermediate term. Until we get a change in what has been a positive technical environment, we will remain constructive on this market.

TACTICAL OPPORTUNITY

The April upturn in the market was most favorable to the type of growth stocks that Tactical Opportunities is currently holding, making for a solid month. Medical company Bard CR led the way, up over 20% on acquisition news. Computer company Western Digital and old favorite Alphabet were both up over 10%. Another nine holdings have risen 5% or more since the first of April. These are the months we like. With the recent winds at its back, and no sell signals being triggered, the portfolio remains at the higher end of its percent invested goals.

FULLY INVESTED

ETF SECTOR ROTATION

With the market up around 2% over the last month, none of the sectors were too far from the index with the notable exception of Energy. With oil prices taking another downward turn, the Energy sector has dropped 4% since the first of April. Technology continues to lead the way, up around 3% for the month, as were Consumer Discretionaries and Industrials. There was no change in the model which remains overweight Technology, Financials, Healthcare and Industrials and is neutral on Materials and Consumer Discretionary.

In the broad markets, Value lagged as there has been a continued slowdown in Financials after their post-election surge. Generally, all cap sizes were market performers. In the Global markets, recent strength in European markets has led us to take a position there for those with international exposure. We have not taken a position in Emerging markets yet.

EQUITY GROWTH AND VALUE

For several months we have been noting that our strategy has been to "stay in our lane" to avoid what has been a whip-saw market. That strategy continues to pay off as activity remains light and results on the good side. In the many years that we have been managing this portfolio it seems that this year has seen some of the lightest activity that we remember. Tech stocks continue to lead, while our Financial holdings were on the flat side, but for the most part we are pleased with the look of the current portfolio.

EQUITY DIVIDEND INCOME

Dividend stocks continue to tread water as the market keeps an eye to see which way rates will go. While the Fed talks of increases, the 10 year T-Bill rate has held steady at around 2.35%, and is in fact slightly lower than where it was on April 1. We conducted a few swaps in the portfolio to adjust our sector weightings, but for the most part activity is expected to remain light. The holdings do not look necessarily bad, but they aren't running as fast as some of the growth names over the last couple of months.

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

Best regards,

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