Churchill Management Group

Monthly Market Update

May 7, 2018

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

We have started May with some positive action that saw a nice reversal off the lows and a couple of follow through days courtesy of a rally in oil and some Tech specific gains. It is encouraging and could be the start of something positive but also noteworthy to point out that April started in a similar fashion before backing off in the latter half of the month. With the DOW (+0.2%), S&P 500 (+0.3%) and NASDAQ (+0.4%) we ended April essentially flat. Coupled with the heightened volatility, it is clear that the market remains in a correction. The correction is now three months old and the major indices have spent the last month and a half trading in the lower half of the range. On multiple occasions since the correction started, the markets have tested the longer-term trend line, which corresponds with the 200-day moving average. So far, the indexes have held support at that benchmark each time.

The market has been buoyed by first-quarter earnings, which continue to surprise to the upside. Of the 81% of the S&P 500 companies that have already reported, 78% delivered a positive earnings surprise, while 77% posted a revenue beat. The surprise on the sales side marks a deviation from recent years where sales stagnated, but earnings rose through cost-cutting.

One key observation: The market has failed to reward those robust earnings announcements. Stocks have for the most part sold off on the positive news, or have retreated after an initial post-earnings gap-up, as investors sold shares throughout the day. Of course, there have been some exceptions. Apple's earnings beat was rewarded and led the entire market higher. A case can also be made that it was the massive stock buyback announcement and Warren Buffett's increased holdings disclosure that did most of the heavy lifting.

In terms of the technical action, although the shorter-term uptrends and moving averages are broken, longer-term ones have held. Breadth also remains a bright spot, as it recently squeaked in a new high.

Going forward, the key issues remain the same. Will earnings carry the day? How will the markets handle increased tightening by the Fed? Wall Street expects two to three more hikes this year, and sees the Fed continuing efforts to reduce its balance sheet.

Another question is, will President Trump's trade talks ultimately end up goosing or derailing the markets?

It would not surprise us to see recent market volatility continue within the current range for an extended period as the indexes seesaw back and forth in reaction to the issues noted above. We will make adjustments to our strategies if our indicators change. For now, we remain in a defensive position.

TACTICAL OPPORTUNITY

There was little change in the percent invested in April, with just a small 2%-4% reduction during the month. In addition to good months from Apple and Amazon, oil and gas firm Matador Resources pumped out a 10% gain in April. But we're still in a volatile environment, making new buys tough to find.

FULLY INVESTED

ETF SECTOR ROTATION

Kicking off April with a nice surge, Energy posted its best month since 2011, as the group rebounded from the tough month it had in February. Tech and Consumer Discretionary also had good months, with Amazon and the other FANG stocks posting some nice numbers. Defensive plays, such as Consumer Staples, continued to lag as earnings can't match their lofty price levels. In the broad markets, all styles of stocks were positive, with Small Caps having the best month. Among international stocks, emerging markets were down slightly, while Europe performed about the same as the U.S. The ETF Sector Rotation portfolio remains overweight in Discretionaries, Financials and Tech, along with Industrials and Materials.

EQUITY GROWTH AND VALUE

Despite a lot of turbulence, April was mostly an up month for the portfolio's holdings. The main exceptions were defense firms Northrop Grumman and Raytheon. Apple, Amazon and Netflix had good showings.

Healthcare sector stock Intuitive Surgical and credit card-issuer Mastercard also performed well. Some tax-harvesting opportunities were taken during the month, but otherwise leadership with conviction remains difficult to find.

EQUITY DIVIDEND INCOME

The surge in Energy stocks, such as Phillips 66 and Valero which posted 20% gains, offset the lagging performance of Defense names like Lockheed and Northrop Grumman, as well as some general weakness in Utilities. The group of dividend-paying stocks yielded some decent numbers in April, especially given all of the talk about interest rate hikes. Normal weeding continues, along with a few tax-harvesting sells resulting from the market's recent volatility.

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

Best regards,

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