Churchill Management Group

Monthly Market Update

December 4, 2018

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

The market continues to be in a corrective mode. The wild swings both up and down this week are a reminder of how volatile these periods can be and why it is best to be cautious and patient until the market makes up its mind.

The major indices bounced around the October lows for most of November, ending slightly positive with gains near 2%. The concerns of a slowing economy, higher rates, and tenuous trade talks with China continue to put pressure on this aging bull market.

With markets showing distress, we saw some relief from both the Fed and the President. Chairman Jerome Powell walked back his earlier comments that interest rates were “far from neutral”, saying more recently that rates are “just under” neutral. Meanwhile, President Trump and Chinese president Xi agreed to a three-month trade truce that buys more time for a trade deal.

From a technical analysis perspective, we are in the second intermediate correction, (major indices down over 10% from the highs) of the year. We saw the market correct near -12% in January through March only to repair itself and make new highs soon after. The current market correction in comparison, having broken their major moving averages and uptrends, appears more worrisome for the moment. We also had a breadth divergence in August and yesterday saw an inversion in the 3 and 5-year treasury yield curve. An inversion is a phenomenon when short-term rates exceed long term rates and typically signals a weakening economy.

Currently the markets have successfully retested the October support levels but are stuck in a volatile trading range. If this Bull Market is to reaffirm itself, we need to see strength and rallies being bought rather than sold. Bottoming processes, if we are in one, can take months to complete. The good news is we are now a couple months in already. On the other hand, the volatility of 2018 could potentially be part of an elongated topping process that puts an end to what is the longest bull market in history. At this point it is unclear, but considering the ample concerns, we have maintained a defensive stance with the majority of the strategy allocated to cash equivalents.

While the fundamentals are still good, we have to take that with a grain of salt as bull markets don't end when things begin to go bad. They typically end when things can't get any better.

We will be watching to see if the technicals can repair themselves over time. Can the Nasdaq recapture its 200-day moving average, and can the S&P 500 and Dow stay above theirs? Can the indices break through the upper range of the bottoming formation? Will we see the previous leaders find support and create sound bases from which to break out? Will the fundamentals come to the rescue?

As usual, we will watch our indicators closely and act accordingly.

TACTICAL OPPORTUNITY

November was a good month overall, with some big moves – both good and bad – in the portfolio. On the downside, Apple struggled with concerns over its slowing sales. We are attempting to be patient with this long-term core holding.

On the positive side, Deere spiked nearly 20% and Starbucks sprung to life last month. Amazon, another core holding, seemed to find its footing.

Volatility still remains, so some cash has been raised. However, in general, the percent invested seems to be holding.

FULLY INVESTED

ETF SECTOR ROTATION

There was no change in our core holdings in November. We remain in Tech, Financials, Healthcare, Consumer Discretionary, and Consumer Staples.

Healthcare stocks had the best month, but Consumer Discretionary, Materials, and Industrials also outperformed. It was interesting to see Industrials and Materials bounce back after a decent period of lagging. Technology has been trailing the market, led by weakness in the FANG stocks (Facebook, Amazon, Netflix and Google parent Alphabet), but no sell signal has been triggered. The broad market generally lagged the S&P 500, but were all up.

On the international front, emerging markets posted a nice month, but it's too early to tell if a sustained run is in the making.

EQUITY GROWTH AND VALUE

November was a generally positive month, with health-related stocks such as Biogen, Amgen, and Medtronic showing particular strength. Look for some additional tax-harvesting moves as the year draws to a close. However, right now no significant sector moves appear imminent. Patience remains the theme of the day as this volatile market flips back and forth.

EQUITY DIVIDEND INCOME

Last month was fairly steady for the dividend group. However, weakness in oil and energy did trigger a few sells within the portfolio. Interest rates were quiet and actually slightly down in November. As of now, no major changes are on the horizon.

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

Best regards,

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