Churchill Management Group

Monthly Market Update

January 9, 2019

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Instead of delivering a Santa Claus rally, the market gave investors a lump of coal for Christmas as it sold off viciously in December. In doing so, stocks reached extremely oversold levels and have since rallied nicely, starting with a 4% up day when markets opened after Christmas and continuing with a positive start to the New Year. Are we out of the woods?

While such rallies can give the feeling that all is well again, history shows that sharp and furious rallies off oversold conditions are often more indicative signs of storms than clear skies. The biggest single-day gains in history have largely occurred during bear markets. Of the 125 days where the Dow Jones industrial average has gained over 4%, 112 (90%) of them occurred in the middle of a bear market or as part of the bottoming process. Only eight (6%) of those days occurred in the Buy Zone following the completion of the bottoming process and just five (4%) of the market's biggest one-day gains occurred otherwise – and all of those were in the middle of or just after an intermediate correction.

So history would place the odds higher that we are seeing a countertrend rally that is, at best, likely part of the bottoming process, or at worst, a pause before the market experiences further losses. These types of rallies can last weeks to months. We continue, therefore, to see heightened risk in this market and believe it is prudent to maintain a defensive position, at least in the near term. Even with the rally thus far this week, we have now just reached the point where we did the last round of defensive selling in our tactical core strategy.

Fundamentally, the two biggest headwinds remain the Federal Reserve and trade negotiations.

The Fed wants to normalize monetary policy by raising rates and allowing its balance sheet to run off, but the financial markets are in an uproar over it. Comments by Fed Chairman Powell kicked off the initial selling in October, and he has been harshly criticized by both President Trump and Fed watchers to slow down his rate hike pace so as to not impede economic growth. Interestingly enough, last week's positive jobs numbers and wage growth appear to provide cover for Powell, despite fears of an imminent slowdown. Could the Chairman be caught between a rock and a hard place?

Trump's trade negotiations with China continue to be a work in progress. The sides remain far apart, but at least they are talking again. Our view is that the process will take more time and will continue to have fits and starts, which is likely to frustrate markets until it is resolved.

Our indicators are currently mixed. We have some indicators that are signaling a bottom could be near while others remain negative or uncertain. What we are looking for is to have our fundamental, technical, and sentiment indicators all confirm each other. It is typical to see mixed indications during these periods. Some patience will be required before a clearer picture emerges, as bottoms are not single moments in time but rather a process that can take weeks to months. As such, we will continue to be patient as we await more clues on whether this is all part of the bottoming process or just a countertrend rally.

TACTICAL OPPORTUNITY

A few additional sells have moved the portfolio to a one-foot-in, one-foot-out position, with the model about 50% invested. As we near the core level of investment, attempts to be patient with the primary holdings have been mixed. Apple was hit with news of a revenue slowdown, but Amazon has showed a little bounce recently. With a couple of up weeks in a row behind us, the model is likely now on the lookout for both buys and sells.

FULLY INVESTED

ETF SECTOR ROTATION

The market was tough across the board in December, leading to another defensive step in the model. Financials were sold, while additions were made to Healthcare, Staples and a small purchase of the SPDRs. As a reminder, it is a good time to note that when markets show extreme behavior, as they have recently, it is not uncommon to get sudden reversals in the sectors. We are presently overweight Defensive Staples, Healthcare and Utilities, as well as Tech and Discretionaries.

Broad sectors followed the overall market down, with no group dramatically different from the others. We remain neutral in our Russell holdings, meaning we are out of Small- and Mid-caps.

While there has been no buy signal, both emerging markets and Europe held up better than the S&P 500, although both were down.

EQUITY GROWTH AND VALUE

As the market ran into turbulence in the last quarter of the year, outsized activity became the norm. There was a lot of year-end tax harvesting and restarts across the board. During December, the "What to sell?" question was a lot easier to answer than the issue of "What to replace it with?" It would not be surprising to see another rotation if the market begins to find its footing.

EQUITY DIVIDEND INCOME

Dividend stocks were not immune to the market troubles at year-end. While holding on to a nucleus of stocks, the strategy focused on taking advantage of tax opportunities, along with rotating where needed. Shockingly, the yield of the 10-year Treasury fell over the last several weeks, although it did not completely shelter yield stocks.

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

Best regards,

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