Churchill Management Group

Monthly Market Update

February 6, 2019

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Markets have rallied hard off the extremely oversold conditions of late December. The Dow Jones Industrial Average, S&P 500, Nasdaq, and the small-caps have, respectively, recovered 70%, 65%, 62%, and 50% of their near Bear Market declines from September to December.

At present, the odds would say the current run off the lows is more likely part of a bounce off oversold conditions than the start of a robust Bull Market. Historically, the stock market does not sustain a "V" shaped recovery without either a test of the previous lows or a sideways moving "backing and filling" process. It is after the test or base move when you can gain a clearer picture of what is to come next, either a rally or more trouble.

Given the depths and speed of the trouble we saw in Q4, a rebound of some kind is an expected part of the process. Such a rebound has been the norm whether we have seen the worst or if more trouble is to come. For example, during the Bear Market of 2000-2002 there were four "rallies" of more than 14% (two more than 24%) before the market reached its lowest point. During the Bear Market of 2007-2009, there were three counter trend rallies, including a 27% run in Dec 08 - Jan 09 before the market turned sharply down to its lows in March of 09.

In addition to a snapback from oversold conditions, the markets got an extra boost as they cheered the Federal Reserve's about-face from its previously hawkish stance. Chairman Jerome Powell, citing greater economic uncertainty, conveyed an open-ended pause on hiking rates and alleviated market concerns over the balance sheet by indicating the Fed's flexibility to alter the pace and size of its reduction.

The big question is whether the Fed reversed course on legitimate concerns of a slowdown, or simply due to pressure from the administration and critics. If the central bankers are seeing an imminent slowdown, then they have at least removed the possibility of the Fed making it worse. If it was simply a result of outside pressure, it would imply they can restart their more hawkish policies should we get robust data in the coming months.

With the Fed out of the way for now, concerns remain on slowing growth and trade talks. After spectacular growth for S&P 500 earnings in 2018, projections for growth in Q1 of 2019 have turned flat to slightly negative. This will be something to watch closely.

With the S&P 500 climbing back towards its 200-day moving average, Premier Wealth Tactical Core took a very small "toe step" into the water. Should the market successfully retake that line, it would be a positive sign that would likely call for taking another small step forward. Until a clearer picture emerges, caution is warranted. As always, we will let the market tell us.

TACTICAL OPPORTUNITY

January delivered a nice rebound in the portfolio's stocks, led by strong performances from Boeing, Oracle, and Mastercard. However, not many stocks triggered buy signals, meaning there was only a small increase in the percent invested during the month. That was primarily because the stocks that bounced were previously beaten down and this bounce came mostly on lower volume. We like the look of the current core holdings, and will build upon that should more buy signals appear.

FULLY INVESTED

ETF SECTOR ROTATION

All sectors were up with the strong bounce in January. It was, however, a reversal month, where the laggards in Q4 took the lead, while the Q4 leaders lagged. Energy, for example, has been the best best-performing sector so far this year, after having declined around 30% in the fourth quarter. Due to the very light volume, no adjustments were made to the portfolio. Our holdings remain on the more defensive side, with the model overweight in Health, Consumer Staples and Utilities, as well as Tech and Consumer Discretionary.

Broad markets all outperformed, including both growth and value, and large- and small-caps. Internationals were also up, although slightly less than U.S. markets.

EQUITY GROWTH AND VALUE

After a year-end flurry of tax-harvesting selling and "weeding," the portfolio rebounded nicely in January. Core holdings such as Apple and Amazon, held their ground and have rallied for now. All told, it has been largely a positive outlook from the group over the past few weeks.

EQUITY DIVIDEND INCOME

Dividend stocks had a positive month, albeit not as strong as the general market. Boeing and Oneok delivered particularly strong performances. Given the positive action in the market, there is currently just a small group on the possible swap list.

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

Best regards,

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