Churchill Management Group

Monthly Market Update

March 11, 2019

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

For the first time since Christmas, stocks encountered some decently sized turbulence last week after they had extended their New Year's rally throughout the month of February. The noteworthy length and magnitude of the rebound had occurred without a pause, coming straight off the December lows in a "V" formation.

This unusual price action created a situation where the market is quite overbought and very extended.

During the run, the NYSE advance-decline line managed to make a new all-time high, setting up a reverse breadth divergence where breadth makes a new high and the indices do not. Traditionally, this has been a positive sign. We still, however, expect some backing and filling at some point to relieve the overbought conditions.

Recently, the S&P 500 has encountered heavy technical resistance around 2800, giving the market a bit of a pause so far in early March. Should it pull back to fill in the 2600-2800 range, such a consolidation could form the right-hand side of a complex bottoming formation and eventually lead to greener pastures. We will watch and let the market tell us.

The biggest driver of the market action appears to be the Federal Reserve. After initially projecting three rate hikes in 2019, Chairman Powell and team softened their stance late last year, lowering their forecast to just two increases. In early January, the Fed took that down to zero hikes, adopting a wait and see stance. That was not a big surprise as they have been communicating a data-dependent approach for some time.

The biggest part of the surprise was the Fed's decision to convey the possibility of ending the balance sheet reduction (i.e., quantitative tightening) this year.

Additionally, a trade deal resolution continues to be dangled in front of the markets, although there is a case to be made that a good amount of that positive outcome has already been priced in to stocks at this point.

At present, the market story is not yet complete, and the final chapter on whether this is just a countertrend rally has yet to be written. That said, the positive action for the year has led us to take some steps toward increasing our equity exposure. We will continue to monitor any new developments and adjust our exposure accordingly.

TACTICAL OPPORTUNITY

Given the positive market movement to start the year, we did increase the model's equity exposure in February. Surprisingly, however, buy signals have not been as plentiful as might be expected given the market's quick rise in the first two months of the year. While one or two stocks are at risk from sell triggers, the portfolio is generally in a very comfortable, yet not aggressive, position.

FULLY INVESTED

ETF SECTOR ROTATION

February was a fairly even ride, as all sectors were up during the month and in the neighborhood of the average. Technology and Industrials performed the best, with Communications stocks lagging. There was no change in our sector weightings for the month due to volume, one of the model's triggers, being very light in February.

Taking a generally conservative stance, the model is overweight in Consumer Staples, Health and Utilities, along with Technology and Discretionaries. The broad markets performed around the averages, with only small-caps slightly outperforming. There were, however, no buy signals in the group.

We continue to lead growth in this area, and as far as international markets go, we still prefer the U.S. over both emerging markets and Europe.

EQUITY GROWTH AND VALUE

With few exceptions, February was generally a positive month for the portfolio's holdings. A resurgence in the Aerospace/Defense positions led the way. Given the positive action, there was very little activity for the month.

EQUITY DIVIDEND INCOME

Dividend stocks went along for the ride in February without a lot of fanfare. Rates on the 10-year Treasury, although down from their October highs, have been pretty much flat in 2019. For now, the group is behaving normally.

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

Best regards,

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