Churchill Management Group

Monthly Market Update

May 8, 2019

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Turbulence has hit the U.S. markets and trade negotiations are causing the first bit of volatility we have seen in a while. The market had been continuing its relentless V-shaped rally off the December lows when the Presidential tweets of trade trouble hit and caused the market to tap the breaks just a little. Whatever the cause, some pause was likely needed after the NASDAQ and S&P 500 briefly managed to make new all-time peaks.

Resistance at the new highs is not surprising from a technical perspective, since previous highs tend to act, at least temporarily, as a ceiling. It is worth noting that despite roaring off the December lows and the impressive gains this year, the markets are at virtually the same levels they were at over 15 months ago in January of 2018!

The President's tweets regarding challenging trade negotiations and the potential of increasing tariffs on China created some market turbulence. Once the trade issues were confirmed by U.S. Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin, the markets sold off. It is likely the result of markets recognizing that an agreement in the very near term appears doubtful.

It is probable that the risk associated with the desired trade deal is asymmetric. The markets appear to have priced in an agreement, making any upside in sealing the deal limited. Wall Street, however, does not appear to have priced in the possibility that the deal won't get done in a timely manner. That could mean the downside for failing to reach an agreement will be greater. Hopefully cooler heads will prevail.

Technically, the market continued to act well throughout April. The advance-decline line has made and continues to make new all-time highs.

The number of stocks breaking out within the leading tech groups – especially companies with impressive revenue and earnings growth – continues to increase. However, we have seen some individual names within the semiconductor group get a bit sloppy.

Fundamentally, valuations remain elevated. This is something to watch as it implies lower future returns. Part of the reason for higher price-earning ratios today is lower interest rates. With the Fed signaling a long pause, it does give reason for market participants to keep valuations high.

Are we finally headed towards a period of consolidation where the markets back and fill?
The rally off the December lows has been unusual in its lack of any meaningful pauses. Most technicians would agree that having the indices take a breather would be healthy for the long-term sustainability of the current rally.

Will the recent pullback in the market be that breather? Or will it be something more than just a brief respite? The market will likely tell us which it is after the conclusion of this initial consolidation. This will be an important signal on whether the uptrend still has legs.

TACTICAL OPPORTUNITY

The holdings in the portfolio enjoyed a fairly good month, led by a big pop in Disney. FAANG stocks Apple and Amazon also had nearly 10% runs since April 1. Despite the solid start, this tactical model has stayed about a third in cash. While there have been a few recent additions, buy signals have remained less plentiful.

FULLY INVESTED

ETF SECTOR ROTATION

We saw rotation in the sectors in early April, moving out of Health and Materials, and into Financials and Commercial Services. It would not be surprising to see a rebound in Health since it was oversold, but we needed to make room for the new additions. The model is currently overweight in Tech, Consumer Staples, Consumer Discretionary, Financials, and Communication Services. We are out of Energy, Utilities, Health, Real Estate, Industrials, and Materials.

The broad markets have had a fairly good run since the beginning of April, with small caps – which had been lagging in the market's recent rally – outperforming for a change. We continue to lean on growth and have yet to take a position in small caps. Internationals have also been lagging, and are again hitting a snag as a result of issues with the trade talks.

We continue to hold the SPY in the model, rather than the international options.

EQUITY GROWTH AND VALUE

There has been some variance among the holdings over the past few weeks. Health care stocks were sluggish, and some managed care holdings triggered sell signals. However, good rebounds from the likes of Apple and Amazon filled in the gap. We saw above-average activity in April, as the strategy also rotated towards Financials during the month.

EQUITY DIVIDEND INCOME

The portfolio saw little to no activity in April, as the dividend group generally continued to grind along with the market. The theme of improving Financials played out here as well. The 10-Year Treasury remains at or below 2.5%, and the low rates continue to help this group. Interest rates spiked briefly from early March to mid-April, but have since been declining.

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

Best regards,

CHURCHILL MANAGEMENT GROUP
877-937-7110
info@churchillmanagement.com
