Churchill Management Group

Monthly Market Update

June 5, 2019

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Volatility has returned, driven by geopolitics and antitrust concerns. Throughout May, markets around the world continued to see steep losses. The old Wall Street adage of "sell in May and go away" was in full effect as the major indexes all declined, from -6.5% to -8%. They got off to a rough start this week with the NASDAQ dropping 1.6% Monday only to rise 2.6% on Tuesday. It is a good reminder to keep your seat belts strapped tightly.

The driving force appears to be a repricing of risk due to the fallout from the failed trade negotiations with China. After supposedly coming within a week of an agreement, negotiations between the U.S. and China broke down last month. Now the rift appears to be widening, as both sides appear to be digging in their heels. While there is the possibility for a quick resolution during a meeting between President Trump and Chinese leader Xi later this month at the G20 Summit in Japan, the meeting itself – which had seemed a sure thing earlier – now appears to be in jeopardy.

Last year, the two main risks generating turmoil in the market were concerns over the Federal Reserve's rate-hike cycle and fear of a trade war with China. Earlier this year, both initially appeared to recede, and the market cheered. The Fed made a 180-degree turn, switching from rate hikes to possibly lower interest rates this year. Together with that shift, the appearance of a possible trade deal in the near term lifted the indices right off their lows in a V-shaped move that carried the S&P 500 and Nasdaq to new highs. While the Fed appears ready to turn on a dime, a trade deal seems unlikely in the near term.

Throw into that volatile mix President Trump's recent attempts to use tariffs on Mexican goods to enforce border security, and the picture gets even murkier. Weaponizing tariffs outside of trade negotiations is a risky proposition. This is reminiscent of the Smoot-Hawley Tariff Act of 1930, which invited retaliation from our trading partners.

On the technical side, breadth remains strong and that gives us hope, but all of the major indices are now below their 200-day moving averages with few signs of technical support below. The markets are, however, very oversold. They are likely to make a sharp snapback soon although they could always become more oversold before a rebound emerges.

The markets have been in a wide trading range since early 2018 and the current environment appears to be a continuation of that. If so, it makes a test of the lows a possibility in what could be an elongated topping process. We will only know the answer in hindsight, but with weak technicals and potentially explosive (either positive or negative) headlines on trade, we believe it is best to be more cautious. We have reduced some exposure and moved to a more neutral position in our tactical products.

TACTICAL OPPORTUNITY

With the market selling off, some holdings are nearing sell signals. However, for the most part, the model's stocks have weathered the storm. Apple and Google parent, Alphabet, has been hit hardest because of the trade war and antitrust news. They have been anchors of the portfolios for years and we are attempting to remain patient. Two holdings – Total System Services and Global Payments, Inc. – provided some good fortune when the companies merged, giving a boost to both stocks. TSS has been an exceptional performer since being added to the portfolio, so much so, that we recently had to trim profits for longer-term clients since it was becoming an outsized position. We love that kind of problem.

FULLY INVESTED

ETF SECTOR ROTATION

After a solid April, the more aggressive holdings paired back in May. Tech has been hit hardest, a direct result of the tough tariff negotiations and recent antitrust news focused particularly on Amazon, Facebook, and Google.

As expected, defensive plays held up best, especially Utilities and Real Estate. Continued rate drops always provide a boost for those groups. We remain overweight Tech, Consumer Discretionary, Communications, Financials, and Consumer Staples. We will watch closely for re-allocation signals.

In the broad markets, small caps continued to lag. We have had an "Avoid" on them for some time. Globally, emerging markets underperformed, while Europe held up better. We continue to prefer U.S. over international holdings in the model.

EQUITY GROWTH AND VALUE

With the exception of the recent damage done to FAANG stocks, the portfolio's holdings have navigated the instability fairly well. We will use the volatility to do some rotating and tax harvesting for taxable accounts. We expect higher activity ahead as the market continues to encounter turbulence.

EQUITY DIVIDEND INCOME

May was a relatively good month for our dividend holdings, with a fair majority, led by Target and Paychex, posting positive numbers in this tough period. Activity has been light given the market volume. We continue to fish in the middle dividend-paying area since many stocks with higher yields have gotten there by taking hard hits to their stock prices.

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

Best regards,

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