Churchill Management Group

Monthly Market Update

August 13, 2019

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Tough trade war sparring and debate over Fed stimulus have kept the markets in a tug of war since the start of July. Most of the major indices managed to grind higher throughout July, and even hit all-time highs. However, late selling around the end of the month resulted in only minor gains.

It began with the market's continued myopic focus on the Federal Reserve and trade talks which have been the driver of news-driven volatility – on both the upside and downside. Wall Street focused heavily on the Fed and a projected rate cut. As often happens, we saw market participants buy the rumor and sell the news, with the indices rising for most of the month, then selling off after the rate cut was made official on July 31.

As Yogi Bera said, it is like déjà vu all over again. We saw late selling again as the administration's decision to raise tariffs on China knocked the legs out from under the market. Both the Trump administration and China are playing a high-stakes of chicken to see which side will blink first.

After the U.S. announced more tariffs, China responded by halting agricultural imports and allowing its currency to drop. The Trump administration followed that by labeling China a currency manipulator. Taking note of what could be an escalation of the situation, market players drove the indices sharply lower on the announcement of additional tariffs on August 1st. The subsequent response by China then triggered the largest one-day decline of the year on August 5.

The good news is should the trade woes begin to affect the real economy, we will likely see the Fed come to the rescue with more rate cuts. Also, in what could be a strange twist, the president may get a free pass for wielding a much harder line on trade talks. Indirectly, the Federal Reserve has Trump's back in taking a tougher stance on trade, especially if it results in real economic weakness. Such a move would force the Fed to respond, making it a backdoor to lower rates.

Investors also focused on the second-quarter earnings season. Performance results reflected a general slowing in growth areas across the board. With a projected -1% decline in Q2, S&P 500 companies are headed for their second straight, year-over-year quarterly decline, their first since Q1 and Q2 of 2016.

Valuations remain a challenge. The 12-month forward P/E ratio is sitting at 16.8, above the S&P 500's five-year and 10-year highs. The longer-term as-reported P/E multiples are still at historically extreme levels.

The bottom line is that the markets will continue to gyrate on the trade talks with China and our central bank's policies. The long and drawn out U.S. - China trade talks appear to be escalating, and even the Fed is unclear on what its policy should be.

We believe that a cautious stance is still warranted, given this continued uncertainty.

TACTICAL OPPORTUNITY

Despite a roller-coaster market, the holdings fared pretty well last month. Since July, Starbucks, Google parent Alphabet, and Northrop Grumman produced double-digit gains during a rocky period. We saw some choppiness from Amazon (-1.4% in July) and Oracle (-1.2%). Given the volatility encountered last month, there was little change in the percent invested.

FULLY INVESTED

ETF SECTOR ROTATION

After a volatile ride, the markets ended slightly down since the beginning of July. Volatility in interest rates dictated the day. With the 10-year Treasury down, Utilities and Real Estate were the best-performing sectors via their dividends. Meanwhile, Energy short-circuited, but otherwise there was minimal differentiation. We recently swapped Financials for Utilities, Industrials and Materials in addition to being overweight in Tech, Consumer Discretionary, Consumer Staples, and Communication Services.

The story is little changed for the broad markets. Growth continues to lead, while small caps continue to lag. Around the world, global markets are struggling and we remain out of international holdings.

EQUITY GROWTH AND VALUE

Last month, winners emerged among defense stocks, such as Northrop Grumman and TransDigm. While chip makers, transportation and financial stocks lagged, there was no serious damage. The majority of stocks are holding up well and activity remains light.

EQUITY DIVIDEND INCOME

Dividend stocks have largely mirrored action in the overall market over the past few weeks, but in a less volatile manner. Down days for dividend plays have not been as bad as the broad market, and good days not as good. Consumer Staples and Defense stocks have performed well. We have seen little activity recently, but with heightened volatility, we continue to look for tax-harvesting opportunities where needed.

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

Best regards,

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