Churchill Management Group

Monthly Market Update

September 10, 2019

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

The on again, off again nature of U.S. - China trade negotiations continue to drive market volatility, both on the upside and downside. Last month, the addition of more tariffs by President Trump sparked some selling although we have recovered most of it since. All of the large caps were down around 2%, while lagging small caps took a 5% haircut.

We continue to expect increased turbulence in the coming months due to uncertainty surrounding trade talks and action from the Federal Reserve.

While the economic data in the U.S. has been mixed, the numbers coming out of Europe and the rest of the world are pointing to a downturn. Central banks worldwide have taken note, resulting in the aggressive easing we have seen overseas.

Easing outside the U.S. has made our Treasuries more attractive. Accordingly, we have seen excessive demand come in. That buying has pushed prices higher on the 10-year Treasuries, dropping the yield 50 basis points in the last month to 1.5%. As a result, the yield curve has inverted. Historically, an inverted yield curve has been a harbinger of a recession. The big question is whether today's signal, which is distorted by central bank intervention, is still reliable.

This has led the Federal Reserve to drop rates in a pre-emptive move to "sustain the economic expansion." The market expects more rate cuts ahead, but will the Fed continue that approach given the relatively benign economic reports and a stock market that is within striking distance of new highs? The speeches from the different committee members have been very mixed.

We remain cautious, with the large amount of headline risk in the news. The trade talks could easily drag on, and the Fed may not be as generous as the market would like. In addition, Brexit, earnings, and an uptick in geopolitical noise around the globe could all upset the apple cart. Bottom line: Risks are heightened, and barring an improvement in our indicators, we are likely to remain in a neutral position.

TACTICAL OPPORTUNITY

Despite continued volatility, we remain happy with the holdings in the portfolio. The percent invested remains cautious. We are monitoring concerns over one or two holdings, such as Cisco Systems, but holdings like Jacobs Engineering and Home Depot had great months.

FULLY INVESTED

ETF SECTOR ROTATION

In a bumpy, back-and-forth month, the more defensive and interest rate-sensitive positions have held up well since August. Consumer Staples, Utilities, and Real Estate performed best.

During the month, we pivoted to remain both more growth-oriented and defensive. We are currently overweight in Technology, Communication, and Consumer Discretionary on the growth side, and in Utilities, Health Care, and Consumer Staples on the defensive side.

On the “Avoids” side of the ledger, we have Energy, Financials, Industrials, Materials and Real Estate. Real Estate has been good, but we’ve been reluctant to go more aggressively overweight as a defensive measure

The broad market story remains the same: Growth over value, and a lag in small caps.

Internationals have treaded water with the S&P 500, but our model continues to have an “avoid” rating on emerging markets and Europe.

EQUITY GROWTH AND VALUE

While certainly not immune to volatile markets, the majority of the holdings have held up well. Growth-oriented positions continue to lead and have so far shown resilience to the market’s moves. We did increase activity during August, taking advantage of some tax-harvesting opportunities and giving fresh legs to some laggards.

EQUITY DIVIDEND INCOME

Our portfolio has had a nice lift from the continued drop in yields. Most positions are holding up and performing well for the year. Utilities have led the way, with surprising boosts from retail plays, including Target, Dollar General, CVS, and Home Depot. We have continued to make only small changes to the portfolio.

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

Best regards,

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