Churchill Management Group

Monthly Market Update

October 8, 2019

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

October has historically been known for increased volatility, and similar to last year, it started off in the same fashion. Last Tuesday's surprise reading on the ISM manufacturing index kicked off the volatility as it showed another contraction, with the index coming in below a key 50 reading for the second consecutive month. That spooked the markets and left investors wondering if the growth slowdown overseas has finally reached our shores.

The U.S. markets have largely been unaffected by anemic global growth over the last year, although the Federal Reserve is keenly aware of this growing risk. Slowing growth around the world has been the primary reason for the recent round of accommodation from central banks around the world.

The Fed preemptively lowered rates to stave off the risk of a slowdown. With the help of a new round of monetary easing worldwide, markets were able to grind higher last month. The big question for monetary policy is whether the markets will get as many rate cuts as they have priced in.

Some Fed board members have made the case that the inflation data has not been as benign as some market participants think. If it were to creep higher, it could put the Fed in a bind and limit their ability to ease.

We saw a preview of that with last month's CPI numbers. The latest inflation data came in above expectations and resulted in a 35 basis point one-day spike in the 10-year treasury yield from 1.55% to 1.9%. That is a massive one-day move, although those yields have since subsided back below 1.6%.

The other big headlines continue to revolve around trade and not just with China. There are negotiations with Europe and Japan as well. While the hope is for a deal on the soon side, negotiations are complex and can drag on for extended periods of time. We have been negotiating with China for over 18 months.

On the Technical side, despite the markets being close to all-time highs, the picture has become more mixed recently. While breadth on the NYSE remains strong, there has been a lot of rotation underneath the market. Many of the leading stocks have been breaking down and giving sell signals while many lagging stocks from underperforming groups have picked up. The recent failed attempt at new highs is likely a reflection of the churning we are seeing underneath the indices.

In sum, we continue to believe that the risks in the market remain elevated. There is no shortage of potential risks with monetary policy, trade talks, geopolitics, etc. all at the forefront. We remain cautious and will continue to tread lightly.

TACTICAL OPPORTUNITY

The story continues to remain the same for the strategy. We are happy with our current holdings and see little opportunity in the market to increase our percentage invested. As a result, the strategy remains in a defensive stance.

FULLY INVESTED

ETF SECTOR ROTATION

Overall, there was very little variation among the sectors for the month. The majority remained around the average, with good months coming from both Utilities and Financials. Both benefited from interest rates but in very different ways.

We continue to remain defensive and are overweight in Consumer Staples, Healthcare, and Utilities, in addition to Technology, Consumer Discretionary, and Communications. On the flip side, we are avoiding more manufacturing type sectors such as Industrials, Materials, and Energy.

Starting in September in the broad markets, there was a rather quick attempt to rotate out of growth and into value. However, this appears to have backed off some in the meantime.

There was also a slight shake-up in the international markets. The EFA had a good month but there is still no buy signal in sight.

EQUITY GROWTH AND VALUE

As volatility in the markets continue to wreak havoc on stocks, we saw some weakness in holdings such as Humana and SBA Communications. However, this was offset by signs of strength from the likes of Apple and Nvidia Corporation. Additionally, the high-level of diversity among our holdings proved helpful during the flip-flop month.

EQUITY DIVIDEND INCOME

Dividend stocks enjoyed a good month in the face of volatility on the strength of Consumer Staples and Utilities. Lower interest rates have led to a solid year so far for the portfolio. A few holdings are experiencing signs of weakness and we may do some weeding as usual.

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

Best regards,

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