Churchill Management Group

Monthly Market Update

February 11, 2020

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Most of the major indices got off to a good start to this year, but fizzled out mid-month. The coronavirus outbreak in China tempered market sentiment, giving the markets a reason to back off from overbought conditions. That marked our first pullback of the year. However, the market passed with flying colors, rebounding to new highs in nearly 10 days.

The behavior we are seeing is reminiscent of the rally in 2017, which was initiated after a nearly two-year basing period. Fiscal policy on the part of the new administration was the catalyst in 2017, and today it is monetary policy's turn.

With the help of central banks around the world, the longest bull market in history continues to extend its streak. On top of cutting rates three times in 2019, the Fed began expanding their balance sheet again in November, providing more fuel to the markets, which have grinded relentlessly higher since.

A bullish case can be made that we could be in for another extended rally like that in 2017. It is also possible that we will see a climactic run like what sometimes happens during the tail end of long bull markets like the ones in the 1920s and 1990s. In general, the current rally has been very broad-based, with good participation from most stocks. That reflects the breadth on the NYSE consistently making new highs throughout the run.

Leadership continues to revolve around Tech, especially large-cap technology. The five largest companies in the S&P 500 today are all Tech companies: Microsoft, Apple, Amazon, Alphabet, and Facebook. On average, those five leaders have tripled the returns of the S&P so far this year. This is something we have not seen since the 1990s.

Fundamentally, this market remains chronically expensive, but those excessive multiples are likely the result of historically low rates provided by the central banks. Sentiment is showing signs of extreme optimism, with both Advisory Sentiment and Consumer Confidence readings at significant levels.

The bottom line is that this remains a technically driven market. Demand for equities continues to exceed supply. Until that changes, we are likely to continue to see this market drift higher.

Finally, a couple of things to at least keep an eye out for are the presidential election and the possibility of an extended impact from the coronavirus.

Any credible candidate with a less business-friendly agenda will likely be a negative, while the effect of the coronavirus will depend on whether it is transient. From an economic perspective, it does not have to be deadly to be impactful; it just has to cause disruptions. There is no doubt the coronavirus will have a significant impact on China's economy, but so far its impact in the United States appears limited. The question is whether there will be a big or small ripple effect for those companies that do business in China. As always, we will keep a close eye on the pulse of the markets.

TACTICAL OPPORTUNITY

The model's strategy is enjoying continued strength from the holdings. The big guns – Apple, Google parent Alphabet, and especially Microsoft – have shot out of the gates in the New Year. All are up 9% or more so far in 2020.

The percent invested remains on the higher end as the model rides the market's positive wave for now.

FULLY INVESTED

ETF SECTOR ROTATION

Tech continues to shine, up around 9% since the start of the year. Utilities also jumped (some up 6%) as rates have declined to start 2020. The other nine sectors, however, have lagged slightly, illustrating the pull Tech has had on lifting the markets. Meanwhile, Energy has been extremely weak, down 10% to start the year.

For the broad markets, only large-cap growth has shone brightly, rising around 6%. All other groups – small-cap, midcap, or value – have trailed, but are still in positive territory for the year.

Globally, international plays have tapped the brakes, especially emerging markets. The coronavirus scare has raised concerns.

EQUITY GROWTH AND VALUE

Some retailers, such as AutoZone and Walmart, got off to slow starts in 2020, but have been generally positive the past few weeks. In addition to large-cap darlings Microsoft, Amazon, and the like, credit card processors Mastercard and Global Payments have been on a roll. We have continued to do some light weeding, as the market remains friendly.

EQUITY DIVIDEND INCOME

While not moving at the speed of growth names, so far this year, dividend stocks are positive. We saw a good bounce from Utilities and long-time holdings, such as Lockheed Martin. We also got a nice bump from newcomer IBM. With interest rates remaining historically low, the group continues to grind along.

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

Best regards,

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