Churchill Management Group

Monthly Market Update

April 8, 2020

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

First and foremost, we hope everyone is healthy and staying safe.

The world continues to wrestle with its new reality. Everyone is confined to their homes to help fight Covid-19. Global economies have been slammed shut. Global bankers are pumping money as fast as possible in attempts to buy time. In addition, stock markets are trying to figure out if the damage will be just a short-term shock or will cause lasting damage.

March was a brutal month for stocks. In short, we went from a resilient economy with stock markets and consumer confidence at all-time highs, to a pandemic that has spread across the globe like wildfire. It remains a chaotic and unprecedented period in history.

The markets started March in a freefall after realizing the serious mispricing in the face of the coronavirus crisis. The discounting of the new reality was sharp and quick, resulting in the fastest bear market in history. From the all-time highs hit on February 19, it took only 21 trading days for the S&P 500 to decline 20%, the traditional threshold of a bear market. It took only 33 days from those same highs for the market to be down 35% at recent lows. The result was the worst first quarter in history.

Yet in the midst, the market also bounced with amazing speed, snapping back around a third of the drop in just three short days toward the end of the month. Again this week, the market bounced strongly, rising 7% on Monday. Hopes seem to awaken that maybe a quick snap back might occur. Unfortunately, we are likely to face some harsh economic realities in the coming weeks.

Expectations over what damage will be done to the U.S. GDP are all over the place. Estimates are ranging anywhere from a decline of -9% to -40% for Q2. That is an unbelievable variance and illustrates the lack of certainty that can be had over what is to come. Large wire houses JP Morgan, Morgan Stanley, and Goldman Sachs are predicting a -25% to -34% decline in Q2 U.S. GDP! During the 2007-2009 recession, real GDP declined a “mere” 4%.

If those numbers end up in the vicinity of such projections, it would hardly be a stretch to see an annualized GDP number in the negative double digits a few quarters from now.

In addition, it would be hard to argue with that type of outcome given that the virus has completely shut down parts of the economy. The longer the lockdowns last, the greater the potential for negative feedback loops in consumer behavior and longer-term economic damage as more and more companies, especially smaller ones, face the prospects of solvency problems.

The barrage of new initial jobless claims confirms that the scale of this disruption is unlike anything we have seen in modern history. Claims have ballooned to 6.65 million, up from just over 200,000 a month ago. Just last week, the week-over-week increase in jobless claims was over 3.3 million, easily eclipsing the prior one-week record of 695,000 in 1982.

On the plus side, policymakers have responded in a huge way with unprecedented attempts at stimulus around the world from both fiscal and monetary authorities. We know that every little bit helps, but is it enough? It might seem an odd question to ask, especially when we consider the scope of the response is in the trillions of dollars. However, the fact is, we have never had to put the economy on hold for an extended period of time before.

Additionally, the Federal Reserve in its current form can only help indirectly, using monetary policy to keep grease on the gears. Yet, we do believe the heavy lifting will be on the fiscal side as they fight to keep the gears from falling off.

With the social distancing guidelines extended through the end of April, the odds of a quick snapback, or V-type, economic recovery have been greatly reduced. It would seem more likely that we are now looking at a baseline case where an economic recovery will take months, and maybe many of them.

We are in unprecedented territory. In these uncertain times, we believe that capital preservation is of the utmost importance. We remain mostly in cash in our tactical products and continue to expect this level of historic volatility to continue as the market searches for a bottom. Remember, market bottoms are not single points in time, but rather a process.

We do recognize that markets are forward looking and will attempt to anticipate the recovery, as Monday illustrates. Our fully invested strategies are there to catch the bounces. Should this recovery find a way to surprise with a “V” shaped recovery, they will certainly get their share of the rebound. However, we also know that bad markets are filled with false rallies and, given the high volatility, we will continue to move cautiously.

TACTICAL OPPORTUNITY

Sell signals have reduced the percent invested to low levels. We own just 14 stocks. Fully loaded, we will own 35. The paring back has given us a strong group of holdings, featuring stalwarts such as Apple, Amazon, Microsoft, Google parent Alphabet, and Walmart. No stocks are immune to down days, but we like the mix we own for now.

FULLY INVESTED

ETF SECTOR ROTATION

As expected, defensive plays have held up the best. Health Care and Consumer Staples have been the two best performers since the start of March. Not too far behind in terms of holding up, Tech continues to offer products still in demand. Energy has been in an awful stretch with the collapse of oil prices, and Financials had a very tough month.

We are currently avoiding Energy, Financials, Industrials, Materials, and Real Estate. We are heavier overweight Tech and Health Care, with mild overweights in Consumer Staples, Consumer Discretionary, Communications, and Utilities.

In the broad markets, the only relatively good performer has been large cap growth. Small caps have really suffered, as small businesses will be hardest hit from the shutdown. From the Russell holdings, we only have large cap and midcap growth. Globally, we continue to favor the U.S. and have no international holdings.

EQUITY GROWTH AND VALUE

Similar story here, with much increased activity to take advantage of tax harvest opportunities and rotations. Relative performance continues to be the focus, with the emphasis on Tech and Health

Care helping. Seat belts remain securely on as we continue to move fast.

EQUITY DIVIDEND INCOME

Our activity levels have surged, as we have used the volatility to do a lot of tax harvesting and re-positioning. Relatively speaking, our stocks have held up extremely well over the past month, as we have been very underweight Energy and Financials. If the market continues to be choppy, we will continue to actively make adjustments.

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

Best regards,

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