Churchill Management Group

Monthly Market Update

July 9, 2020

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Mega Cap stocks continued to propel the stock market higher in June. The blue-chip indices were up moderately, with gains of 1.69% in the Dow and 1.84% in the S&P 500, while the Nasdaq made all-time highs after rising nearly 6%.

A concentration in a few big names has kept the market moving, especially the Nasdaq. Apple, Amazon, and Microsoft, for example, all had big leaps of greater than 10% during the month and continue to dominate the indices. Those three, along with Alphabet (Google) and Facebook, now comprise well over 20% of the weighting of the S&P 500, and more than 40% of the weighting of the Nasdaq 100.

These increases have happened despite headlines that have been filled with news of rising Covid-19 cases, especially in states that rushed to re-open their economies. Some states have paused their re-openings, while others have even rolled back their plans. For now, the market has turned a blind eye to those concerns, largely unaffected by the uptick in cases for the states that reopened. While part of the rise is due to a greater level of testing, the positivity rates and hospitalization rates have also risen – something that is a bit concerning.

While it would have seemed improbable not too long ago, it is clear today that the market has discounted at least a year out, maybe even two or three years. The thinking is likely that the fiscal and monetary stimulus is enough to carry us through the crisis to the other side of the recovery. Whether that is wise remains to be seen, as there is considerable risk whenever one discounts that far out.

Over the intermediate term, risks include the pandemic taking a turn for the worse, geopolitics, and trade wars. In the near term, the presidential election is only four months away. Joe Biden’s tax plan certainly does not look business-friendly, and polls show he has a credible chance at winning.

So far, the market has not been fazed by this either. What is clear is that stocks are "it" again – reminiscent of the dotcom period, with hot and speculative stocks up double digits with some regularity. Retail participation in the markets is clearly higher in a significant way. The work-from-home environment, commission-free trading, and stimulus money have all probably played a role.

Tech stocks have been on a tear since March, with the same names leading the entire way. Unfortunately, there has not been a meaningful expansion too far outside of that group. The stocks that jumped out in front stayed there, simply seeing some major P/E expansion and sit at very expensive levels. Biotech stocks have also been part of the leadership and have again picked up of late.

Tech stocks remain very overbought and appear due for a meaningful pause. To date, the group has not looked back as they continue to make new all-time highs on a consistent basis. Blue chips, on the other hand, have consolidated over the last month. Both the S&P 500 and the Dow have gone sideways within a range, something that is considered healthy for the market, especially after a torrid run off the lows.

We will continue watching to see how the major indices react during their pullbacks. The internals of the market, as well as the price action in the underlying stocks during pullbacks, can give some clues as to the future direction of the market. We will be on the lookout for something actionable.

TACTICAL OPPORTUNITY

Despite another positive month for stocks, buy signals have been hard to find. That is likely due to the concentration of success in the big-cap Tech leaders, which we already own. Amazon, Apple, and Microsoft were each up over 10% since June 1 from what appeared to already by overpriced positions. We continue to be on the lookout for new additions.

FULLY INVESTED

ETF SECTOR ROTATION

May's reversal from Growth to Value reverted once more back to Growth in June. Tech stocks stepped out to the front, while Financials and Energy – big winners in May – were down for the period of June 1 through July 4.

For one week in June, Tech was the only sector that outperformed the S&P, meaning that 10 of the 11 sectors lagged for that period. We do not recall ever seeing that before.

Even since June 1, only three of the sectors outperformed the market, while eight lagged. Joining Tech were Consumer Discretionary (where Amazon is), then Materials. However, big Tech was the clear leader.

During the month, we sold our small holding in Energy, moving it to a neutral position. We remain primarily overweight Tech, followed by holdings in Health, Consumer Discretionary, Communications (Alphabet), and Consumer Staples.

In the broad markets, Growth and Large Caps stepped back into the lead, after Value flirted with taking over in May. Value stocks have been flat to down over the past six weeks.

No change in our broad market holdings. Globally, we opened a position in Emerging Markets this week, but continue to prefer the U.S. to Europe. As a reminder, internationals have had many false starts over the past decade, so we will watch closely for a reversal.

EQUITY GROWTH AND VALUE

The Mega Caps keep getting bigger, with impressive months from holdings in Amazon, Apple and Microsoft, just to name a few. A few other Tech-oriented names, such as semiconductors, produced big months. Otherwise, it was a mixed bag, with the remainder of the holdings largely moving from slightly up to slightly down.

EQUITY GROWTH OPPORTUNITY

Leadership in Technology and Biotech continues as the stay-at-home theme is providing a boost to these sectors. The portfolio has benefitted from some big gainers in Technology such as Fastly, Inc, Docusign, and Zoom. Fastly nearly doubled in June, providing a big boost to the portfolio. We are actively assessing the longevity of the stay-at-home plays as they are rapidly ascending, however we feel comfortable with the current overweight allocation in Technology at this time.

EQUITY DIVIDEND INCOME

Absent a high percentage of Tech stocks, dividend indices were down some 3% since the first of June, pulled down by weakness in Energy and Financials. Our model is currently light in those categories. Activity remains subdued while dividend stocks attempt to find their place in the Growth environment.

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

Best regards,

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