Churchill Management Group

Monthly Market Update

October 15, 2020

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

After a torrid, V-shaped rebound off the March lows, the markets finally corrected in September, with the major indices dropping from 9% to 13% before rebounding nicely to start October.

The Dow, S&P 500, and Nasdaq corrected for most of September, which historically happens to be the market's worst month. The Dow, S&P, and Nasdaq fell 9%, 11%, and 13%, respectively, from their highs before bouncing off from what had become quite an oversold condition. The big question is whether that correction ultimately becomes part of a topping process or is simply a much-needed pause before more upside resumes.

The pace of the recent correction and recovery has been around five weeks, and the snap back has yet to hit new highs. Though there has been much talk about a market bubble, this correction and recovery has been moving slower than the average bubble time correction and recovery.

We are hoping the current bounce will offer some clues about what is next for the market. For months, there has been talk of a rotation from growth to value or from Tech to other sectors. The picture there remains mixed. Breadth on the NYSE has made new highs and there has been an increasing number of stocks breaking out. We have also seen some rotation into the smaller cap stocks. Both the small caps and midcaps have made new highs in the rally. Yet, to start this week, it was Tech that snapped back to lead yet again.

With under a month to go until the elections, we would expect an uptick in volatility. One of the big things to watch will be the Senate race, which is likely just as important as the presidency, especially if Biden wins. He will need a majority in the Senate to push through his tax agenda, which could pose a headwind for the markets, if not now then down the road.

Valuations are clearly still high on a relative basis, even adjusted for the low interest rates. When many of the very expensive, large cap tech names lagged in the initial parts of this bounce, it could be an indication that valuations still matter in this market.

Recently, the market has been trading on the prospects of another fiscal stimulus package – rising when the prospects of a deal improve; declining when a deal seems less likely. Additionally, the Federal Reserve has signaled there could be an upcoming change to its balance sheet. The talk is of another increase to its overall size and an increase in its monthly purchases. Markets cheered the news as more fiscal and monetary policy is always welcomed by the markets.

It is clear that markets have only defied the economic disaster brought on by the pandemic with help from both Congress and the Fed. Therefore, it bears watching what comes next from the monetary and fiscal authorities.

Still at play are a range of risks that can put a ceiling on how high stocks go. Among them are the presidential election, the Senate race, geopolitics (especially with China), valuations, and delays with the vaccines and their implementation.

We continue to believe that a measured approach is best. We are mindful of the risk, but also aware that policy can drive markets farther than most would think. We will continue to watch closely what many expect to be a much more volatile period over the next few weeks.

TACTICAL OPPORTUNITY

At present, a mix of growth and value has been an effective theme here. LyondellBasell, Archer Daniels Midland, and Eastman Chemical are examples of value holdings combined with long-time growth positions such as Apple, Amazon, Microsoft, and Alphabet. Some small additions were made as we watch to see where sustainable leadership might emerge or re-emerge.

FULLY INVESTED

ETF SECTOR ROTATION

The market has been flirting with a rotation from growth to value since the start of September. With the S&P down since Sept. 1, large cap value has been up and has outpaced large cap growth. The undisputed leading sector of the year, Tech, took a breather during September, but has bounced back this week. It is a similar situation for Communications, one of the years other top performers.

Utilities have been on a nice run, but no buy signals yet. Energy continues to struggle, down 13% since the start of September. We have been methodically moving to a more neutral position over the past several weeks, cutting back some Tech and other leaders, replacing them with the likes of Industrials and Materials. We will continue with a more neutral mix of growth and value until a clearer leadership picture emerges.

For the first time in a while in the broad markets, value has sustained a leading role. Many times, it flirted with prominence, only to yield to Tech and growth. As a result, we have broadened our positions in the models, holding the Russell-style groups as an option.

For Internationals, both Emerging Markets and Europe were up about 1% over the past six or so weeks. We are long Emerging Markets, but have no European position yet.

EQUITY GROWTH AND VALUE

The rotation was quite evident in individual stocks as well. Apple, which had been on a tear, is 12% off its highs – and that is after a snapback rally. Other top leaders, such as Amazon, Microsoft, Facebook, and Alphabet have also backed off a bit, in what was probably a needed rest. Here too, we have been rotating from growth to value for several weeks. Positive results on the value side of the ledger came from holdings in Industrials and Materials, such as Eastman Chemical, LyondellBasell, Archer Daniels Midland, and Caterpillar. We will continue to monitor and rotate as needed.

EQUITY GROWTH OPPORTUNITY

Despite the volatility in September, the portfolio had little changes. We took some gains on Netflix, Inc. to reduce some large-cap technology exposure but the stay at home technology related plays have continued to perform well. The likes of Amazon, Apple, DocuSign, and The Trade Desk have been the stalwarts of the portfolio. We feel the portfolio is well allocated with a lean towards growth and some metals and lower beta plays to hedge out some volatility.

EQUITY DIVIDEND INCOME

For the first time in a while, dividend stocks outpaced Growth stocks in our monthly review. Newell Brands, HanesBrands, Target, UPS, along with the aforementioned LYB and EMN, highlight the positive movers. We expect continued weeding while keeping an eye on Financials for buy points.

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

Best regards,

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