Churchill Management Group

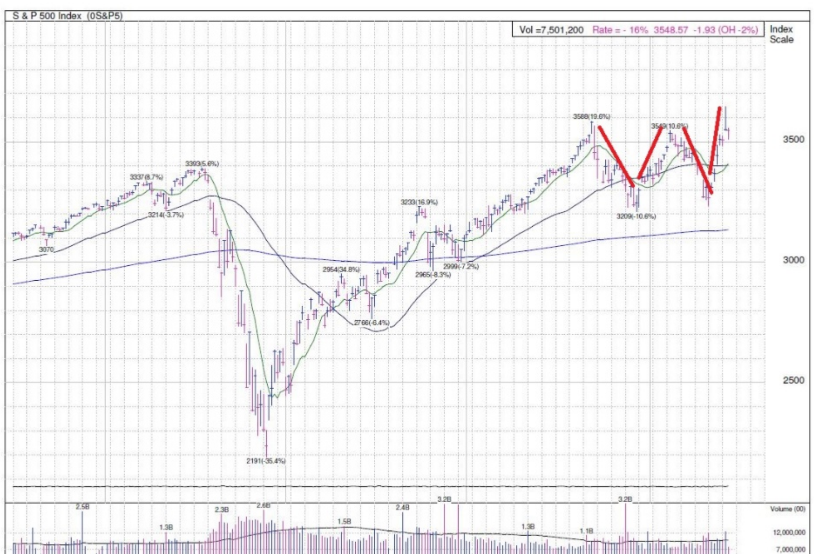
Monthly Market Update

November 11, 2020

TACTICAL STRATEGIES

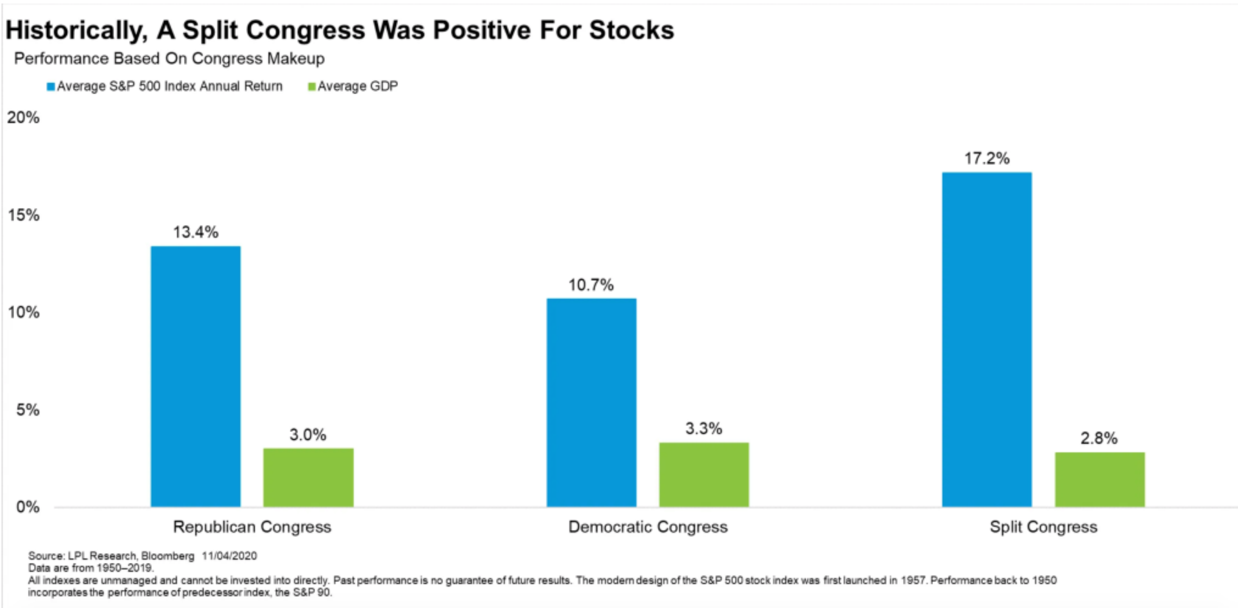
PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Markets continued to move back and forth, first declining in October before apparently breathing a sigh of relief over the election and then rallying on some positive vaccine news from Pfizer.



Thus far, concerns over the election damaging stocks have not come true. While some of the outcome has yet to be declared, it seems fairly certain that the Democrats have won the White House, while Republicans are likely to keep the Senate.

Wall Street does not like uncertainty, especially with potential changes on the tax and regulation front. However, with a divided Congress, it is unlikely that things will radically change over the next two years. As a result, markets cheered a gridlocked Congress, as that will likely create some stability for the next couple of years in terms of taxes and prevent any major changes from the legislative branch. In addition, markets have historically favored a split Congress.



The market's initial positive reaction to a divided government retraced most, if not all, of the losses from October. Most expected volatility to pick up around the election and that is what we got, both on the downside and upside. Heading into this week, the major indices were sitting at the upper end of the price ranges they have been trading in since September. On Monday, the indices rallied further and gapped up in a big way, with Pfizer reporting that its vaccine candidate was 90% effective with little side effects.

While the initial reaction to the elections and vaccine news has been positive, markets are still not out of the woods just yet. The Senate race is not over and the timeline for the vaccine is still Q2 or Q3 of next year.

Regarding the Senate race, there are two runoffs, both in Georgia. The state of Georgia requires a majority win for each candidate, and both winners failed to eclipse the 50% mark. As such, we will now see a run-off to determine the winner for both Senate seats in Georgia. The history of run-off elections shows that there tends to be an extra element of unpredictability. There is usually less participation, and simply adding up votes by parties has not been reliable.

The run-off elections in Georgia are not expected to be held until January. That likely means more campaigning, adding an element of uncertainty until then. That also likely means we will not see a fiscal stimulus package until that is determined. Republicans are expected to win at least one of the seats they need to hold a senate majority, but if we have learned anything about politics, it is that nothing is that predictable.

On the vaccine front, the news is positive. However, the timing of when things will get back to "normal" is not until the back half of 2021 at the earliest. Estimates for mass distribution of the vaccine are for the second to third quarters of next year. From there, it will be another quarter or two for normalization to take hold, depending on the uptake to vaccines in general. Additionally, there are still risks. Even Pfizer's vaccine results are preliminary and its efficacy across the subsets, such as for the elderly and other high-risk groups, is still unknown.

We have been in a relatively neutral position over the past few months in our tactical strategy. The vaccine-induced rally was a positive event that saw markets gap up above their September highs. While a breakout above a trading range is a positive sign, most of the indices ended at their lows for the day and failed to make a closing high.

With the recent volatility, both up and down, a good case can be made to remain in that neutral position until the dust has settled with both the election and the current trading range. We will continue to monitor our indicators for any material changes to the market, adjusting as needed.

TACTICAL OPPORTUNITY

Since the first of October, leaders have come from different areas: Applied Materials in Tech, LyondellBasell Industries and Eastman Chemicals in Materials, JPMorgan Chase in Financials, and Alphabet in Communications, just to name a few. A moderate amount of cash remains in the portfolio as the model is not receiving many buy signals.

FULLY INVESTED

ETF SECTOR ROTATION

Beaten-up Value areas have leapt to the front in the past week. Will they stick this time? In October, markets were slightly down before jumping in the first days of November. Since the election news and hints at a vaccine, Value plays have led. Energy and Financials had huge up days on Monday. Other Value plays, such as Materials and Industrials, also spiked.

With Monday's rally, Tech and Consumer Discretionary are now up since Oct. 1, though not as much in the latest attempt at a flip-flop. So far this year, there have been several attempts by the Value sector names to emerge as leaders, with none of them holding.

Our model has been neutral for a couple of months now. We remain overweight Tech and underweight Energy. We also hold positions in both Growth, like Communications, and Value, such as Industrials and Materials. Right now, the model is unclear as to which areas/sectors will sustain leadership.

In the broad markets, we also recently added holdings in Large Cap Value, as well as a position in Small Cap Growth. If the rotation holds, we would expect more buys to emerge in the Value and Small Cap areas

On the international front, we are in Emerging Markets. We are not in Europe yet, although the group has been looking much more positive over the past two weeks.

EQUITY GROWTH AND VALUE

The big leaders, including Apple, Amazon, and Microsoft, have held up but have lagged in the recent Value surge. Alphabet broke out at the end of October. Big months also came from a diverse group of stocks, such as Caterpillar, Ingersoll Rand and, more recently, Starbucks. Recent moves to diversify the portfolio across sector categories have been helpful as the market decides which areas will lead.

EQUITY GROWTH OPPORTUNITY

The portfolio rode a strong wave via technology stocks throughout the year and we are seeing swift rotation out of that sector due to the vaccine news. Stay at home technology names are not in favor this week while epicenter stocks, ranging from travel, energy, and retail are seeing huge gains. We have a close watch on adjusting the allocation in the portfolio but want to see the dust settle after the big news this week. We may make some interim swaps to soften the beta in the portfolio while waiting on further moves depending on how this rotation plays out.

EQUITY DIVIDEND INCOME

The rotation toward Value stocks was especially noticeable in the Dividend stocks. Stable winners, including Target and UPS and other more stay-at-home leaders, lagged somewhat. Meanwhile, recent additions in Financials (particularly banks) and Materials really spiked. Examples include JP Morgan, KeyCorp, Prudential, and Newell Brands.

Despite Monday's surge in Energy, we have remained very light in that category. We will keep an eye to see if the group provides an upward trend that can last. Year to date, rallies in the group have failed.

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

Best regards,

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