Churchill Management Group

Monthly Market Update

January 12, 2021

# TACTICAL STRATEGIES

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## PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

The astounding resiliency of the stock market continued through the end of the year and into the new one. Major indices have reached all-time high territory despite the lingering pandemic and recent political unrest.

News headlines had proclaimed fear that markets could come under pressure if Democrats were able to take both Senate seats in the recent Georgia runoff elections. However, those concerns have not played out despite narrow victories in both races by the Democrats. The Senate is now split literally 50/50, but the Vice President has the tiebreaker which gives Democrats the ability to push through Biden's agenda.

The market's reaction seems to reflect a more benign tone, as opposed to one of concern. Maybe because historically a split Senate has resulted in a more conciliatory tone, with the tie opening both sides to more negotiations. On the other hand, it could be an example of the market taking a "show-me" approach which would make a case to follow the administration's actions closely.

Either way, the market's never-ending march higher has begun to exhibit some signs of froth, with bubble-like action seen in many individual stocks. We have seen moves in the double-digits become almost common on a daily basis without any news even pushing the stocks.

As an example, a new fervor has hit Wall Street in what are called SPACs (Special Purpose Acquisition Company). The frenzy over the group brings back memories of the dotcom IPO craze of the late 90s. SPACs are publicly traded shell companies created to raise capital to acquire other companies. This model is essentially being used to quickly take private companies public via reverse mergers rather than the traditional IPO process, which can be more arduous.

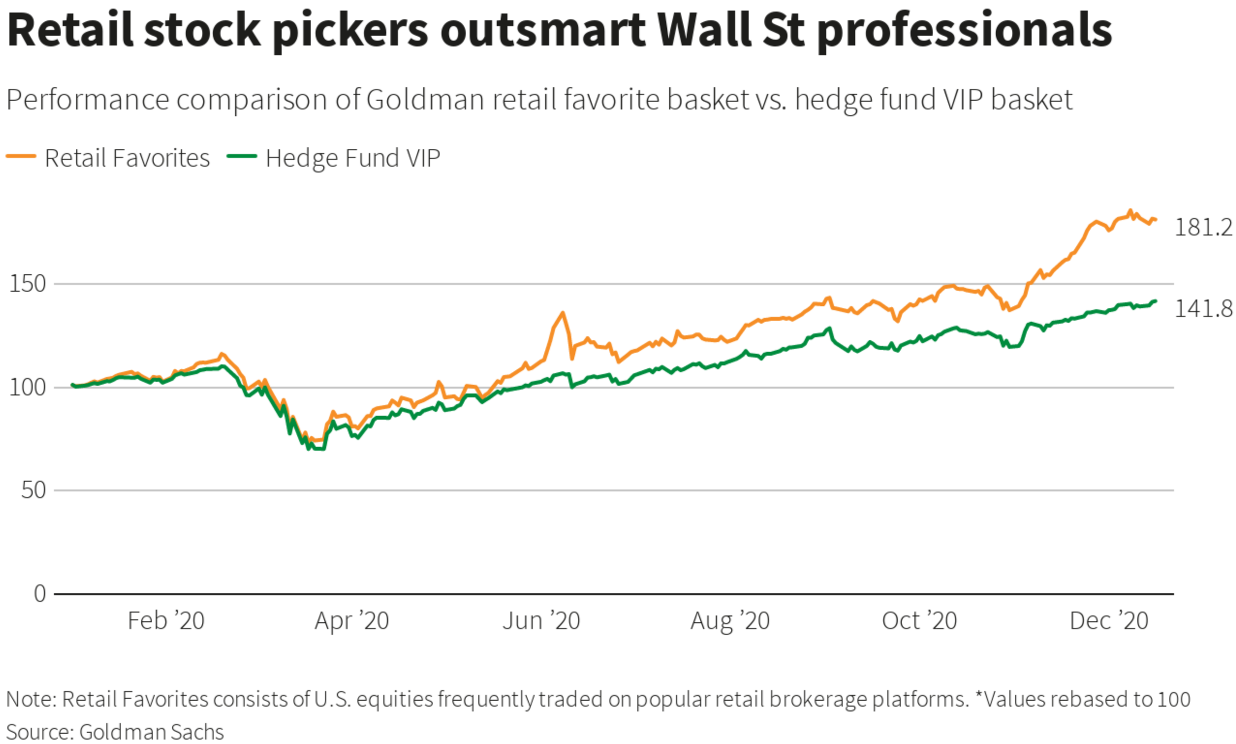
According to Goldman Sachs, the 219 SPACs listed in 2020 raised a cumulative $73 billion, eclipsing the $67 billion raised through traditional IPOs.

**Exhibit 1: SPAC IPO volumes have surged in 2020**
as of December 16th, 2020


Source: Dealogic, Goldman Sachs Global Investment Research

The allure of the triple-digit percentage gains that can occur following the acquisition of a company are likely driving its popularity. Unlike IPOs where these types of gains are also common but only connected investors can participate, individual investors can get a slice of the SPAC pie, although the targets are unknown.

Another late 90s reminder is that retail investing is back in vogue. Estimates indicate that they now account for 20%-25% of the current trading volume, a much higher than normal number. No doubt, the pandemic likely has a lot to do with the uptick in trading activity, as people are stuck at home with their computers and like the action. In addition, overall market success is probably also contributing.




We are very mindful that, historically, periods of euphoric retail participation have not ended well. However, they can first last for extended periods and go farther to the upside than one might anticipate.

If this is indeed a bubble, one can expect double-digit corrections followed by sharp recoveries as a hallmark of such times. Meaning, keep the seatbelts on even as there is money to be made in the markets.

While the fundamentals continue to show a historically expensive market and sentiment remains at bullish extremes, neither are great indicators for short-term market timing. Rather, they simply foreshadow that there is froth in the market that will one day be normalized.

For now, the technical conditions remain favorable for a continuation of the rally. Record low rates, asset purchases from the Federal Reserve, and retail participation all add up to drive demand for stocks higher. We are currently participating but will continue to keep a close eye on the internal action in this market.

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## TACTICAL OPPORTUNITY

Some recent additions, combined with a scarcity of sell signals, led to a high percentage invested. Additions in Flir Systems and Invesco QQQ have performed nicely. We also saw good pops in

Applied Materials and Mohawk Industries. For now, a good mix of solid stock holdings and ETFs is performing well.

# FULLY INVESTED

## ETF SECTOR ROTATION

A strong market run over the past few weeks was led by earlier laggards Energy and Financials. However, we have seen very broad participation, with Tech, Consumer Discretionary, Health Care and Materials outperforming the general market as well. Only Utilities and Real Estate have been negative, likely because yields have gone up. We maintain a generally neutral stance as the market tide is lifting most boats.

The Russell-style groups, particularly Small Caps, have been participating especially well. Small Caps have been up some 15% since the start of December. While through most of 2020 we were content to be primarily in the S&P, we are now invested in all categories – Large Caps, Small Caps, Midcaps, Growth and Value.

The rally has also been strong for International holdings, which have been outperforming the United States. At present, we have a green light on all our International holdings.

## EQUITY GROWTH AND VALUE

Efforts to broaden the portfolio over the past few months have been paying off. While for most of 2020 the story had been the biggest five stocks in the S&P (Apple, Microsoft, Amazon, Alphabet, Facebook), the tale of 2021 has been more inclusive. Of the big five, only Apple has outperformed the market since December 1. Flir Systems and Mohawk Industries saw big jumps in the portfolio. For the most part, strength has been solid across the board. While the market remains positive, we expect only light weeding.

## EQUITY GROWTH OPPORTUNITY

December capped off a successful year-end for the portfolio. We still have an overweight in Tech but our rotation in November to broaden exposure and include recovery plays in Uber, Ingersoll-Rand, and Southwest Airlines, are working out as hoped. We have a close watch on some big gainers in the portfolio and may be tightening some trailing stops to secure some big gains. Nonetheless, the up-trend remains in place at this time.

## EQUITY DIVIDEND INCOME

Unlike most of 2020, when dividend stocks were having trouble keeping with the growth story, the group has done well, and then some, over the past several weeks. Financials, such as JPMorgan Chase, KeyCorp, Franklin Resources and Comerica, have helped lead the way. NetApp, LyondellBasell, and HP also delivered big pops. The plan is to continue to go with the flow while trends remain positive.

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

Best regards,

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