Churchill Management Group

Monthly Market Update

March 9, 2021

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

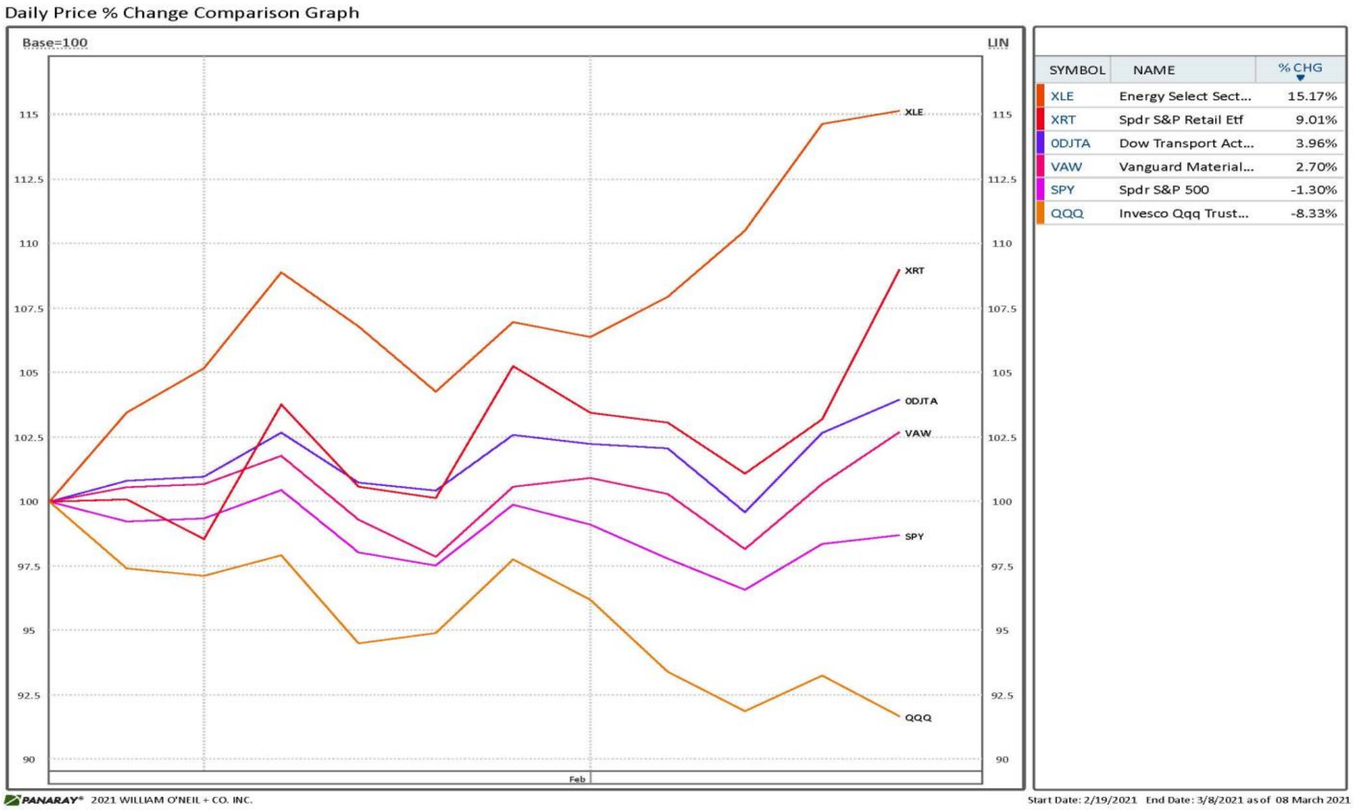
The stock market experienced its first significant bout of selling since the fall. The damage, however, was mostly confined to Tech and Growth related names.

We saw the Nasdaq slide into an intermediate correction, defined as when an index falls over 10% but less than 20%. From the highs to the lows, so far the Nasdaq has experienced a 12.5% pullback, though many of the hot names fell even more.

The other two major indices – the Dow Jones and S&P 500 – saw a smaller decline, only slipping 4.5%, or about one-third of the Nasdaq's fall.

On the surface, the action appears to reflect a big rotation from the high-flying Growth names over to many of the recovery stocks, most of which are considered Value plays.

The drastic performance difference between the Nasdaq and the Dow and S&P 500 appears to support this view, at least for now. In addition, groups like Retail, Energy, Materials, and Transportation were all up for the last week despite the volatility.



The case for the recovery stocks is more compelling today than it has been for some time, especially with Biden's announcement of having enough vaccines for all adults by the end of May. That news has pulled forward expectations for the recovery, with many now expecting a robust second half this year.

Along with expectations for a heated economy came higher interest rates. We saw the 10-year Treasury move higher, from 1.17% to 1.55% over the last month.

It appears many investors are concerned about inflation. The rationale is that there will be pent-up demand once the economy reopens. In addition, that excess demand will run up against reduced supply from the pandemic, resulting in higher prices as more money chases fewer goods. Also, supply will likely take some time to catch up.

Federal Reserve Chair Jerome Powell discussed this exact subject in his interview with the Wall Street Journal last week. He clearly stated that he expects inflation to rise on the reopening of the economy but believes higher inflation will be transitory and not something persistent over the longer term. Disappointed he did not hint of any actions to combat the spike in yields, markets sold off even more after the interview.

Powell did, however, again reiterate the Fed's view that rates are likely to stay lower for longer, saying the Fed would be patient with inflation running hot for longer because they believe it will be transient.

In sum, while the Fed has not yet moved to become more stimulative by fighting rising rates, it remains committed to leaving financial conditions relatively easy. It is aware of the Fed's historical penchant to kill bull markets by tightening too much, too fast. The Fed will likely take it very slow this time around.

The rout that has taken place with many leading Growth names was not unexpected, as fast and sharp corrections are emblematic of frothy markets. They also tend to recover quickly if there is much more upside ahead. Whether Growth names recover quickly or not will tell us a lot about this market and whether we could be in a topping process.

We are quite mindful that the rotation could also have legs, as the recovery is right around the corner and that could extend the bull market – just in a different area of the market. We will keep our eyes peeled for more clues in the coming weeks and are prepared to act as necessary.

TACTICAL OPPORTUNITY

Despite market volatility, our mix of holdings has been generally holding up well. The biggest laggards have been Amazon, Microsoft, and Apple, which are likely taking some needed breaks.

Our rotation to Value has been paying off, with big months from holdings like Chevron, JPMorgan Chase, and Mohawk Industries. We will continue to rotate as necessary, but right now are comfortable with our current mix.

FULLY INVESTED

ETF SECTOR ROTATION

The market's ride through the volatility has remained positive, thanks to the more cyclical reflation sectors. By far, Energy leads, surging over 30% since the first of February. Financials are also on a torrid pace, up over 15% since February 1 as the group benefits from a recent spike in interest rates.

Sticking with the theme, Materials and Industrials also were strong, while Tech and Consumer Discretionary lagged.

In terms of leadership, we are literally 180 degrees from where we were last summer. Over the past few months, our model has been shifting from Growth to Value. We are overweight Energy, Financials, Materials, and Industrials.

In the broad markets, Value has substantially outpaced Growth. For example, Small Cap Value is up 15% since February 1, while Small Cap Growth is down 4%. Our model is leaning Value, with some Growth holdings as well.

Internationally, Emerging Markets have been lagging the U.S. over the past few weeks after a hot run, but we still have a green light there, as well as on European holdings.

EQUITY GROWTH OPPORTUNITY

We made some adjustments to the allocation over the last month. We reduced longtime winners in The Trade Desk and Roku and added some Energy and Materials names in Suncor Energy and Allegheny Technologies. We have had an emphasis on rebalancing during this rotation turmoil and have a sharp eye on remaining Tech holdings should they break below our stop levels. The general market indices remain strong but we are seeing that new leadership is arising and old winners in technology may not resume their leading ways just yet.

EQUITY GROWTH AND VALUE

Riding the Value trend has worked well here. Over the past several months, we have successfully replaced Growth with Value. Banks, Energy, and Material holdings have been leading the way. We expect minor weeding, but otherwise will continue to go with the flow of the market.

EQUITY DIVIDEND INCOME

The Value play has positively impacted the dividend holdings, even in the face of a rising 10-year yield, which can often negatively impact the group. Double-digit jumps since February in Energy and Financials have led. With Value leading Growth right now, the dividend group is showing why it can fit in well as part of a long-term plan.

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

Best regards,

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

** This report is meant to inform the reader of our current market opinion, which we, as professional money managers, use in our decision-making. It should be noted that stock market and bond market data are subject to varying interpretations and any one interpretation will not necessarily guarantee investment success. The information obtained from the sources specified herein and used as basis for our current market opinion is believed reliable, but we do not guarantee the accuracy of such information.