Churchill Management Group

Monthly Market Update

May 11, 2021

TACTICAL STRATEGIES

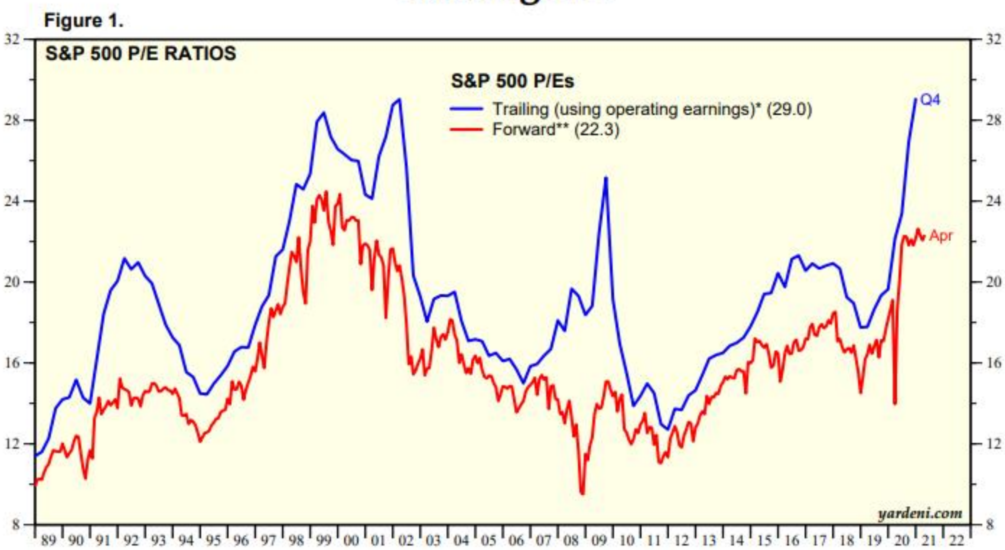
PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Behind ample support from loose monetary policy and multiple rounds of fiscal stimulus, markets have continued to grind higher since the start of April. A rebounding economy and government support have kept incomes and savings high and enticed investors to continue to add money in stocks, pushing prices higher.

Rotation continues to be a theme under the hood, with leadership continuing to flip flop between a growth and value story. Last year, growth led for most of the year. With the onset of vaccines in the fall, value emerged as the leader into the New Year. In April, both did well, but tech-led growth outperformed. Value is back to leading again so far in May. For our strategies, this back and forth has meant playing it more down the middle with holdings in both growth and value.

Behind massive stimulus, the early returns for the market rebound came from an increase in the price/earnings multiple. From 2019 to today, the trailing p/e (using operating earnings) multiple on the S&P 500 expanded from 18 to 29, making up some 90% of returns. Using the forward p/e ratio, it has accounted for 70%. It is a high percentage of the market's return no matter which one is used.

Trailing P/E



* Using quarterly average of daily data for S&P 500 price index, and 4-quarter trailing operating earnings (I/B/E/S data).
** S&P 500 stock price index divided by S&P 500 12-month forward analysts' consensus expected operating earnings per share.
Source: I/B/E/S data by Refinitiv and Standard & Poor's.

Enter earnings to keep the party rolling. The current earnings season has seen a record 87% percent of S&P 500 companies beating their estimates and has analysts scrambling to revise future estimates upward. It seems everyone has been pleasantly surprised by the speed of the recovery, though the economy still has some work to do to get above where it was pre-covid.

Concerns over inflation appear to be the biggest investor concern. The topic of increasing input costs has been front and center over recent months as commodity prices have skyrocketed. Companies that can are passing those cost increases on to consumers as the prices of copper, lumber and food costs have soared.

One of the big reasons for increased prices of many commodities is a direct result of capacity reductions during the pandemic. It is becoming increasingly clear that the damage to the supply chain from the pandemic is rearing its head in the form of higher prices.

For many industries, it is not that there is a shortage of materials. With lumber, for example, rather than a shortage of trees, the issue is that not enough mills are running at full capacity to produce what the market is currently demanding. The shortage of labor and the time it takes to ramp back up to full capacity are the primary reasons for the big jump in prices.

The Federal Reserve is banking that much of the inflation we are seeing will be transitory, the result of supply bottlenecks that should be temporary. In addition, the Fed has maintained a steadfast commitment to allow the economy to overheat rather than risk removing the stimulus before the recovery takes hold.

One risk to this view is that even labor has witnessed a spike not seen in almost 40 years. In addition, wages are very sticky – no one likes to make less in the future. The Fed will likely be watching inflation very closely.

For now, the market continues to look good. Big Tech bounced back after correcting earlier in the year, but the previous highs have acted as an area of resistance. Breadth has confirmed the new highs on the S&P 500 and the Dow Jones Industrial Average, showing widespread participation – a sign of a healthy rally. Some bumps along the way would not be unexpected given the nice increases we have seen.

As always, we will keep a close eye on these factors and make any changes as needed.

TACTICAL OPPORTUNITY

Despite some lag in Tech, plenty of nice moves in other areas made up the difference. Our metals and mining XME ETF showed strength. Other big runs since April 1 included Philip Morris, Alliance Data Systems and Mohawk Industries. Positive results have led to light activity.

FULLY INVESTED

ETF SECTOR ROTATION

After a couple of months with growth in the lead, value moved back in front. Marking a solid April, all sectors were up for the month. Since April 1, Materials have led, followed by Financials, thanks to a surge last week. Tech and Utilities lagged.

We remain in a diverse position, with neutral to overweight positions in Financials, Materials, Industrials, Consumer Discretionary, and Communications. We have additional weightings in Tech. and Health.

The broad markets generally lagged, with only large-cap and midcap value doing better than the S&P. Small caps struggled, but did not flash a sell signal. Internationals have been up, but slower than the U.S.

EQUITY GROWTH OPPORTUNITY

April was a rather quiet month for the portfolio as we had relatively little churn. The markets appear calm on the surface but noisy underneath as rotation continues from growth to value and technology to cyclicals among others. We have broadened out the exposure within the portfolio because of this and are eyeing diversifying the allocation further if needed. April was another reminder to stay patient and diversified in 2021 as the leadership bounces from group to group.

EQUITY GROWTH AND VALUE

We have seen solid gains across the board, complemented by some big names like Alphabet and Home Depot. Financials, such as Wells Fargo and Franklin Resources, also rose nicely. Materials and Industrials also popped. Few changes have been made as the group continues to ride the wave for now.

EQUITY DIVIDEND INCOME

As good as the month was for the S&P, it was even better for dividend stocks, with returns topping 20% since April 1 for the likes of UPS and The Chemours Company. Many delivered double-digit gains, including Prudential Financial, Keycorp, Seagate Technology, and others. It continues to be a surprisingly good year for dividend stocks.

RISK BLENDED STRATEGIES

Our Risk Blended Strategies are a combination of both Premier Wealth Tactical Core and ETF Sector Rotation. Please see the above commentary for more information on each strategy.

- **Churchill Moderate:** 70% Premier Wealth Tactical Core / 30% ETF Sector Rotation
- **Churchill Moderately Aggressive**: 50% Premier Wealth Tactical Core / 50% ETF Sector Rotation
- **Churchill Aggressive:** 30% Premier Wealth Tactical Core / 70% ETF Sector Rotation

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

Best regards,

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