Churchill Management Group

Monthly Market Update

June 8, 2021

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

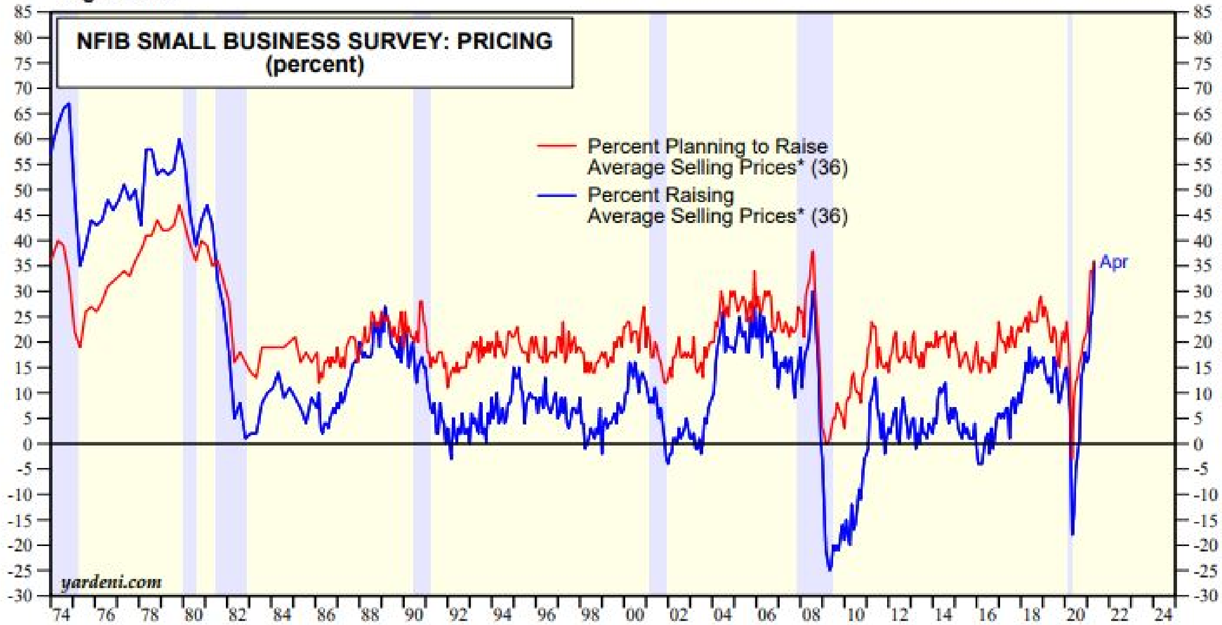
Markets were little changed, but the focus remains firmly on the recovery, inflation, and both fiscal and monetary policy. The Dow Jones Industrial Average managed to eke out a 1.93% gain in May, but the S&P 500 was essentially flat, with a 50 basis-point gain. The Nasdaq slipped 1.5%. Tech stocks have come back and are again near all-time highs. However, clearly some resistance exists.

The narrative remains focused on the pent-up demand that has outstripped the recovery in a supply chain significantly hampered by the pandemic. Getting the supply ramped up again will take time, meanwhile that imbalance is causing prices to rise. We are seeing manufacturers grappling with acute shortages of basic materials, rising commodities prices, and difficulties in transporting finished goods.

With low inventories and brisk sales, the opportunity to raise prices is open, and companies are taking advantage of that opportunity. A recent poll from the National Federation of Independent Business (NFIB) Small Business Index showed that 36% have raised prices, with another 36% planning on doing so.

Small Business Survey

Figure 13.



* First month of every quarter from 1974 to 1986, then monthly.
Note: Shaded areas are recessions according to the National Bureau of Economic Research.
Source: National Federation of Independent Business.

While most of the price increases attributed to supply chain bottlenecks should be temporary, the one area that could shape longer-term inflation expectations are wages, which tend to be very sticky. The amount of fiscal stimulus pumped into the economy because of the pandemic has acted as a de facto pay raise, where some employees were paid more to stay home than to go back to work.

All the stimulus checks and generous unemployment benefits have provided the means to get by, reducing the urgency to get a job. It has slowed the pace of employees coming back to the workforce, leaving many businesses facing the dilemma of whether to entice workers back by offering more incentives. Bonuses and other one-time enticements are being used, but so are wage increases. The latter is more permanent, and could lead to higher long-term inflation expectations.

There is little wonder why Wall Street is so fixated with inflation. Expectations of rising inflation is something the Federal Reserve will have to react to and address. The Fed will do so by reducing its accommodative stance, likely by raising rates and/or reducing asset purchases.

Since the price of a stock is the summation of the discounted cash flow in perpetuity, rising rates would likely put a damper on P/E expansion, as a higher discount rate would reduce valuations.

In a rising rate environment, Value stocks tend to outperform while Growth stocks lag. In general, low-growth companies tend to operate in mundane essentials, more easily giving them the ability to pass on costs. Growth stocks underperform as the higher discount rate stunts their valuations.

While inflation concerns are there, it is far too early to know with certainty whether that scenario will ultimately unfold. For now, the environment remains very accommodative. Interest rates are still at historically low levels, and the Fed is still buying $120 billion in assets every month. We have seen trillions in fiscal stimulus, with more trillions in tow.

All that translates into an environment of easy money, continuing to be a boon for equities and asset prices everywhere. We remain bullish, but will keep a close eye on anything that may change the status quo.

TACTICAL OPPORTUNITY

This model is also riding the market's positive tide. It was the big names, like Apple, Amazon, and Home Depot, which have lagged. However, the slack was more than made up by winners spurred by the economic re-opening trends, such as Citibank, Materials (XLB ETF), Metals & Mining (XME ETF), Lumen Technologies, and Eastman Chemical. No significant changes are expected.

FULLY INVESTED

ETF SECTOR ROTATION

The rotation among leaders continues, with a flip back to Value since May 1. Energy, Financials, and Real Estate lead, while Consumer Discretionary and Utilities have lagged. We continue with broad holdings, leaning toward Value.

The model is overweight Energy, Financials, Industrials and Materials, with a near equal weight in Tech. We have slight underweights in Consumer Discretionary, Communications, and Health. The broad markets reflect the performance of trades within Value. Small Caps among Value stocks performed best, while Small Caps among Growth fared the worst. However, the gap was not too wide.

Globally, Internationals outperformed after having lagged for a couple of months. We maintain a green light for both Europe and Emerging Markets.

EQUITY GROWTH OPPORTUNITY

We are seeing continued sideways action from the indices in addition to a rotation underneath the hood. May gave us some bounce back within our Energy and cyclical names while the Tech stocks largely went sideways. We have stayed patient with limited activity in the portfolio as many of the holdings are taking turns doing the leading. Until we get some more clarity from the sideways market and momentum from any specific sector, we will stay the course and remain patient with our holdings.

EQUITY GROWTH AND VALUE

In May, we saw mostly positive results in a slightly positive month for stocks. In addition to big gains for Financials like Franklin Resources and JPMorgan Chase, chip sectors names such as Nvidia and Applied Materials showed strength. We also saw solid jumps from Materials, Energy, and Industrials.

EQUITY DIVIDEND INCOME

It remains a good year for yield-driven stocks. When Energy, Financials, Materials, and the like are moving, the dividend stocks found in these sectors are rewarded. We anticipate only light weeding as we let this tailwind carry the group.

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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