Churchill Management Group

Monthly Market Update

July 14, 2021

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

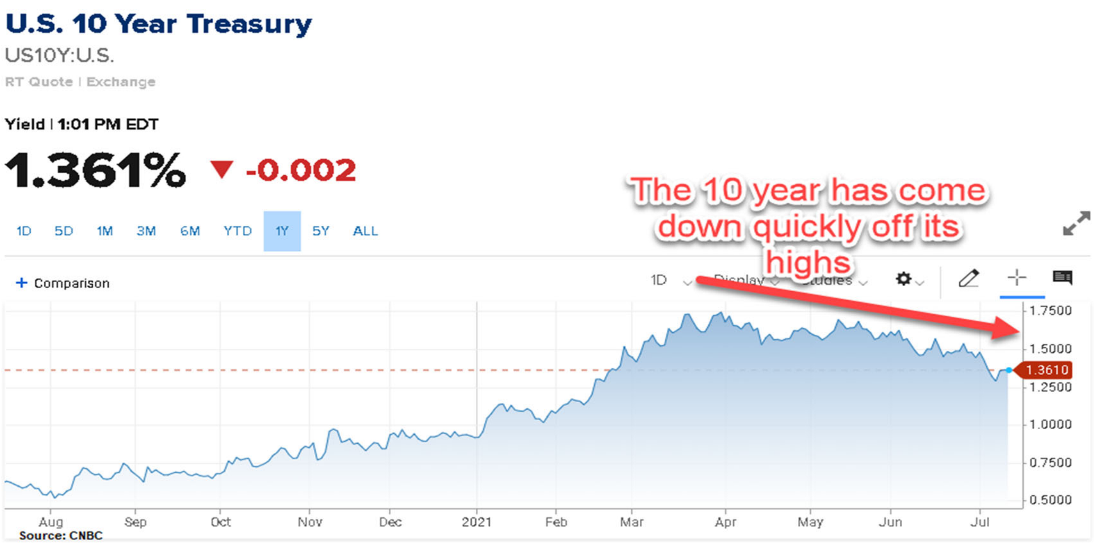
Stocks have continued to grind higher since the beginning of June, with all the major indices hitting new highs.

The biggest debate within the markets has been whether inflationary winds will cause trouble or not. There is no arguing that inflation has reared its head, but the question is over whether it is temporary or longer term, the latter being something that becomes a bigger problem.

The argument for longer-term inflation stems from the government printing money at a never before seen pace. The massive stimulus packages and enhanced unemployment benefits that resulted from Covid have flooded the economy with cash. The safety net for workers has grown and employers have been forced to respond with higher wages to entice employees back to work. This has led to higher wages which have a way of sticking around and creating inflation.

On the transitory argument, we know that the stimulus check programs are ending and much of the supply problems are temporary. Companies ramping their production back to full capacity takes time and once that is done supply should catch up to demand.

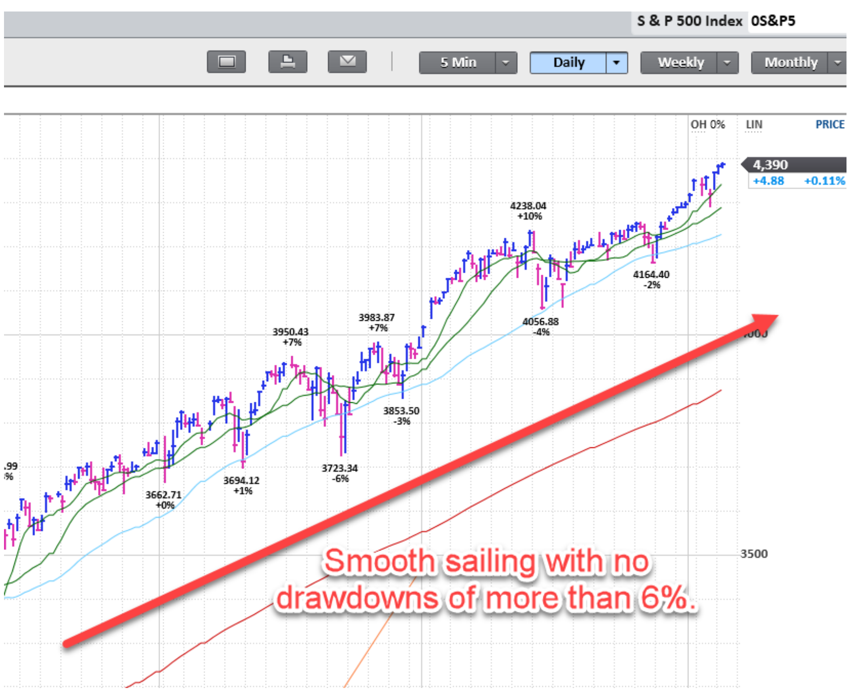
Wall Street does not seem to be sure which direction will win. To start the year, interest rates were on the rise with the 10-year Treasury starting the year at a measly 0.95% (after hitting a low of 0.53% in July of 2020) and rising to 1.74% at the start of March of this year. The rapid rise had inflation fears in the headlines everywhere.



However, in the past four months plus, the 10 year rate has dropped to 1.36% signaling to the markets that runaway inflation worries may not be as bad as initially feared.

The debate has seen stock leadership rotate back and forth between Growth stocks and Value stocks. When rates are rising, Value stocks take the lead behind Financial and Material type stocks. When rates fall, the old Growth Tech type stocks take the lead.

The good news is that both sides of the ledger have had a good year and continue to look positive in the near term. The S&P 500 has been positive for five consecutive months and has done so without a drawdown of more than 6% along the way.



Fundamentally, earnings have been coming in strong, and Technically there are plenty of positive looking chart patterns even if the market is a bit extended.

The inflation story will have to continue to play out before we get more certain answers. In the meantime, our outlook remains positive and we have been approaching investing with a broad group of holdings and keeping our percent invested high.

TACTICAL OPPORTUNITY

The model remains heavily invested with a mix of Growth and Value. FANG-style stocks have led the way as the winds rotated their way. There have been some concerns over the Value holdings, but no sell signals yet. We will continue with a mix, leaning Value, as the market grapples with what direction the economy and interest rates will go.

FULLY INVESTED

ETF SECTOR ROTATION

Despite fears over inflation, interest rates fell over the last month, fueling a Growth rally over Value. That led to Tech shining brightly over the past month, along with other Growth-oriented stocks found in the Consumer Discretionary sector. Tech has surged 10% since the start of June, while Consumer Discretionary is up around 6% during the same period.

Meanwhile, Value tapped the brakes. Materials pulled back 6%, Financials slipped 4% and Energy dipped 3%. However, as two of the year’s top performers, Energy and Financials remain up strongly in 2021 so far. No sell or buy signal switches have been triggered from the rotation.

The broad markets followed suit. Large Cap Growth rose 9%, while Large Cap Value was down 1%. Midcap Growth also had a big month.

Internationals also tapped the brakes for a couple of weeks for both Europe and Emerging Markets, although we still have holdings in both.

EQUITY GROWTH OPPORTUNITY

The portfolio has maintained a balance of Growth and Value stocks despite the recent market shift towards Growth. As we have seen all year, the overall market continues to look strong despite the swift churn underneath. The inflation debate should continue throughout the year and we believe that will lead to more back and forth rotation between Growth and Value.

EQUITY GROWTH AND VALUE

The lead in Growth versus the lag in Value was very evident in the stocks. Last year's leaders – Apple, Nvidia, Microsoft, Amazon, and others – had very strong runs. Apple was up some 17% since the start of June. Meanwhile, more Value-oriented names like Caterpillar and Dow pulled back along with Financial and Energy stocks. Despite the pullback on the Value side, the charts presently look all right, as it could be the group had just gotten ahead of itself.

EQUITY DIVIDEND INCOME

The rotation away from Value was tougher on the dividend group, as most dividend-paying companies are found on the Value side of the ledger (when a company is growing strongly, it often does not pay a dividend). The charts for this group had gotten extended, so a pullback may be healthy. We will see if the dividend plays find support. The fundamentals for the group still look positive.

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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** 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.