Churchill Management Group

Monthly Market Update

August 10, 2021

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Despite uncertainty over spikes in Covid cases and continued worries over the impacts of inflation, the general market trend remains positive. It appears as long as the ample liquidity provided by the Federal Reserve and the multiple fiscal stimulus packages injected into the economy by Congress remains in place, investors remain engaged with the market.

Interestingly, though, the stock rally has recently become narrower. While the major Large Cap indices are at or near all-time highs, Small and Mid Cap stocks have lagged, even dropping 8% at one point in July before recovering to end 2.44% lower for the month. Driving the indices has been some good performances from the Large Cap Growth stocks like Apple and Microsoft.

The main concerns for investors have been around Covid and inflation. As far as Covid, there have been recent upticks in the number of people contracting the virus, which have been alarming. From an investment standpoint, the worry is over if economic shutdowns will follow. Fortunately, the vaccines appear to be very effective in limiting the severity of illness. As long as that remains true, we believe it is unlikely to upend the recovery.

On the inflation front, short-term prices are clearly higher due to the combination of supply constraints and pent-up consumer demand from the pandemic. The wild card remains on the labor side. The cycle of higher wages and the expectations for them to remain higher in the near future is necessary for inflation to take root and become more persistent. Without higher wages, most price spikes likely will remain short-term with consumers either adapting to not consume that product or to find alternatives.

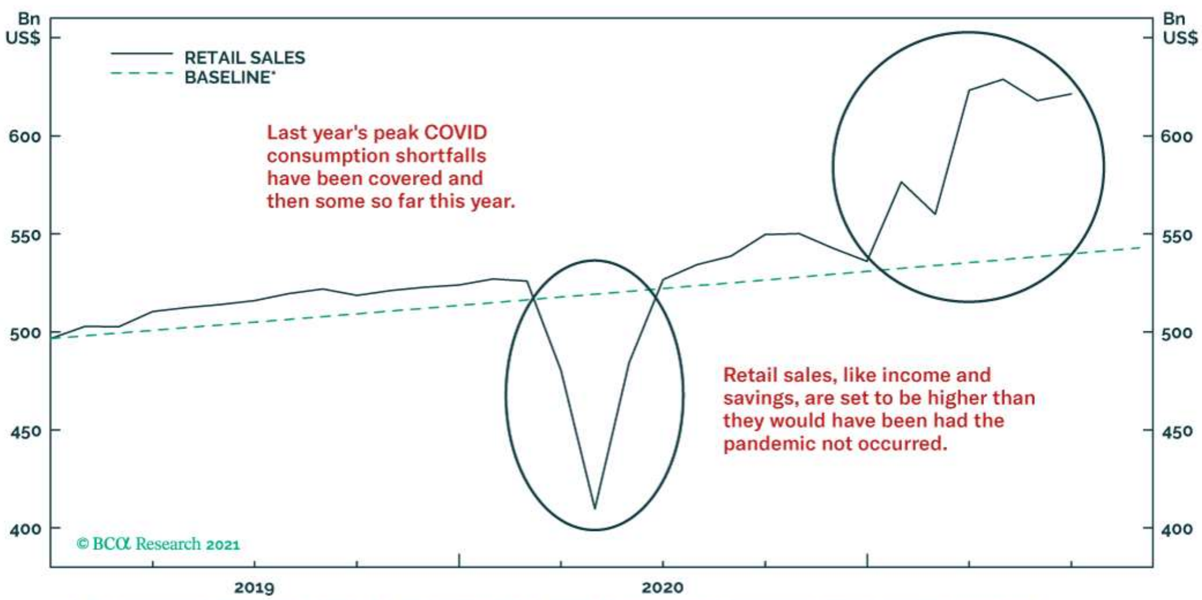
The labor market and the jobs numbers are key to watch for a couple of reasons.

First, maximizing employment is one of the Fed's two mandates, so the Fed will be looking at the progress to determine when to dial back the stimulus. When it does, markets could get more volatile. Most analysts do not expect this to happen until the second half of next year.

Second, the supply and demand for labor dictates the price of labor. If the cost of labor rises persistently, it could amp up inflation over the longer term, leading to removal of stimulus sooner than expected.

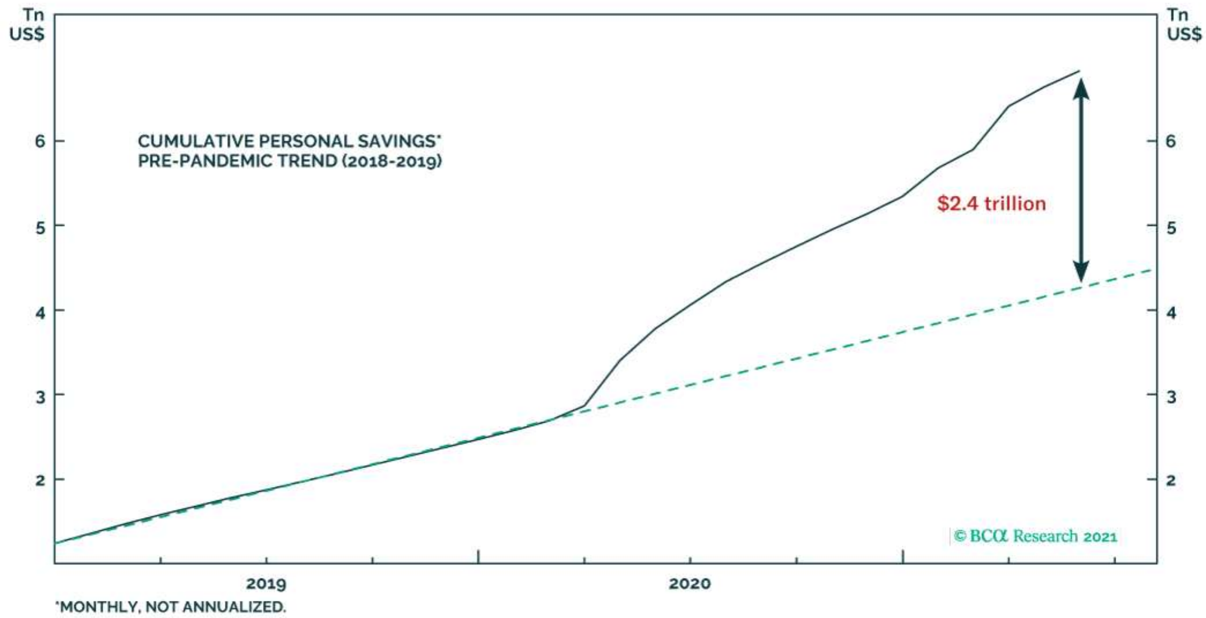
The good news is that the earnings recovery from last year's shut down remains robust. With 90% of S&P 500 companies having already reported results, 86% beat earnings expectations and, more importantly, over 87% topped revenue estimates. There is good reason to believe this can continue.

Consumption has been strong. As the following chart shows, retail sales based on credit card purchases have been very brisk, far higher than pre-pandemic levels.

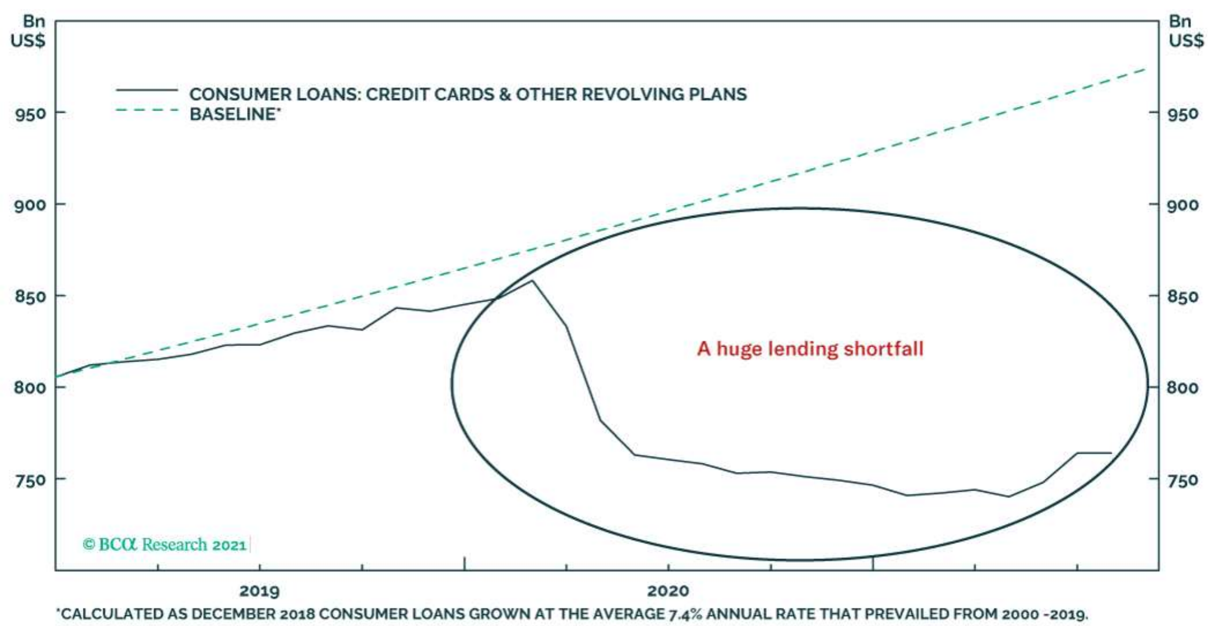


*CALCULATED AS DECEMBER 2018 RETAIL SALES GROWN AT THE AVERAGE 3.4% ANNUAL RATE THAT PREVAILED FROM 2000 -2019.

While some analysts fear spending will fall back into trend, leading to a slowdown in the recovery, the chart below shows that consumers still have plenty of spending power with the cumulative personal savings well above trend and at record highs.



In addition, as the next chart shows, consumers have paid off a significant part of their revolving credit lines. The amount owed is far below the historical trend. This can be viewed as untapped spending power should consumers choose to use it again.



The one glaring negative in this market is high valuations but we continue to maintain a positive view of the market despite that concern.

While we are acutely aware that the earnings multiples are very high, we do believe a vibrant consumer with the ability to tap a large amount of spending power, coupled with a Fed inclined to be very accommodative, could continue to offset concerns about valuations.

Until the facts change, there is a strong case to keep a high level of exposure to the market.

TACTICAL OPPORTUNITY

Despite concerns about Covid-19 and its variants, the general outlook has been positive. Over the past month, we did make some moves to replace laggards, but without getting overly defensive.

We are watching the sector rotations closely to see if more rotation is called for. Currently, there is a Value lean in the portfolio.

FULLY INVESTED

ETF SECTOR ROTATION

Covid concerns increased volatility around the groups. The question remains: Is it full steam ahead with the reopen, or will it be stalled? Utilities, Retail, Tech, and Health Care lead. Energy lagged rather significantly, but remains the top performer for the year. No changes in the model yet despite the volatility around rotating leadership.

Leadership has been narrow. Consider this, of the eight broad market groups, only one – Large Cap Growth – kept up with S&P 500 index. Small Caps lagged early in July, although they picked up somewhat in the last week.

The bottom line is that none of the groups look bad necessarily; it’s just that leadership has been narrow.

On the International front, Europe was OK, but Emerging Markets stumbled on actions from the Chinese government.

EQUITY GROWTH OPPORTUNITY

The circular rotation continued in July as the recovery sectors took a back seat to the Growth sectors. We flattened out the allocation in the portfolio by reducing a few areas subject to the reopening of the economy such as energy, airlines, and metals. We expect more churn within sectors as the unknowns regarding the virus, inflation, and the economic rebound continue. Meanwhile, easy money remains plentiful from Congress and the Federal Reserve which is the biggest tailwind right now for the stock market.

EQUITY GROWTH AND VALUE

Large Caps have led the indices higher. Apple, Microsoft, and Alphabet all had good months. Along with some rebounds from holdings like Carrier and a surge from Chipotle Mexican Grill, we saw some good positive action with new acquisitions from the likes of Advanced Micro Devices and Pfizer. The holdings were positive, with some volatility in areas such as Energy.

EQUITY DIVIDEND INCOME

With Value stocks taking a back seat, it was a tougher month for Dividend stocks. Specifically, Energy holdings pulled back. Financials were sluggish early, but saw a nice pop at last week's end. Recently, we have seen a little more activity within the portfolios as tax harvesting opportunities arise and rotation opportunities present themselves.

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.