Churchill Management Group

Monthly Market Update

December 7, 2021

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Markets were re-introduced to volatility during November after getting hit with a double whammy of news. The first hit was the announcement of a new Covid variant, followed by Federal Reserve Chairman Jerome Powell advocating a faster tapering of the Fed's asset purchase program.

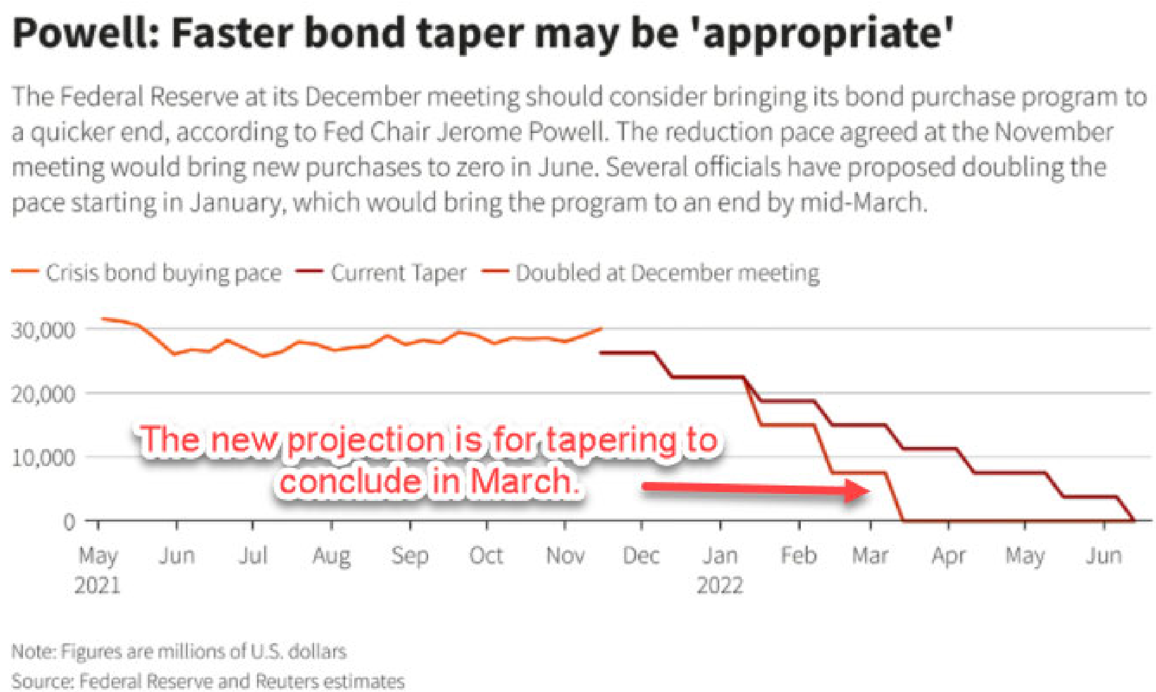
The Large-Cap indices were mostly muted, with the S&P 500 down less than a percent and the Nasdaq actually up for the month. However, beneath the surface we saw massive rotation as investors reallocated their holdings. The Smaller-Cap names and many of the leaders witnessed big drawdowns.

On the Covid front, the Omicron variant news sent governments around the world into action, bracing for another round of potential shutdowns and/or restrictions. Markets do not like uncertainty. There is much we still do not know about the variant – although the initial take is that while it may be more infectious, it also appears to be less severe.

How governments respond will likely dictate how the markets react. Shutdowns are obviously unwanted on an economic level, but even restrictions will likely further exacerbate and delay the supply disruptions. Going forward, new variants are simply going to become the norm and should be expected. Pragmatically, we must live with that fact and aim to minimize the impact of future variants. In general, markets are efficient at discounting similar events. If that pattern holds, then the Omicron variant's impact should be limited, as we saw with the Delta variant.

The Fed certainly added to the uncertainty with Powell advocating speeding up the tapering program by a few months. The chairman's more aggressive tone was a bit surprising considering they only set the pace for tapering in early November. Powell is essentially conceding that inflation is not "transitory," and the Federal Reserve does not expect it to ease until the second half of next year.

Powell followed that with the announcement that the Fed will be discussing his intention to taper at a much faster rate at the December 14-15 Fed meeting next week.



A faster end to the tapering likely also means an earlier start to tightening by raising rates. Traders are now pricing in at least one rate hike by July, and two to three hikes for 2022. Higher short-term rates could lead to some multiple compression. We saw some of that last week with many of the high-fliers encountering significant selling pressure.

However, the current reaction could be early, as the Fed is still adding assets to its balance sheet – just at a slower pace. Tapering is now expected to end in March, but there has been no talk of reducing the amount of assets the Fed holds.

The big rotation has created some heavy volatility in certain areas, but the major market indices continue to hold up quite well. That has been the theme for most of this year. Individual stocks or ETFs focused on specific groups and industries have taken turns leading. They have also had a much more volatile ride than broad-based ETFs, which get the benefit of netting out those rotations.

After notching new highs across the board, the major indices all receded on the news of the Omicron variant and Powell's pivot on inflation. The previous all-time highs were confirmed by the advance-decline line, which painted a rosy picture when coupled with a positive seasonal pattern.

Essentially, the market appeared to be on firm footing before the recent news. While a case can be made that we could see a major regime change with the Fed becoming more hawkish, we believe it is too early to tell. The fact is that the Fed is still growing its balance sheet and has a history of coming to the rescue should any exogenous hiccups arrive. The early read on the Omicron variant is encouraging. If confirmed, there is still ample time for Santa to come to town.

We will, of course, watch our indicators closely and adjust the portfolio as needed. However, over the very short term, the market is quite oversold, which should bring about at least a short-term bounce.

TACTICAL OPPORTUNITY

We have seen quite a variety of moves in the stocks since the start of November. Pfizer surged, jumping 20%. Apple was strong, as was Home Depot. Weakness emerged in cloud/internet holdings, such as our ETFs SKYY and FDN. Despite volatility in the market, the percent invested continues to hold.

FULLY INVESTED

ETF SECTOR ROTATION

A volatile November saw sectors bouncing around. After a year-long lag, Utilities had the best run since November 1, rising around 3%. Tech, Real Estate, and Consumer Staples – a more defensive play – also gained 2%. The Communications sector continued to slide, down over 6% since November 1. We have eliminated our position in this sector.

We remain with broad holdings, including overweights in Financials, Energy, Tech, Real Estate and Consumer Discretionary. We also have holdings in Materials, Industrials, and Healthcare.

Broad markets lagged across the board in all Cap sizes. Small Caps fell the most, dropping some 7%. Small-Cap Growth hit correction territory with a 10% decline. Value was better than Growth across the board. Internationals, both in Europe and Emerging Markets, lagged the U.S.

EQUITY GROWTH OPPORTUNITY

November saw heavy selling out of many leading stocks. Some of our holdings got hit and triggered sell signals in response to the Omicron variant and Federal Reserve news. We remain bullish and continue to be in risk-on mode. Our goal is to take advantage of what may be a ‘Santa Claus’ rally at the end the year.

EQUITY GROWTH AND VALUE

Beneath the surface, it has been an interesting market, with quite a divergence in strength vs. weakness since November 1. For example, AstraZeneca showed weakness with an -11% drop, while Pfizer showed strength with a +20 gain. Chipotle (-10%) and Apple (+10%) further exemplified that divergence. Overall, it was a pretty good month from our group of holdings.

EQUITY DIVIDEND INCOME

Dividend stocks, as a group, have been rather flat over the past month. Weakness developed among the Financials, although nothing too bad. However, that was offset by strength in Real Estate holdings and some Tech stocks. Activity remains light.

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.