Churchill Management Group

Monthly Market Update

June 7, 2022

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

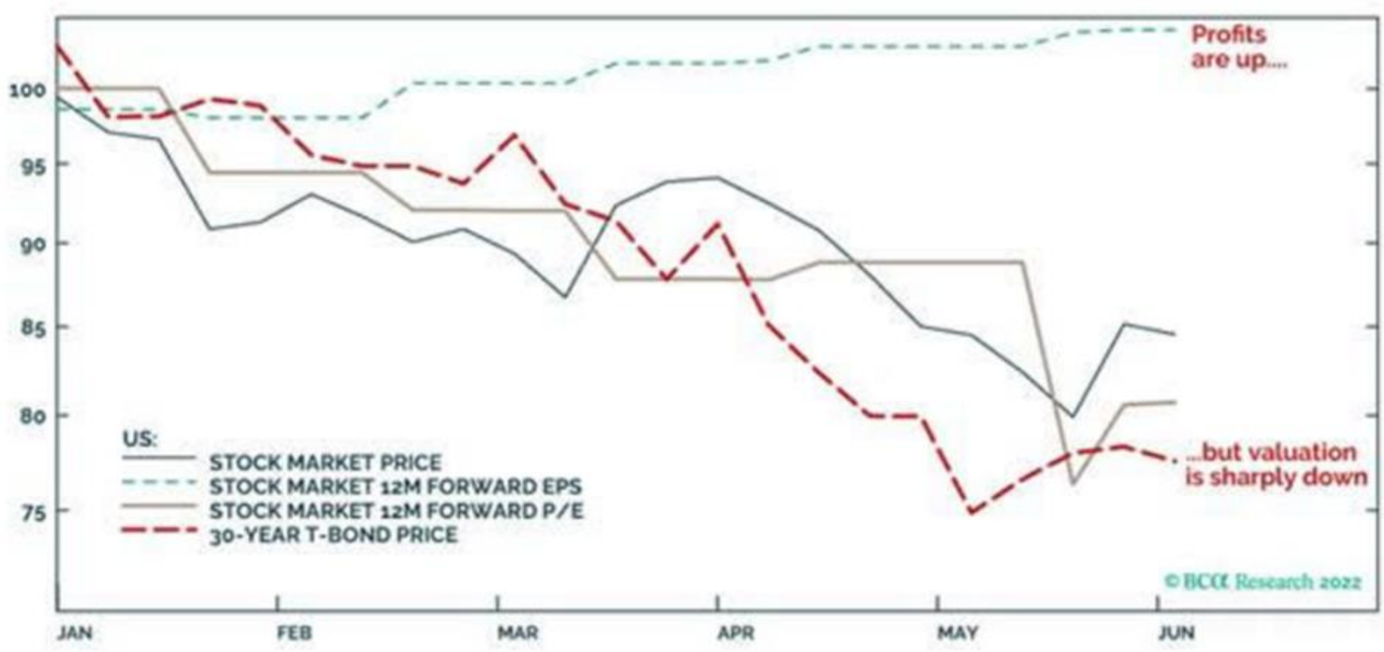
Despite a lot of volatility, stocks are hovering right around where they were on the first of May. However, it has been far from a straight line from there to today. On Friday, May 20th, the market was down over 2% on its way to notching its seventh consecutive down week. It briefly touched Bear Market territory (where stocks decline 20% from their highs) on the S&P 500. In the last hour, however, the market reversed course and closed positive for the day. It went on to rally another 7% the next week and, as mentioned, sits at the writing of this just a smidge below where it closed April. Is this just a Bear Market rally or is the market finding a bottom? It is still too early to tell.

It has been a struggle for stocks so far this year. The S&P is approximately 13% off its highs at present, while the more growth oriented Nasdaq is closer to 25% off its highs. Value has been the better play so far in 2022. Even more damaged has been anything high flying such as Covid darling stocks like Docusign, Zoom, and Peloton that have fallen more than 70% from their heights.

Underneath the hood, the damage was decently deep through the middle of May. The average stock return on the S&P 500 was -23% at that point. Looking into the Smaller Cap and higher beta indices, the Russell 2000 and Nasdaq Composite's average stock return was a dismal -45% and -49%, respectively. The outperformance by Large Cap, along with the fact that most of the major indices are market cap weighted, has helped mask those declines.

% Change From 52-Week High	S&P 500	NASDAQ 100	NASDAQ Composite	Russell 2000	Russell 2000 Value	Russell 2000 Growth
% Of Members With At Least 50% Correction	4%	15%	50%	39%	32%	50%
% Of Members With At Least 25% Correction	42%	56%	72%	72%	66%	84%
% Of Members With At Least 20% Correction	55%	69%	77%	82%	77%	90%
Average % Price Decline	-23%	-32%	-49%	-45%	-41%	-52%
Overall Index % Change From 52-Week High To Current Price	-16%	-26%	-28%	-27%	-18%	-35%

The bottom line is that for many individual investors who may have stepped up their risk the action has been painful. Most of those declines have been a result of valuation, or what is known as multiple compression. Investors are willing to pay less today per unit of earnings than they were months ago. That is a reflection of interest rates being higher, and with a higher discount rate, stocks' future earnings are worth less today.



Rates are now higher because, as has been well documented, inflation is high. The Federal Reserve, which fell behind the curve in battling inflation, is now trying to bring it down via an aggressive tightening cycle. The Fed’s dual mandate is to get to maximum employment and stabilize prices. Since it believes maximum employment has been reached, that leaves the goal of price stability. To the extent that the economy continues to grow, it should give the Fed free reign to battle inflation.

To that end, it likely means that good economic news is perversely bad news for the markets. Positive economic news gives the Fed cover to continue being aggressive. For example, last Friday's positive employment report was met with heavy selling in the higher P/E, growth-orientated names on the Nasdaq.

The technical picture has been very poor. After seven consecutive negative weeks that took the markets another leg lower, we are finally getting a bounce. Markets do not go straight up nor straight down. After being quite oversold, a bounce was due. The question is whether this bounce is part of the building blocks for a bottoming process or simply a countertrend rally that ultimately fails.

To answer the question of a bigger Bear Market or close to a bottom, we will have to watch the data. If we have seen the peak of inflation and stock earnings hold, maybe things could get better on the sooner side. If the economy stumbles and earnings falter, more trouble could be ahead.

In the meantime, we continue to be in a defensive position in our tactical strategies while watching the action closely. We are prepared to take the required steps as needed.

TACTICAL OPPORTUNITY

With buy signals hard to find, the model still carries a significant amount of cash. Existing holdings are hanging in there. The market seas remain rough for core holdings such as Apple, Microsoft, Alphabet, and Amazon, although Amazon has perked up a bit over the past few trading days. Big months from Chevron, JPMorgan Chase and Pfizer helped to offset the turbulence.

FULLY INVESTED

ETF SECTOR ROTATION

Despite headline-grabbing volatility, the resulting variance among the sectors was fairly tame in a market that was down around 1% since May 1. Energy was the lone rock star, up around 17%. Outside that sector, Utilities and Materials performed best. Consumer sectors – both Consumer Discretionary and Consumer Staples – lagged.

We have made some minor adjustments over the past month. For example, we added Utilities and Materials, with a slight reduction in Industrials.

Aside from the Energy surge, the direction of the sectors is rather unclear right now, but it is not abnormal or unusual to go through such phases.

In the broad markets, despite a late-month Growth rally, Value was still the better performer since the start of May. Internationals were slightly better than the U.S., but no buy signals triggered.

EQUITY GROWTH OPPORTUNITY

The strategy managed to remain relatively stable during the very volatile month of May. Our offsets within the Energy and shipping names have balanced the weakness seen in Technology and the overall market. We have a lean towards the Value side and plan to remain patient with our holdings until this volatility dissipates.

EQUITY GROWTH AND VALUE

This model followed the general market theme. We saw some laggards from the Consumer-oriented names, such as Costco. Meanwhile, winners such as Valero Energy emerged from the Energy sector. We expect weeding to continue as appropriate.

EQUITY DIVIDEND INCOME

Dividend stocks have been very pleasantly stable over the past several weeks as Value remains in play. Big numbers came in from Energy and Shipping holdings to more than offset hits in the Consumer areas. For now, the forecast for the Dividends stocks remains positive in our view.

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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