Churchill Management Group

Monthly Market Update

April 12, 2022

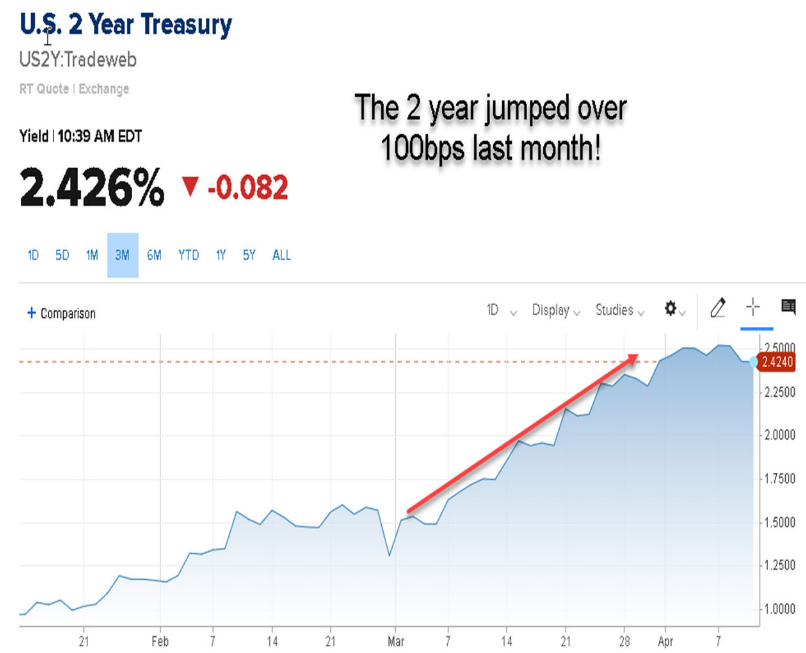
TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Markets remain unsure of which direction they should go as they fret over stubbornly high inflation. The S&P 500 spent the first two weeks of March adding to the year's losses and testing the lows established in February. However, after the market fell 4.5% to start the month, it quickly reversed course and rallied almost 11% as tech and growth stocks led the bounce. Since, stocks have given back about half that gain as of this writing on Monday.

So the back and forth volatile stage continues. The big concern is not over if inflation will come, as it is here and noticeable everywhere, but over what negative effects the Fed's medicine, in the form of tightening policy, might have. Stocks can climb nicely during inflation and during periods of rising interest rates. What stocks do not like is a recession, where the economy is stepping backwards instead of growing. History has a long trail of recessions caused by a Fed that overplayed its hand in fighting inflation. Will it happen again? It is too early to tell, but the idea continues to spook stocks.

To many, the Federal Reserve has been too slow to reign inflation in, resulting in some rather shockingly high inflation numbers. As a result, the Fed may be forced to become much more aggressive in tightening to fight higher inflation. The Fed's more aggressive posture has increased volatility in interest rates. Mortgage rates have jumped from 3.2% in December to over 5% recently. The 10-year Treasury interest rate has spiked 70 basis points and the two-year rose over 100 bps over the last month. The jump in rates even caused a brief inversion of the yield curve as the yield on the short-term two-year Treasury rose above the longer-term 10-year rate.



This inversion is significant to many because historically, a yield curve inversion has been a reliable indication of a possible recession. The caveat is that even when it is right, the time between the inversion and where the S&P500 peaks are all over the place. It can be timely, within months, or even a few instances where the markets did not peak for 16 to 22 months after the inversion. That is a long time in investing terms. Still, a Fed-induced recession is a risk in any rate-hike cycle.

World events have not been the Fed's friend in the battle with inflation. Both the crisis in Ukraine and the Covid spike in China have only exacerbated the inflationary outlook. The Ukraine war spiked energy prices, which has translated into the highest gasoline prices in nominal terms ever in the U.S. Additionally, hopes that the supply chain will resolve itself have been postponed. The recent

Covid spike in China is again throwing the supply chain into disarray as the country's no-tolerance policy continues to result in very disruptive shutdowns.

Worries are that these added troubles could push the Fed to overdo things a bit in terms of rate increases. While widely acknowledged that the Fed is behind the curve, it is clear it's trying to make up for lost time. The Fed has gotten progressively more hawkish at each meeting, including raising rates for the first time in three years in its meeting last month. While the 25-bps hike was expected, the meeting minutes released last week indicated that 50 bps hikes are likely coming. They also put in play an aggressive push to reduce the Fed's balance sheet to the tune of $95 billion a month.

The $95 billion reduction will comprise $60 billion in Treasuries and $35 billion in mortgage-backed securities. The progress of this is worth monitoring. The last time the Fed attempted to simultaneously raise rates and reduce its balance sheet was in late 2018. That ultimately resulted in a major sell-off in the markets.

If the bad news is that markets are worried about a possible recession, the good news is that we are not in one and there are many positive economic signs. Though slower, S&P earnings continue to do well and the economy continues to grow. Consumers are loaded with cash and seem willing to spend.

So far, the technical action in the market has been normal if not constructive. If we have seen the worst of it, tests of the lows are a necessary part of forming a bottoming process, which this could be. Alternatively, if we are headed for deeper trouble, sharp rallies within what eventually turns into a Bear market are also par for the course. Only time will tell, but we have our finger on the pulse and will aim to take action, as necessary. In our tactical strategy, we remain in a cautious position and remain open-minded to let the market tell us where to head next.

TACTICAL OPPORTUNITY

Over the last several weeks, the percent invested has held. The portfolio holds some cash, but remains with a strong percentage invested. The SPDR Materials and Mining ETF (XME) is up strongly since March, while Pfizer, Archer Daniels Midland, and Vertex Pharmaceuticals all saw 20%-plus moves during the month. At this point, we are watching the mode for moves both in and out as the direction of the market winds continue to change.

FULLY INVESTED

ETF SECTOR ROTATION

While Technology and other Growth sectors had a nice three-week bounce since March 1, the more defensive Value plays fared best. Health Care, Utilities, Real Estate and Energy led the way with nice up moves during March.

Our model remains broadly allocated, with slight overweights in Energy, Financials, Health, Consumer Staples, Industrials and Real Estate. We are neutral on Technology and are slightly underweight in Materials and Utilities (though both the latter sectors look fine, they make up just under 3% of the S&P). The model maintains larger underweights in Communications and Consumer Discretionary.

In the broad markets, the Value side was up higher than Growth since March 1, though with the mid-month Technology rally the headlines seemed to indicate otherwise. We continue to lean toward Value in the model.

Internationals lagged the U.S., with Emerging Markets down and Europe up though not as much as the U.S. We prefer U.S. holding for now.

EQUITY GROWTH OPPORTUNITY

March provided a constructive bounce off key support levels across the board. There is no shortage of headline news revolving between inflation, war in Ukraine, and the Federal Reserve. The constant tug of war is bringing volatility and a push and pull between Growth and Value. We are maintaining a healthy balance between sectors to combat volatility and are remaining patient as the market grinds through this sideways trading range.

EQUITY GROWTH AND VALUE

The model generally showed good participation in the brief March rally. We saw nice moves from Dollar General, Valero Energy, Pfizer, and Archer Daniel Midland to name a few. The portfolio had few laggards in Finance and Semiconductors. The FANG names rose, but not as much as Value stocks. No significant changes in the holdings.

EQUITY DIVIDEND INCOME

Dividend stocks had a nice bounce, with the majority of the holdings seeing a double-digit-type bounce since March 1. Duke Energy, Southern, Merck, CVS, AbbVie all had nice pops. We had normal rotation within the portfolio. Dividend stocks have functioned as a nice hedge in this back-and-forth market.

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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