Churchill Management Group

Monthly Market Update

February 8, 2022

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Market volatility kicked off the new year and remained high over the first month of 2022. There has been some violent action, especially in Technology, with a general rotation away from the high P/E Growth names and into Value.

Earnings season has added to the volatility. Over the last couple of weeks, the five largest stocks by market cap on the Nasdaq (Apple, Microsoft, Alphabet, Amazon, and Meta Platforms) saw moves of at least 10% in after hours or intraday trading following their earnings releases.

For the most part, focus continues to be on the Federal Reserve, which is clearly transitioning away from its highly accommodative monetary policy. In the Fed's January 26 meeting, chairperson Jerome Powell affirmed its intent to raise rates beginning in March. He also noted policymakers at this point feel they have "quite a bit of room to raise interest rates" without negatively affecting jobs or disrupting the economic recovery. That statement struck a more hawkish tone, leading to many of the major banks raising their rate-hike estimates. Most banks now expect four to six hikes this year, but the outlier – Bank of America – now sees seven rate hikes!

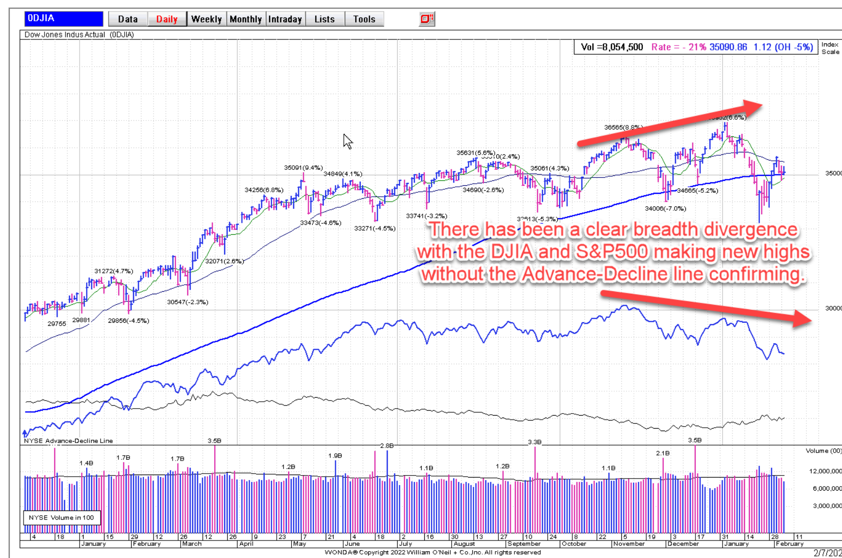
The Fed also disclosed that the committee set the principles for "significantly reducing" the size of the Fed's balance sheet. Like in 2018, it will shrink its holdings by letting assets roll off and not reinvesting the entire principle from the maturing securities.

Many have attributed the strong demand for stocks to the Fed's asset purchase (i.e., quantitative easing, or QE) program over the last decade, especially since the pandemic. If that is indeed the case, then it makes sense that a reduction in its balance sheet could spell some trouble for the markets.

At the end of the day, the Fed has noted the higher inflation, lower unemployment, and robust jobs reports. Having met their mandates on employment and seeing their inflation mandate challenged,

they have gone from a tailwind to a headwind in short order. There is a good chance that, at a minimum, the Fed has likely put a ceiling on the market. The policy change at the Fed, combined with the poor technical action we have seen in the markets, has moved us to a more defensive position.

We have had a breadth divergence (where indices hit new highs while the advance/decline does not) on the NYSE and all the major indices have seen their trendlines and major moving averages broken. These are indications of increased risk. The selling has been most intense in the Nasdaq, but all the major indices have fallen at least 10% off their highs, clearly putting them in at least an intermediate correction.



With the end of the extremely accommodative monetary policy, even if the markets were to recover to new highs, we would not expect the V-shaped bottoms we have seen in recent years. There is a good chance that a normalization in monetary policy might also bring back some historical market norms, such as bottoming processes that typically follow bear markets and intermediate

corrections. However, it is always a possibility that if markets become weak, that the Fed reverses course and goes back to attempting to add fuel to the fire.

In recent action, the markets got very oversold and bounced the last couple of weeks. We expect more volatility in the coming weeks, with the major indices now running up against their major moving averages and trendlines. Only time will tell how this ultimately unfolds, but we do have the fundamental, technical, and sentiment readings to justify a defensive positioning.

TACTICAL OPPORTUNITY

Cash levels were raised, as volume in the market triggered some sell signals. Tech and semiconductors got hurt, but the defensive holdings were OK. Core holdings like Apple, Microsoft, Alphabet, and Amazon actually have held up quite well. Looking for signals in both directions – buy and sell.

FULLY INVESTED

ETF SECTOR ROTATION

In a choppy start to the new year, the Technology sector grabbed the headlines as it has been down 8% to start 2022. However, Real Estate and Consumer Discretionary, both off 10%, have actually been down more. Energy has shone brightly, as inflation talks have seen the sector soar 24% to start the year. Financials have been the only other positive sector to kick off 2022 and are up 3%.

Our model is overweight Energy, Financials, Consumer Staples, and Real Estate. We have a slight overweight in Technology.

In the broad markets, Value, by far, outperformed Growth. Value fell 2% vs. a 10% decline for Growth. Big was better than small, with Small Caps down 11%, on average, to start the year.

The portfolio hunkered down some to the base of the S&P or Value, waiting for an all-clear sign to firm up. Globally, both Europe and Emerging Markets have been better year-to-date than the U.S. The model includes Europe holdings.

EQUITY GROWTH OPPORTUNITY

January brought lots of volatility, particularly in the Growth names. While we did tinker with some minor allocation changes and reduced our Technology exposure, we purposefully kept some laggards to assess their strength on this oversold bounce. We have gained some ground versus the S&P500 in February and expect more volatility to continue. This year has brought a very fluid market with heightened volatility and headlines. We plan to be very nimble and adjust to what the market gives us.

EQUITY GROWTH AND VALUE

Semiconductors started the year cold, with big winners like Nvidia and Advanced Micro Devices trimming last year's gains. Technology stocks overall also took some steps back. Apple fared relatively well, down just 3%. Winners hailed from Energy and Financials to start the year, including Wells Fargo (+17%), Oneok (+7%), and EOG Resources (+28%).

EQUITY DIVIDEND INCOME

With the tilt toward Value, Dividend Stocks seem unaware of all the turmoil happening elsewhere. Looking at the Dividend Stocks, there is not much sign of trouble. We have seen big winners in the oil holdings, including ExxonMobile and Chevron, as well as Financials.

Not much change expected within the group.

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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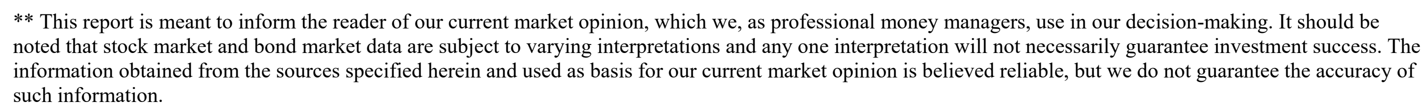
** This report is meant to inform the reader of our current market opinion, which we, as professional money managers, use in our decision-making. It should be noted that stock market and bond market data are subject to varying interpretations and any one interpretation will not necessarily guarantee 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.