Churchill Management Group

Monthly Market Update

January 13, 2022

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

In addition to reading our Monthly Market Update, we encourage you to also view our Market Update Webinar that was sent out yesterday by clicking here.

The new year has started on some uneven footing. We are once again seeing a big rotation underneath the indexes as they move away from Technology to some of the more undervalued areas of the market.

Some of it is probably profit taking from last year, but a good part can likely be attributed to the repositioning of portfolios to account for what appears to be a more hawkish Federal Reserve.

The Fed began the tapering process late last year, putting in place a plan to incrementally reduce the amount of asset purchases they were adding to the balance sheet down to zero by the middle of 2022.

Tapering is by no means hawkish since it is still adding assets to its balance sheet, albeit at a slower pace. However, the Fed's decision to speed up that process to March can be viewed as hawkish, since it means the Fed is likely to raise rates sooner.

The Fed had previously communicated that the rate hikes would begin in the back half of this year, soon after tapering was complete. With tapering concluding earlier, the assumption is that rate hikes would begin sooner.

Also, in its just-released minutes, the Fed has started the discussions on the reduction of its balance sheet.

In a surprise to the markets, the Federal Reserve suggested that it can begin soon after liftoff for raising rates. The Fed tried to raise rates and simultaneously reduce the balance sheet in late 2018, and it ended with egg on its face. In late 2018, the markets threw a fit in shorter order with the S&P 500 falling 17% into Christmas Eve. Seemingly pressured by the market, Fed Chair Jerome Powell quickly changed his tune, making a 180-degree turn by abandoning both the planned rate hikes and the balance sheet reductions.

With the amount of stimulus that markets have been accustomed to, the lesson back then appeared to be two-fold. First, was that the monetary stimulus withdrawal process should be done very slowly. Second, was that the simultaneous action of both raising rates and reducing the balance sheet was likely too much, too fast.

Based on the discussion in the released Fed minutes, it does not appear they believe that. On the other hand, perhaps the recent inflation readings, which are the highest since 1982, are forcing their hand. If it is the latter, the big question going forward will be whether the market can depend on the Fed to come to its rescue like it has done over and over since the financial crisis in 2007.

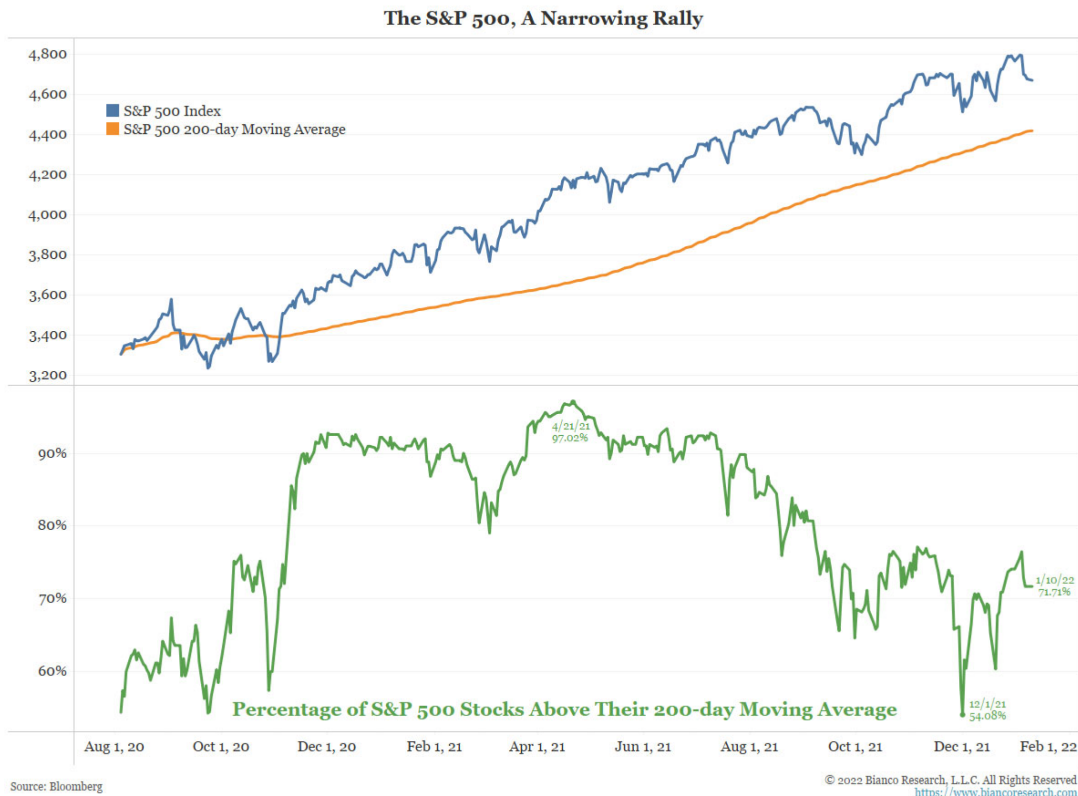
It is still very early in the year, but markets appear likely headed for more volatility in 2022 if the Fed actually executes what it has communicated it will do. That has not always been the case in the past, as the Federal Reserve has always reverted to a more dovish policy at the first sign of any trouble.

The big question is whether inflation will prevent the Fed from stepping in to help markets like they have done for the past decade.

So far, markets are seeing a big rotation similar to that of last February, when rates spiked up to 1.7% and market participants sold off Technology and other high P/E stocks to account for the higher discounting rate which tends to drive multiple compression. Rates eventually came back down and markets went on to have a banner 2021.

The difference this year is that we do not have rampant stimulus from both the Fed and the fiscal front. Instead, we have a Federal Reserve that appears to be reacting to the high inflation, guiding with a more hawkish tone.

So far, we have seen selling in Technology and other riskier parts of the market, with buying in the less expensive sectors. The action over the last couple of months has not been as broad, with fewer stocks participating on the upside. The S&P 500 has climbed higher while the percentage of S&P 500 stocks above their 200 day moving averages has declined steadily.



The Dow Jones Industrial Average and the S&P 500 managed to make new all-time highs last week before turning lower. However, the lagging action from the majority of stocks has the breadth on the NYSE rolling over and not confirming the move higher on the major indices.

With that action, we now have a breadth divergence.

While that can close if we get some positive, broad-based action, we will take that at face value at the moment. When you combine this with the weakness in Technology, we took a small step to reduce some exposure. We will be watching closely for further signs of deterioration in the market. Should they manifest, we may move to protect capital. However, for now, some patience is likely in order.

TACTICAL OPPORTUNITY

Some bumps on the Growth side have led to a few sells on the Technology front. These were nicely offset by big jumps in other areas, notably AMN Healthcare Services, EOG Resources, Micron Technology, and others. We raised a little cash, but are closely watching signals in both directions – buy and sell.

FULLY INVESTED

ETF SECTOR ROTATION

A swift rotation in the first week of January has led to a nice pop in Energy and Financials, both overweights in our model. You can say the same for Consumer Staples, which is now close to a buy signal.

Despite the pullback, Technology remains flat since the start of December. Only Consumer Discretionary is down, but off just 1% since December 1.

Value has been much stronger, with Large Cap Value up 8% since the start of December. Large Cap Growth is down 1%. We have seen this before, but the trend has never held. Is it finally Value's time?

No change in the International model, and for now we prefer the U.S. over Emerging Markets but do have exposure to Europe.

EQUITY GROWTH OPPORTUNITY

The new year brought quick selling among the high Growth and Technology names. We did some swapping to reduce some of our Technology exposure and have a close eye on the remaining Growth names. We have seen a constant back and forth from Growth to Value and back to Growth in 2021.

2022 could bring more of the same. All the index uptrends remain promisingly intact. Despite the increased volatility, there are relatively no changes in our allocation outlook at this moment.

EQUITY GROWTH AND VALUE

Pullback in semiconductor stocks, such as Nvidia and Advanced Micro Devices, make sense since they have been big winners. We have seen a slight pullback in the big Technology names, such as Microsoft, Alphabet, and Amazon.com.

However, there have been big wins in Financials, including Wells Fargo, Franklin Resources and American Express, as well as in Energy names, such as Chevron, Freeport McMoRan, and EOG Resources. Holdings like Caterpillar and ADM have also done well.

We have done some minor rotating, as money moves toward Value.

EQUITY DIVIDEND INCOME

The Value surge has been positive for dividend stocks. We have seen strength across the board in our holdings, including notable rebounds in AT&T, ExxonMobil, Comerica, and Marathon Petroleum.

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,

CHURCHILL MANAGEMENT GROUP
877-937-7110
info@churchillmanagement.com

** 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.