Churchill Management Group

Monthly Market Update

July 12, 2022

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Stocks continue to struggle to find footing. After a near 10% rally/bounce to end the month of May, June started flat and then turned down and made new lows for the year. The S&P hit official Bear Market territory by dropping over 20% from its highs. Since, stocks have bounced some, rising 6% from the lows at the time of this writing, but volatility still reigns.

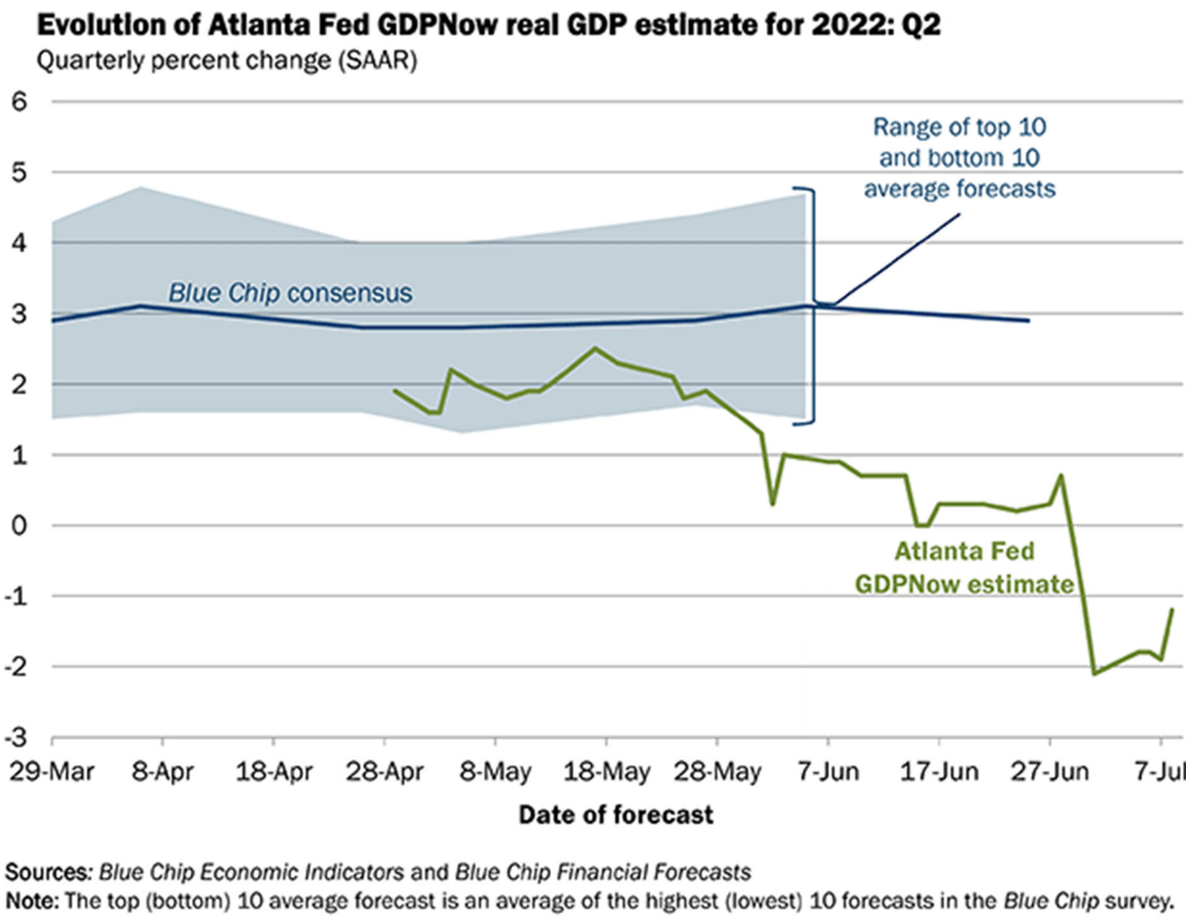
The questions on all investor's minds are, will the market stabilize and put in a bottoming process, or is any positive movement just a Bear Market counter trend rally? It is still too early to tell. The history of Bear Markets is filled with short-term bottoming formations that lead to elongated rallies that do not hold. Therefore, for now, in our tactical strategies, we remain cautious.

Inflation remains the source for the market's malaise, along with the subsequent actions and reactions from the fight to contain it. Inflation is high and the established remedy is to tighten financial conditions to restrict/discourage demand. The market is now struggling with the question of whether the Federal Reserve will tighten so much that it creates a recession.

Whether we experience a recession is important. Bear markets that coincide with recessions tend to be worse than those that do not.

The commonly held definition of a recession is two consecutive negative quarters of declining GDP. Since we have already seen a negative GDP reading for Q1, if we get another, that would, by definition, mean we are in a recession. However, that is not the actual definition. It is when the National Bureau of Economic Research (NBER), which officially declares recessions, says "there has been a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales". Now you know why most people just go with the two-quarter scenario.

Second-quarter GDP comes out July 28th, which happens to be one day after the Fed meeting where it is expected to raise rates another 75 basis points. What is interesting is that the Federal Reserve Bank of Atlanta's GDPNow tool – proven to provide a relatively reliable estimate – is currently showing a -1.2% estimate for Q2. The model is a running estimate of real GDP growth based on available economic data for the current measured quarter. The GDPNow estimate is less negative after last week's positive jobs surprise. However, Wall Street's estimate is much higher, at just under +3% GDP growth. We will see who is correct.



What we do know is that inflation is high and the Fed is committed to bringing it down. In the near term, the Fed has said it will be very data-dependent and we are getting the latest inflation data on July 13. A less than expected figure could be the catalyst for a rally the market sorely needs. We do believe that, regardless of the inflation data, the strong jobs numbers last Friday gives the Fed cover to be aggressive. Accordingly, a 75 bps rate hike later this month would not be surprising.

Volatility is likely to remain high over the coming months. We expect the economic data releases will be very uneven, with a mixture of good and bad news on both the inflation and jobs front.

Market players are watching closely, which typically means the reactions will be amplified. We will keep our eyes peeled for signs of a bottom.

TACTICAL OPPORTUNITY

The model continues to maintain a large cash position, with a mix of Large Caps. Following the June script, Energy holdings were weak, while Health Care held up better. Alphabet had a positive run over the month.

FULLY INVESTED STRATEGIES

ETF SECTOR ROTATION

In terms of sector selection, June made sure no area was left out of feeling the pain in 2022. In a month where all the major indexes lost at least 6% or more, the year-to-date leading sector – Energy – was down nearly 20%. The group is still by far the year's best, up over 28% while the general market is down more than 18%. Materials also had a tough month, declining over 14%.

Our model reduced both sectors during June as it takes a more neutral stance in the face of a foggy picture.

As might be expected, defensive plays performed best. Only Health Care avoided a negative number, followed by also defensive Consumer Staples, which slipped just 1%.

In the broad markets, with Energy declining, Growth topped Value for a change this year. Large-cap Growth fell around 3%, compared to a 7% drop in Value. Still, our model leans more toward Value than Growth.

On the International scene, European holdings shed 11%, while Emerging Markets were down about the same as the U.S. We currently avoiding International holdings.

EQUITY GROWTH OPPORTUNITY

Volatility remains as we saw the ferocious shift out of Value last month. Energy and inflation related plays were leading the market until a swift selloff in June changed the investing landscape. We reduced our weighting in Energy during this last selloff. The market has yet to find firm footing. We aim to remain patient until we see leadership emerge in this volatile environment.

EQUITY GROWTH AND VALUE

EOG Resources (down 25% since June 1) and Freeport McMoRan (off 29%) are two examples of the pain in Energy and Materials. EOG is a good example of the sudden and sharp drop in early June for the Energy group. It had been fueling all-time highs with a nice-looking chart before a quick, negative reversal – a sign of these volatile times.

Top performers were stocks like Costco, Eli Lilly, and Alphabet. We are watching to see if the recent selling in Value was overdone, or if it is a sign of a changing trend.

EQUITY DIVIDEND INCOME

We saw a lagging month for Dividend Stocks, a rare occurrence in the 2022 Bear Market. It was a result of Value regressing to the mean a bit. As we saw across the board, it was a weak month for Energy holdings, with light to no damage in Health Care and Consumer Staples. No significant changes are expected.

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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