Churchill Management Group

Monthly Market Update

March 8, 2022

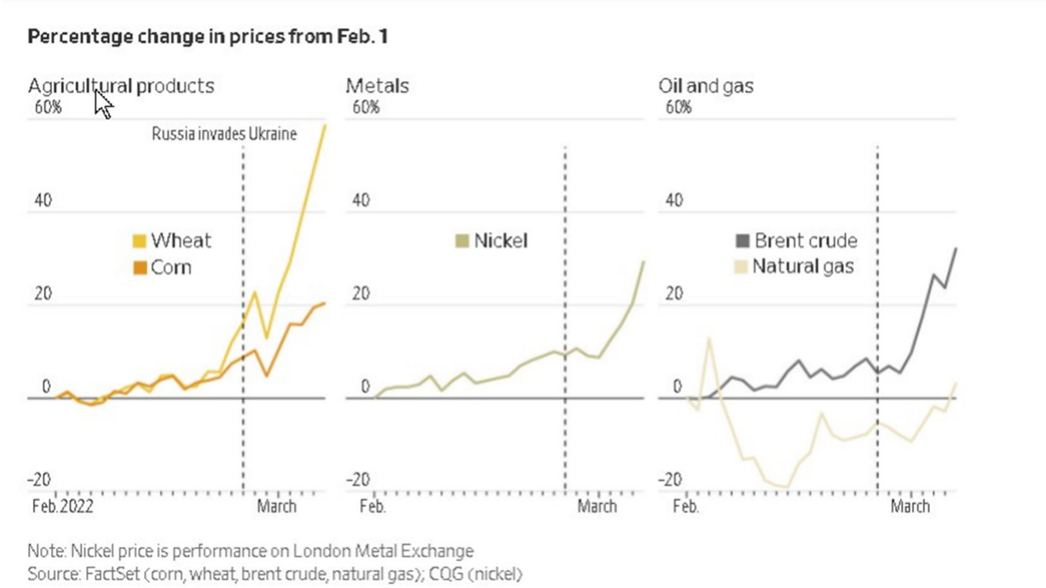
TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

There has been no shortage of headlines to spook the market this year. The recent Geopolitical concerns over Russian aggression in Ukraine added to the already existing anxiety over inflation and what the Federal Reserve might do in response. As a result, the market has started the year on a sloppy note with all the major indices showing back-to-back negative months to begin the year. Additionally, March is off to a treacherous start as well. After a down day Monday, the major indices all stood in correction territory, which is to say they are down more than ten percent.

Grabbing the most attention recently have been the events in Ukraine. Months after moving troops to the Ukrainian border, Russia has invaded. The world has responded with various degrees of support and sanctions. For markets, the result has been a spike in energy prices as Russia is a large supplier, and a hit to equities in general over fears that an energy price surge could spark an economic recession here in the U.S. Russia and Ukraine are also major suppliers of agricultural products and metals, areas where prices have also spiked. The good news, economically, is that right now the U.S. economy continues to perform well.

Even prior to the situation in Ukraine, markets were already fretting over stubbornly high inflation and energy prices. The elevated level of inflation is forcing a regime change at the Federal Reserve as it moves from an ultra-accommodative stance to a tightening one.



The Ukraine crisis has exacerbated inflation in some markets.

The Fed has two mandates: maximum employment and inflation. As last week's jobs report showed, employment is doing well with the unemployment rate at only 3.9%. Nonfarm payrolls showed a robust 678,000 jobs being produced. That handily beat economist expectations of some 400,000.

With the maximum employment mandate fulfilled, the Fed still has to deal with high inflation. While they initially dismissed the inflation as transitory, it is clear they are now taking it much more seriously. In his testimony to Congress last week, Fed Chairman Jerome Powell once again reiterated that liftoff for rates remains appropriate this month. The debate is how much and how fast rates will be raised.

Fundamentally, a hawkish Federal Reserve is likely the biggest risk to the markets this year. Additionally, if the Ukraine situation drags on, it could make the situation even worse as it would force the Fed to be more aggressive on rate hikes to fight inflation. On the positive side, as mentioned above, the U.S. economy has been performing well, the U.S. consumer is sitting on a lot of cash, and Covid restrictions are largely going away, all leading to projections for a decent year for corporate earnings.

Technically, the market is in an intermediate correction in which all the major indices have seen a peak-to-trough decline of at least 10%. There is quite a difference among the groups however. The more growth oriented Nasdaq has touched Bear Market territory, dropping 20% from its highs, whereas the more value oriented Dow Jones has just barely hit correction territory at minus 10%. The S&P 500 is down around 12%. All three indices are currently trading below their 200-day moving averages. We will see if the market, in terms of the S&P, can find support as it is currently trading just above its recent lows.

With the increased volatility, we have been in a defensive posture with a large cash position in our Premiere Wealth strategies. We are prepared to adjust the portfolio as needed. If a solid bottom forms and the markets can confirm to the upside, we would reduce our cash position on such constructive action. Alternatively, if the markets roll over, we are also prepared to get even more defensive. Either way we expect the elevated volatility to continue until the market can have more certainty over world and economic events.

TACTICAL OPPORTUNITY

The Tactical Opportunity portfolio has been surprisingly resilient. We have seen weakness in holdings such as Home Depot and JPMorgan Chase, as well as core holdings, such as Amazon.com, Apple, and Microsoft. However, those trouble spots have been offset by winners such as CSX, Centene, and CNC and the mining and the materials XME ETF, which has surged 35% since the start of February.

Some cash has been raised over the past several weeks. We are watching for both buy and sell signals at this point.

FULLY INVESTED

ETF SECTOR ROTATION

Market volatility has been most notable on the Growth side. Sectors most impacted were Communications, Consumer Discretionary and Technology. We are underweight all but Technology.

Outside of those groups, the market does not look nearly as bad. We have seen a huge surge in Energy, where we are overweight. We have witnessed solid months for more defensive plays in Health, Consumer Staples, Industrials and Utilities. We owned all but Utilities last month.

Some rotating continues to augment the defensive holdings. For the broad markets, we favored Value over Growth. On the Value side, the iShares Russell 1000 Value IWD ETF was down just 2% while the iShares Russell 1000 Growth IWF ETF fell 8% since the start of February. We have rotated most of our Growth holdings to the S&P 500 SPY ETF.

Internationals took it on the chin as a result of the geopolitical news. As a result, we closed our Europe position.

EQUITY GROWTH OPPORTUNITY

The overall indexes have held their January lows but the attempted bounce has not seen solid follow through. The market volatility has continued but a few bright spots in the portfolio have helped the relative outperformance in the strategy. The shippers and energy stocks continue to charge higher in the face of inflation and tense geopolitics. We have increased our commodity exposure in the portfolio and continue to tinker with a good balance of value versus growth.

EQUITY GROWTH AND VALUE

Same playbook here: Value good, Growth weak. The model has seen hits to some areas, such as banks and core Technology. Meanwhile, we have seen strength in Energy as well as in Transportation and Health. Higher activity in the portfolio has accompanied higher volatility.

EQUITY DIVIDEND INCOME

Dividend stocks have held up relatively well, as they are mostly Value plays, though nothing has gone unscathed. There was weakness in Financials after the sanctions on Russia. We saw strength in Energy names such as Chevron and ONEOK – both up over 10% in the past month. We have done some weeding as we navigate the market volatility.

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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