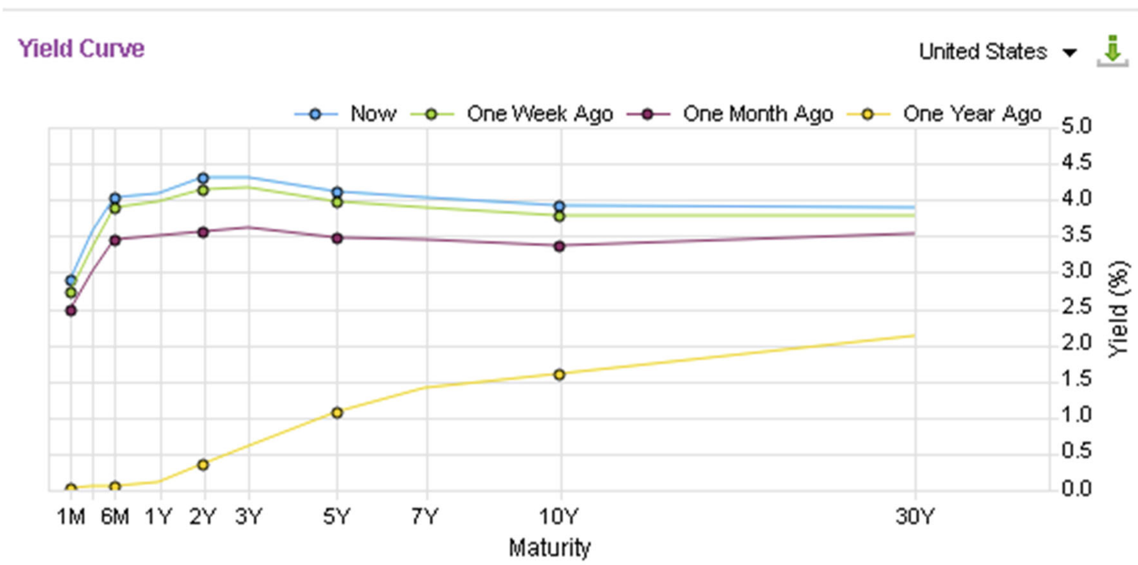
Monthly Market Update

October 13, 2022

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Monetary tightening and tough talk from the Fed continue to cause market volatility. In an attempt to quell unacceptably high inflation, the Federal Reserve is pushing rate hikes at the fastest pace seen in decades. With rates all along the entire yield curve adjusting much higher over the last month, stocks sold off 8%-10% across most of the major indices.



Most of 2022 has been a reaction to high inflation and the Fed's response of raising interest rates. There have been a couple of sharp rallies coming off extremely oversold levels and in hopes of peaking inflation and possibly a more friendly Fed. However, the rallies have been short-lived as inflation has proved resilient and the Federal reserve has expressed determination to knock it down.

Recent hopes for a weaker-than-expected inflation number and a weak jobs report did not materialize. Both scenarios would translate into the Fed making progress towards its goal of bringing inflation down, hence the hope that a pivot in policy could come sooner than later. However, such hopes got dashed quickly with inflation coming in stickier and the jobs number being relatively strong.

It is hard to blame market participants for thinking the Fed might have their backs. Since 2009, investors have become accustomed to the Fed providing a tailwind, a source that has come to the market's aid at every sign of distress. That regime is at least on hold.

Today's Fed has talked openly about expecting "some pain" because of its policy. All of the major indices have made new lows with the exception of the Russell 2000, indicating that the entire rally from June to August was likely a counter-trend rally.

Markets have clearly become beholden to major economic releases, especially inflation and jobs releases, as those will dictate the Fed's actions going forward. The CPI numbers released today for September once again came in higher than expected, ramping up volatility once again.

Fundamentally, inflation remains the biggest concern since it has led to much higher interest rates enacted by the Fed to counteract it. This has led to P/E compression and raised the prospects of a hard landing. Luckily, so far, the economy has proven to be very resilient.

While we do expect that inflation will be coming down, the big question is at what pace. The faster it falls, the sooner the Fed can let its foot off the pedal with rate hikes. The longer it takes, the longer the economy will have to deal with abruptly higher rates. Over time, that, in turn, leads to higher financing costs and wage pressures which translate to lower margins, reducing earnings as a result.

We remain in a very defensive position. The Fed's actions have clearly been aggressive and resulted in dislocations all around the world. We have already seen a very strong dollar put stress across the globe that has forced some countries to intervene in some unforeseen events. We will simply have to wait to see how all of it plays out.

TACTICAL OPPORTUNITY

Decent levels of cash have been a good cushion in this tough environment. Over the past month, core holdings like Amazon, Microsoft, Alphabet, and Apple are all down about the same. Once again, Energy names, such as EOG Resources and Health holdings, including Vertex Pharmaceuticals, have helped. Wait and watch closely continues to be the playbook.

FULLY INVESTED STRATEGIES

ETF SECTOR ROTATION

With the S&P 500 down over 8% since the start of September, only Energy has posted a positive number in that period. Utilities and Real Estate got hit the hardest, as quickly rising rates have triggered selling in those areas.

As a result, the model moved its equal weight in Utilities to underweight. The portfolio is currently overweight Energy, Health, and Financials. We have equal weighting in Consumer Staples and Technology.

The model is underweight Consumer Discretionary, Real Estate, Utilities, Communications, and Materials. Relatively, it has been a good mix.

In the broad markets, Value has been better, but not by a large margin. We continue to have a green light only on Value, not Growth.

Internationals were down about the same as the U.S. holdings, maybe a little more. We maintain a red light on Internationals.

EQUITY GROWTH OPPORTUNITY

Amid the continued volatility, we reduced a few long-term holdings in the shippers and further rotated to a few defensive names in the portfolio. Leadership is murky in the market as the indexes try to find some sort of footing near the lows. Healthcare and Energy have been holding up relative to the market. The portfolio is tilted towards a conservative allocation until we see signs of a bottom.

EQUITY GROWTH AND VALUE

Luckily, we have seen very few outsized declines in this tough market. Health and Energy holdings have been holding up the best. Tax harvesting and rotating where appropriate remains the focus.

EQUITY DIVIDEND INCOME

Dividend stocks got hit a little harder than the general markets. That was largely the result of weakness in Utilities, as seen in Duke Energy and Southern, both down over 15% since the start of September. Overweights in Energy and Financials have helped our portfolios. Like Equity Growth And Value, Dividend portfolios will look at harvesting and rotation options amid the 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,

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. The references to specific investments were chosen based on our current market outlook, as examples representing how aspects of the market have performed and as representation of what a strategy might own. Those are included for informational purposes only and past specific investment advice does not guarantee future results.