Churchill Management Group

Monthly Market Update

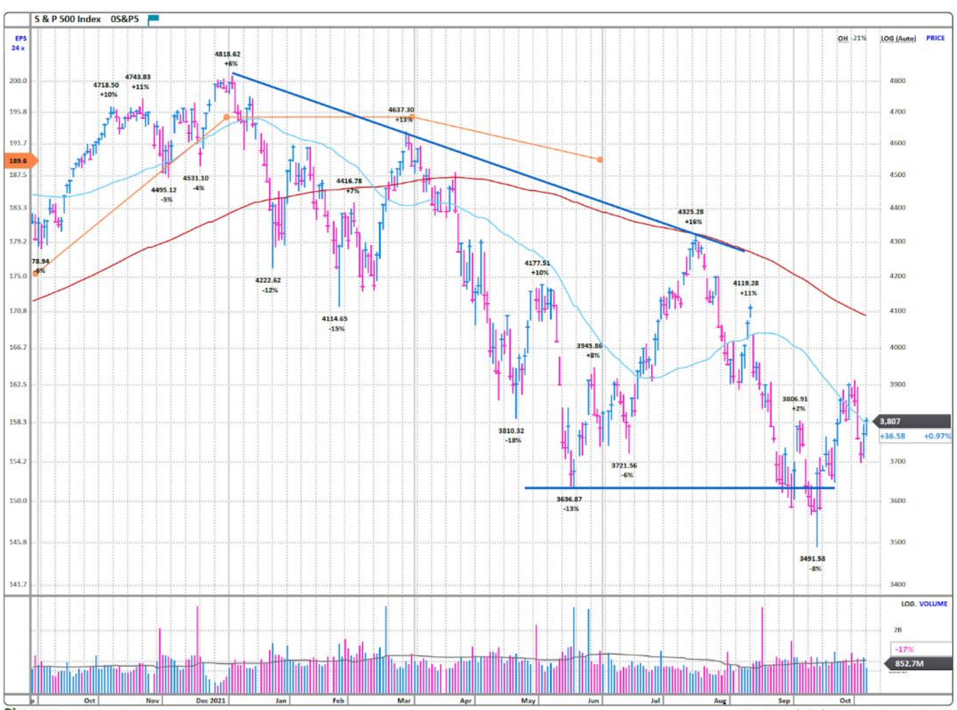
November 8, 2022

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Investors' eyes and hopes continue to be focused around the Fed and its fight with inflation. Positive hopes remain for peak inflation, which could lead to the Fed softening its tough interest rate actions. Unfortunately, the data and Fed Chairman Powell's rhetoric have not been as accommodating as tough talk and action remain in place.

After sharp drops in both August and September, stocks staged a nice rally in October, but remain near the same levels they were at in late June. It is still too early to say the market has bottomed.



The main problem for investors has been a much more hawkish Federal reserve creating a headwind in hopes of gaining back its credibility. Many feel the Fed's overly loose policies helped fuel the inflation fire. Now, toughness is needed to fend it off. So far, the Fed's fight with inflation has been an uphill battle with the headline inflation numbers coming down slower than anticipated and the core numbers even making new highs.

Last Wednesday's Fed meeting was an example as Jerome Powell and team acknowledged that the terminal rate — the rate where they stop hiking — will likely end up being higher. The hope going into the meeting was that the Fed would reduce the size of future hikes, while also telegraphing a pause to let their medicine go to work. A pause was hoped for since monetary policy typically has "long and variable" lags.

However, Powell instead conveyed that it was premature to think about pausing. He focused on the Fed's efforts to cool the economy which have yet to have the desired effect. The non-farm payroll numbers and the job openings continue to come in better than expectations, while the jobless claims remain at very low levels.

The day also illustrated the skittishness of the current market environment as the market at first spiked on the rate increase announcement, and then fell sharply as the chairman made remarks. One area where we have seen higher rates having a negative impact has been in the Tech sector. Not only are their valuations more sensitive to the higher discount rates, but many are international, where the strong dollar has dented demand. We saw poor earnings reports from the likes of Microsoft, Alphabet, Meta Platforms, and Amazon. Only Apple had earnings that passed muster.

That said, the technical action in October could be viewed as somewhat constructive in that it raises hopes that the market might form a double bottom. However, that would only be true if the market can hold these levels and regain some upward momentum.

In the short term, there could be some bounce as investors hope for a positive post-election bounce. The question is, again, will such a bounce last or will stocks have another leg down to new lows.

Unfortunately, regardless of the election's outcome, the economy and the fight against inflation remain murky. The economy remains resilient, but historically rate rising environments have caused pain down the road. As a result, risks remain elevated and as a result we remain in a defensive position.

TACTICAL OPPORTUNITY

We continue to maintain a significant cash position. Old school Growth names were drags in Amazon, Alphabet, and Microsoft. The model saw big pops in Chevron, EOG Resources, and ADM.

FULLY INVESTED STRATEGIES

ETF SECTOR ROTATION

Energy surged, rising over 25% since October 1. Financials and Industrials also jumped, rising over 10%.

Growth showed a big lag, with Consumer Discretionary (led by Amazon) and Communications (led by Meta Platforms and Alphabet) the only down sectors.

Our allocation remains overweight Energy, Financials, Health, and Consumer Staples. The biggest underweights were in Consumer Discretionary.

In the broad markets, Value won, although all segments rose. Small Caps saw a nice pop.

The model continues to see risk in Internationals, although Europe performed better than the U.S. for the month.

EQUITY GROWTH OPPORTUNITY

The start of a potential 4th quarter rally gave us a solid bounce off the October lows. We are waiting for follow through and momentum to give us more clarity as the indexes remain stuck between their lows for the year and the dominant downtrend since January. Should we see some follow through and the markings of a 4th quarter rally, we would look to be aggressive in hopes of finishing the year strong.

EQUITY GROWTH AND VALUE

The model's emphasis on Value paid off. It was a mostly positive month for the individual stocks with few exceptions. Many Energy and Financial holdings have gained over 20% since October 1. We see no significant changes for now.

EQUITY DIVIDEND INCOME

With Value leading, Dividend stocks performed well. Following the same theme, Energy, Financials, and Healthcare posted nice months. Some tax harvesting and rotating continue.

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. 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.