Churchill Management Group

Monthly Market Update

January 17, 2023

# TACTICAL STRATEGIES

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## PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

It is a New Year and investors are hoping to forget and leave behind the stock market's difficult 2022.

While not out of the woods yet, the good news is that markets have started 2023 on the right foot, which brings in hopes that the 'January Barometer' plays out for the year.

Attributed to an observation made by Yale Hirsch in 1972, the 'January Barometer' says that as goes the first five trading days of January, so goes the year. It has been over 80% accurate since 1950 for the S&P 500. When correct, it has resulted in an average of a 14% gain by year's end. I think all investors would be content with that.

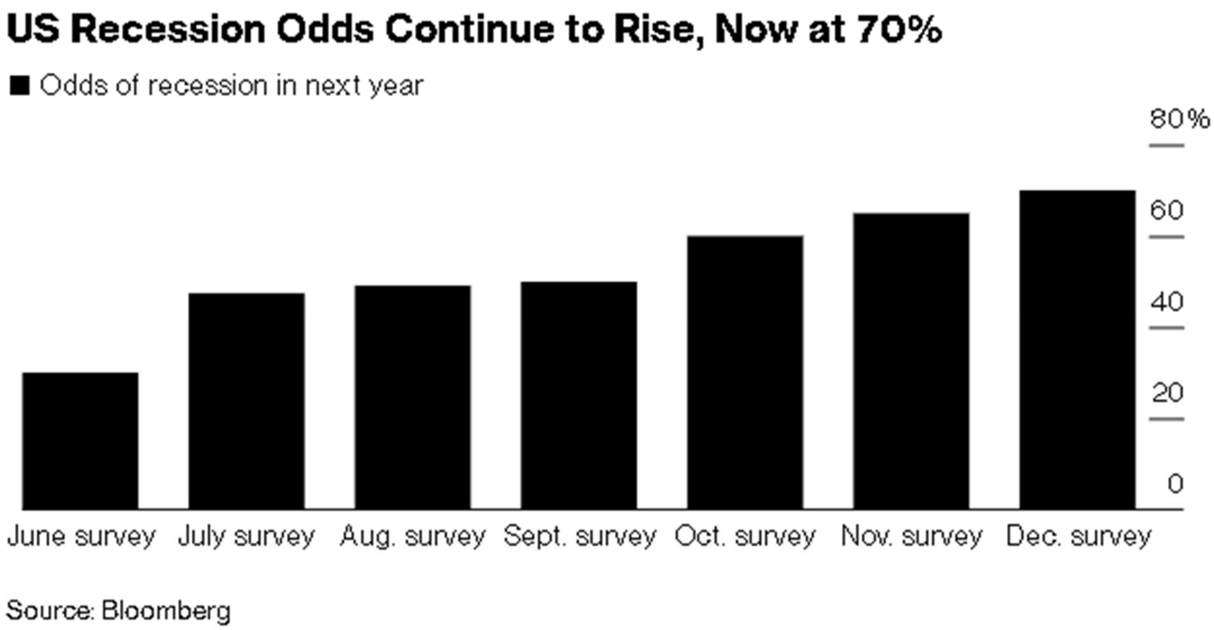
The market's nice start has so far resulted in the S&P up 3.7% and the Dow Jones Industrial Average up 3.1%. Meanwhile, the higher beta Nasdaq rose 5.1% as small cap S&P 600 gained over 7%. Unfortunately, we are aware that tough markets offer many false positives along the way.

The battle remains the same. When will inflation be tamed and can it be without a recession, and can corporate earnings hold?

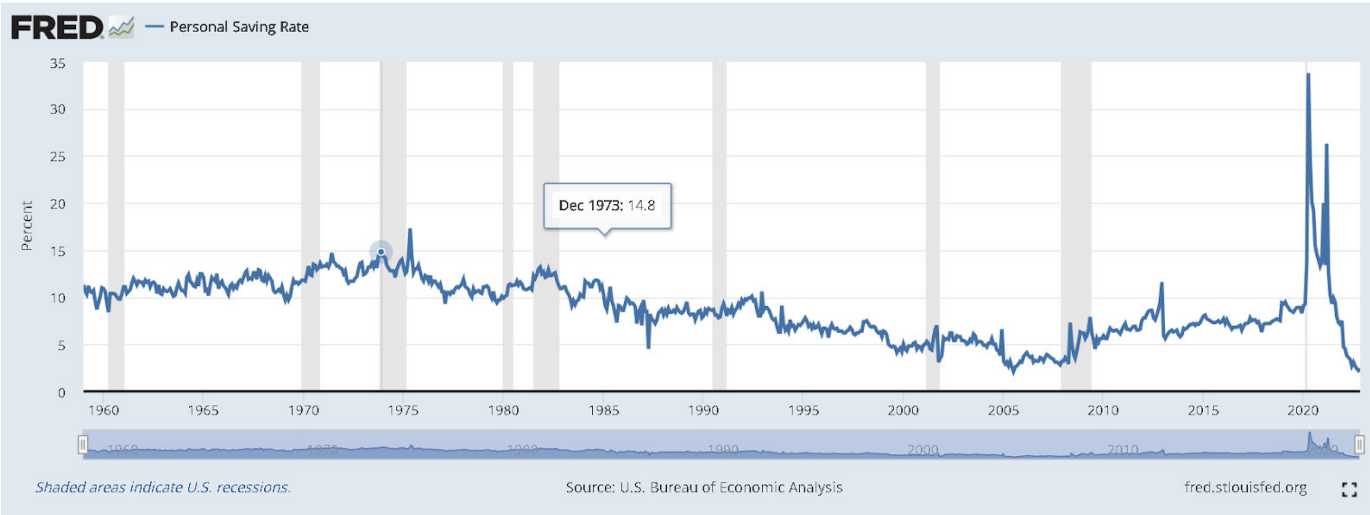
Inflation has come down from its highs, with the latest release showing inflation falling to 6.5%, right in line with the consensus estimate. Recall, at its heights we were seeing inflation at 9.2%. The spot-on reading resulted in the tamest reaction to the report in some time. It is a good start for inflation reduction, but 6.5% remains dramatically higher than the 2% target. Like a diet, getting the last few pounds off is a lot tougher than the first few.

In addition to inflation, investors are focused on the recession question and whether earnings will fall. The Federal Reserve has clearly engineered tighter financial conditions, with the big question remaining whether it will lead to a material slowdown in the economy and/or a decline in earnings.

Economists certainly think a recession is coming, with 70% predicting a recession this year in Bloomberg's latest poll.




The beginning signs of a hangover have emerged from the fiscal transfers made during the pandemic. While the savings rate spiked has come down, consumers are still sitting on piles of cash in their accounts which would likely provide some cushion should a recession emerge.




While we have started the year off on the right foot, the reality is that the results for 2023 remain far from certain. The top-performing sectors to date were those which performed poorly last year.

The upside story is if the Fed manages to engineer a soft landing with cooling inflation and we do not get a recession. That would bode well for markets.

The downside is that the Fed could create a recession if it keeps its foot on the brakes – especially considering that the jobs market remains robust. The latest nonfarm payroll reading saw 223,000 jobs created in December. Jobless claims also remain around record lows in the low 200,000 range.

Many have speculated that the Fed is also concerned that if markets were to recover, it would loosen financial conditions, therefore making inflation stickier. Arguments from both sides are valid.

Technically, most of the indices are challenging their 200-day moving averages and/or their downtrends. A break above these levels would be a positive signal. Failure to hold those moving averages would likely mean more volatility is ahead.

As always, we would adjust our exposure levels if needed to account for any changes in what our indicators are saying. At the moment, we are staying cautious, but ready to make a change as needed.

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## TACTICAL OPPORTUNITY

The good start to the year has been led by some retail stocks that showed weakness last year. For example, Amazon started the year with a 17% jump after a tough 2023. Should a positive tone hold, we would be looking to add some exposure.

# FULLY INVESTED STRATEGIES

## ETF SECTOR ROTATION

Though extremely early in the year, we have seen a flip-flop to start the year. Last year's laggards, Discretionaries (Amazon, Tesla) and Communications (Google and Meta) have been strongest so far this year. If it is a trend that will hold is too early to tell. It would make sense that at the end of last year beaten down sectors saw additional selling for tax purposes, and now some of those holdings are being bought back. Or, perhaps, there is value there that can sustain if earnings deliver. Our model remains with a Value lean. Overweights are in Energy, Healthcare, and Financials, with neutrals in Tech, Industrials and Materials. We remain underweight Communications, but will watch for buy signals.

In the broad markets, we are still a green light on Value and out of Growth. Internationally, we took a half step in both Emerging Markets and Europe. Foreign markets have presented many false signals so we will watch closely.

## EQUITY GROWTH OPPORTUNITY

Growth and Technology have jumped ahead to start the year and have given us more flip-flop between Value and Growth. Most major indices are coming up against their major downtrend lines in place throughout 2022 and should face a major test in the markets. If we rally higher and break these major resistance points, further strength may ensue in the markets and we may look to position ourselves more aggressively. Meanwhile, we have maintained our allocation until we get more clarity in the market.

## EQUITY GROWTH AND VALUE

The rotation to start the year has been noticed here. Healthcare stocks, seen as a defensive play, have lagged, while some consumer plays, like Chipotle and Starbucks, have started the year well. Three weeks is a very short measuring stick when it comes to investing. For now, normal monitoring of the portfolio will continue.

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## EQUITY DIVIDEND INCOME

Dividend paying stocks have largely kept pace with the market to start the year after proving to be a good defensive play last year.

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## 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**

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