Monthly Market Update

February 15, 2023

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Despite declining corporate earnings and stubbornly sticky inflation, stocks have jumped out of the gate in the first month and a half of the year. Is it another Bear Market rally or an end to the dismal decline we saw last year? It is still too early to tell.

The recent strength has allowed the major indices like the S&P 500 to break above their 200-day moving averages, as well as clear the downtrend line that acted as a ceiling throughout 2022. As is normal after a breakout, the market appears to be backing and filling some over the past week. The positive price action could be signaling a possible bottoming formation, which began as early as last May, if the economy is able to pull off the elusive soft landing that is the subject of endless debate in the financial press. However, there is still much work to do for that to be the case.

Markets seem to be encouraged by what they perceive to be a softening in rhetoric from Federal Reserve Chairman, Jerome Powell. Powell's new catch phrase, "disinflation", has led many to believe that the Fed could possibly soon revert back to its easing ways.

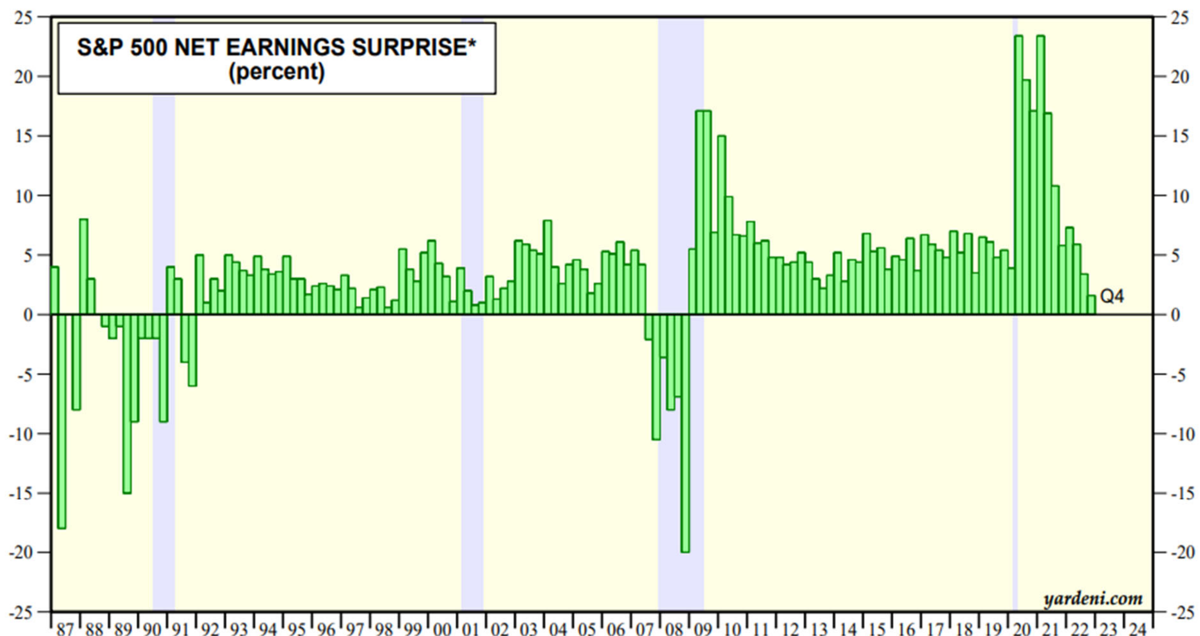
However, the recent CPI and employment numbers have shown that the task of getting inflation down to the 2% goal will be a chore. In addition, despite hopes for an ease in Fed policy, the messaging from the Fed has seemed to be consistent that "higher (rates) for longer" will remain. On the positive side, rather than an aggressive emphasis on more tightening, it appears Powell et al have moved to a wait-and-see stance, with the remainder of the Fed's actions focused on fine-tuning.

From a fundamental perspective, the data is much more mixed and uncertain.

The labor market continues to show a high level of strength. The latest jobs number came in at 517,000 jobs created, handily beating estimates of 185,000. While that is generally positive for economic activity, the fear is that a strong jobs market could make inflation stickier.

The messaging from corporate America contradicts the strong jobs numbers, with large layoffs announced at many of the largest companies. We are aware, however, that it is typical for markets to bottom before the news is at its worst.

Earnings have been relatively soft. Per Factset, earnings are only coming in at .6% above expectations so far. If it holds, it will be the lowest percentage since Q4 of 2008.



* Percentage that S&P 500 companies reported earnings above or below the consensus estimate at the time of the earnings report.
Earnings surprise capped at -20% during Q4-2008.
Note: Shaded areas are recessions according to the National Bureau of Economic Research.
Source: I/B/E/S data by Refinitiv and Yardeni Research Inc.

The same thing is happening on the revenue side. Only 61% of companies have beaten top-line numbers – below the 5-year average of 69% and the 10-year average of 63%. Additionally, for several months now, analysts have been lowering their expectations on earnings as a whole.

There is clearly some evidence that the Fed’s tightening is having its intended effect, as demand appears to have softened. In the face of softer demand, markets appear to be pricing in a soft landing, or at least a shallow recession should we get one.

The hope is that the aggressive actions taken last year were enough to bring inflation back down to the Fed’s targets more quickly, which would set the stage for Powell and team to shift back into neutral.

Will the hopes win out? Not if inflation proves sticky enough to require more tightening by the Fed. Another problem out there could be deeper declines than now expected in earnings. The emergence of either scenario could derail what has so far been a promising attempt at a market bottom.

In the meantime, the positive technical action has led us to slightly increase our exposure in our tactical strategies. It is important to remember that a market bottom is a process. The difference between one that fails and one that succeeds is only known in retrospect. False starts are highly common along the path. As the facts change or become more evident, we will adjust accordingly.

TACTICAL OPPORTUNITY

We made a slight increase in percent invested given the market strength. There have been lags from the more defensive holdings like Pfizer and Chevron. However, there have been nice bounces from Discretionary holdings like Target and Amazon. Continued Volatility is expected.

FULLY INVESTED STRATEGIES

ETF SECTOR ROTATION

The strong start to the year has been a complete reversal from last year with the best performers coming from last year's laggards. While we remain overweight in Energy, Financials, and Healthcare, recent trends saw us reduce holdings in the defensive Consumer Staples sector and increase to a neutral position in Communications. A reminder, false signals are not uncommon in markets like we are in.

In the broad markets, we added a position in Growth and continue with a half in half out stance on Internationals.

EQUITY GROWTH OPPORTUNITY

In January, laggards became leaders and fortunately, all sectors participated in the rally to different degrees. We increased our exposure to Growth via some Technology names to increase the beta in

the portfolio. Should we get some more momentum on the upside, we may continue to alter the existing allocation. At this point, we are monitoring the day-to-day disinflation narrative and are remaining patient with the current allocation.

EQUITY GROWTH AND VALUE

The strange rotation rally to start the year has been seen in our portfolios year to date. More defensive holdings like United Health and other Healthcare and Consumer Staple stocks have lagged. However, there have been good bounces in the likes of Applied Materials, Fed Ex, Skyworks, and other more growth-oriented stocks. Despite the growth rally, we maintain a more defensive posturing in the portfolio.

EQUITY DIVIDEND INCOME

Dividend payers have seen a nice start to the year even if not as strong as some of the big bounces that last year's losing stocks have seen. None of the holdings look in peril, though some lag in Healthcare and Utilities. Generally, we have a good mix for now that has been grinding higher for several months.

RISK BLENDED STRATEGIES

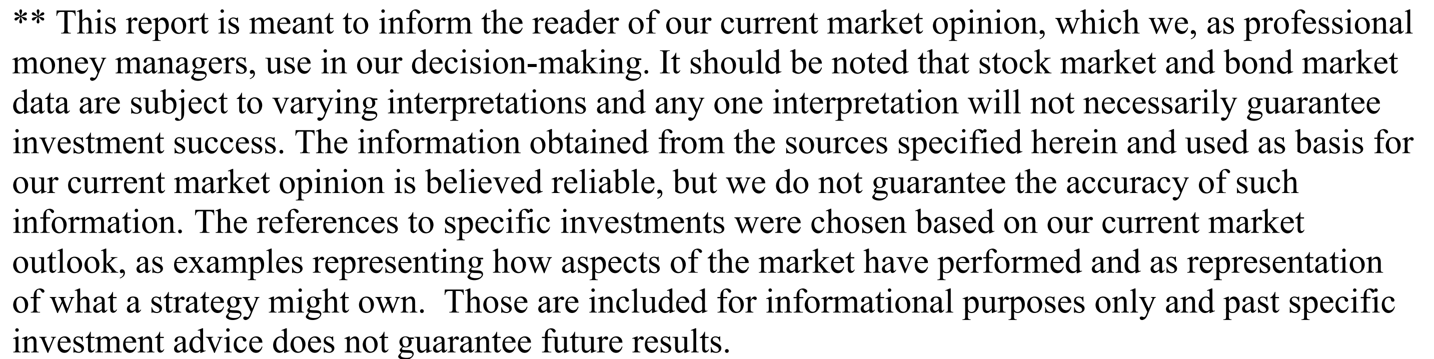
Our Risk Blended Strategies are a combination of both Premier Wealth Tactical Core and ETF Sector Rotation. Please see the above commentary for more information on each strategy.

- **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.