Churchill Management Group

Monthly Market Update

March 15, 2023

TACTICAL STRATEGIES

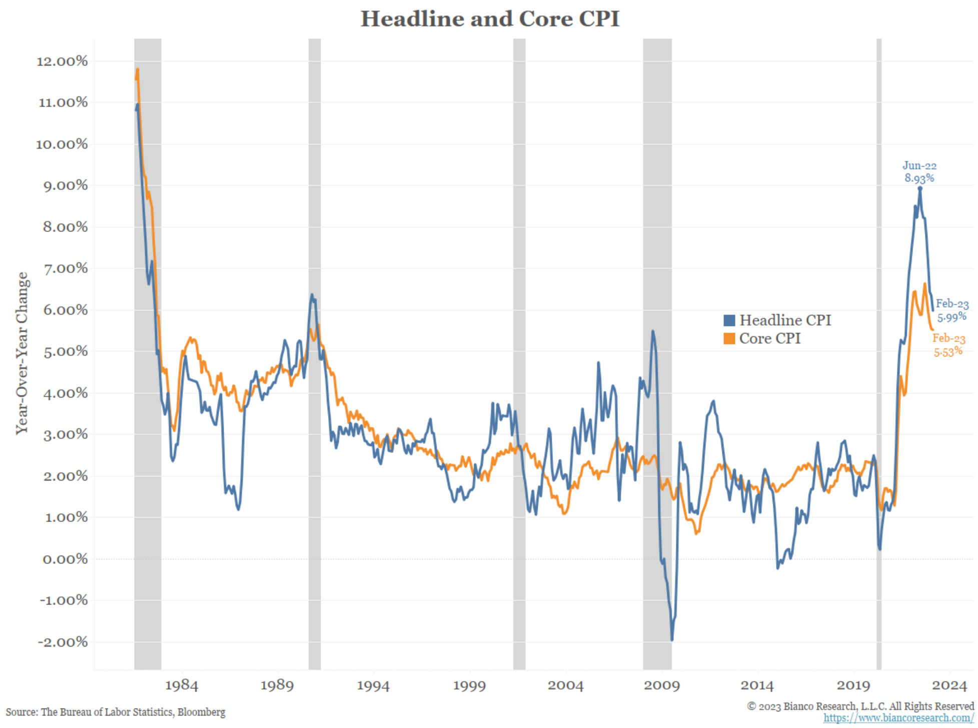
PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Volatility has returned to the markets as investors attempt to sort out a cross current of concerns. The recent collapse of Silicon Valley Bank (SVB) has rightfully grabbed the headlines, but investors had already been fretting over what appears to be sticky inflation and a Federal Reserve that seems to be emphasizing higher interest rates for longer. Has the market’s attempts at a bottom been squelched?

After starting the year with a bang, stocks had started to cool their ascent at the start of February even before the bank news last week. While up for the year, stocks have dropped around eight percent from their early February highs as of this writing. About half of that decline has happened since the SVB news broke. As we just put out a piece on the SVB situation earlier this week, we will not dive into the details again. For those who missed it or want to re-read it, you can click here for a link to the article.

While the hope is that the Fed has stemmed the issue, the incident has put greater emphasis on banks and their balance sheets. That certainly is the case with Credit Suisse, who has been a problem child with systemic implications for some time. We will be keeping a close eye on that.

Fundamentally, inflation concerns continue to hang over the market. Tuesday, CPI came out at a 6% annual rate, the eighth consecutive month of a decline in annual CPI. While that is heading in the right direction, the issue is that six percent is still a ways from the Fed’s stated goal of two percent, and the eight months of decline followed sixteen months of CPI increases. The last time inflation was below two percent was February of 21.



So all eyes are back on the "guess what the Fed will do" game. Will they pause rate hikes on the back of the SVB issue? Is it an aggressive 50bps to get this inflation stomped out? It is a tight box that the Fed finds itself in for sure. As a result, stocks could see some back and forth as the narrative quickly changes. The current focus has turned from fear of inflation to worries of declining earnings and a potential recession.

Prior to the bank problem, technical charts looked ok. The market backed off, as is normal after the big rally we had to start the year. On cue, after backing off, the S&P bounced off the 200-day moving average, a positive to technicians - until the SVB problem last week.

In sum, the picture remains murky. If we see further weakness, it could signal that we had a failed breakout, meaning that the bear market may not be over. In that case, we would seek to take a step back.

Historically, this kind of back and forth in markets is common as stocks try to find their footing. For now, it appears it could go either way, hence, a conservative approach is warranted. The key is not to be stubborn with any one narrative, but rather let the markets tell us.

TACTICAL OPPORTUNITY

Volatility has retuned, eliminating any buy signals. We are seeing weaknesses across the board, especially in retail. On the other hand, core holding Apple is looking positive.

FULLY INVESTED STRATEGIES

ETF SECTOR ROTATION

Since February, all 11 S&P sectors have been down. The Financials were obviously jolted by the banking news. Hit just as hard has been the Energy sector as Oil has gapped down some 13% in just a few days. The strategy has been leaning neutral, but does have over weights in Financials and Energy, both of which are under pressure. All sectors are under scrutiny given the market volatility. Interestingly the Tech sector has been holding up very well.

As a result of some resilience in Tech, the Growth side of the ledger has fared better than Value. Small Caps have also taken it harder. Internationally, we remain half way in with our options. Europe had been holding up better than U.S. equities but recent news surrounding Credit Suisse has given that region a step back. A certain direction in all options is hard to detect at present.

EQUITY GROWTH OPPORTUNITY

The narrative has quickly shifted in 2023. We started with the disinflation narrative, which ramped up Technology stocks in January. February reversed course as the inflation bug kicked in yet again with a very strong jobs report. The rate sensitive Technology sector was quickly sold off. On March 7th, Fed Chair Powell talked tough and set the table for higher rates for longer. Only two days later the Silicon Valley Bank debacle reared its head and recession fears took over. Recession fears led to plummeting rates and a sell-off in Energy, Financials, and the Industrials. Given the rapidly changing narrative, leadership has been absent in the markets and we are looking to stay in the calm water. We will continue tinkering with the portfolio to aim to achieve this goal.

EQUITY GROWTH AND VALUE

Dealing with the SVB fallout, stocks like Charles Schwab took oversize hits. Is it overdone? Most likely. Some financials like JP Morgan may benefit in the fast changing environment. Landmines suddenly appear everywhere. Apple and Microsoft have been holding up better as the market struggles for direction. We expect some weeding and the return of tax harvesting with the volatility.

EQUITY DIVIDEND INCOME

In general, Dividend stocks have been stepping back with the market, if not a bit more, given the Value lean of the group. As mentioned above, the Financials have been hit hard as has Energy. Banks such as New York Community Bankcorp and stocks in the group like Principal Financial Group and Prudential Financial Group are seeing pressure. Holding up better have been health stocks like Merck & Co. and consumer stocks like Pepsi.

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.