Churchill Management Group

Monthly Market Update

September 7, 2023

TACTICAL STRATEGIES

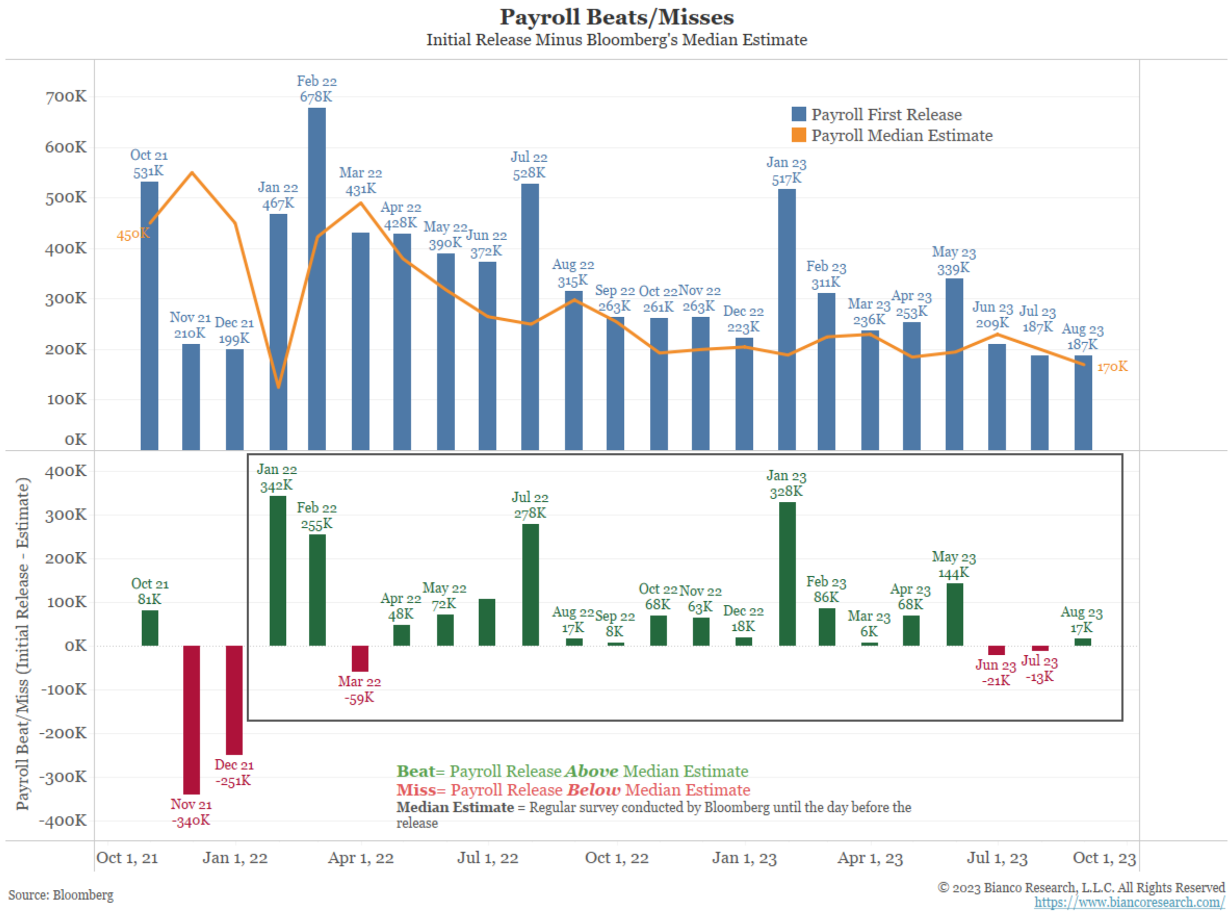
PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

The action in the major indices has been relatively textbook over the last six weeks.

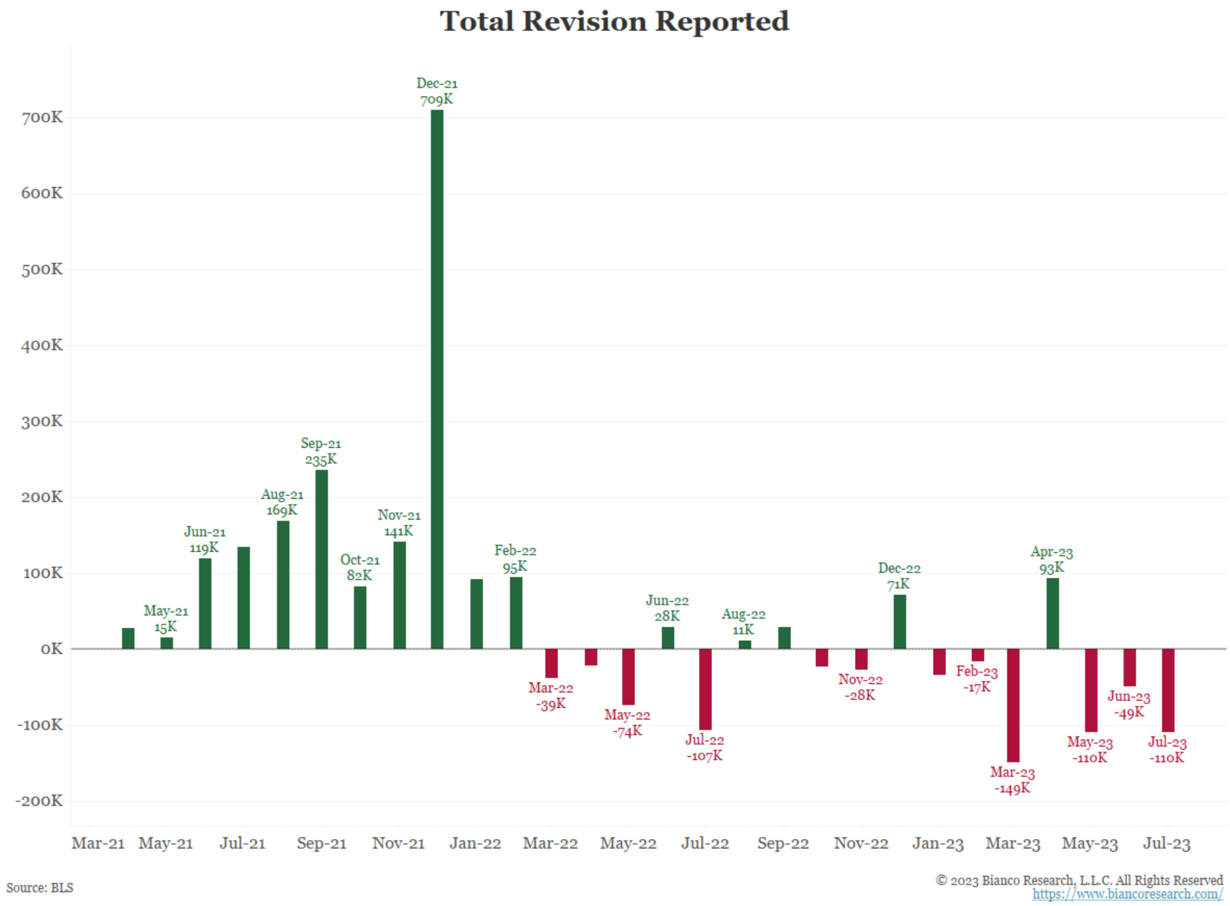
After breaking out of bottoming formations during May and June, the stock market took a much-needed breather. As one would expect, leading stocks had the biggest drawdowns. The tech-heavy Nasdaq Composite saw a 9% decline off the July highs, while the S&P 500 only saw a 6% pullback. Since then, both have seen a decent bounce.

Earnings season was once again better than expected, although down year over year. The bright spot was Tech, which continues to see positive revenue and earnings growth. Many of the AI-related names managed to beat already high expectations. Results for these leaders in artificial intelligence certainly gave many investors justification for their lofty earnings multiples.

So far, the economic data continues to show progress, with inflation slowing and even the jobs market finally beginning to cool – albeit at a less noticeable rate. (See chart, below.) The trend is clearly lower over the last 20 months.



Since the jobs numbers have beaten estimates in 17 out of the last 20 employment report releases, it may feel like the jobs market has been stronger but that initial readouts have also been a bit misleading. What many have missed is this: Revisions to the initial releases have been negative in 12 of 16 months. Essentially, the initial employment number has been overstated, then revised downward over time.



The negative revisions are actually a bit of good news, as it shows the Federal Reserve's medicine is working. Tighter monetary policy in the form of higher interest rates is slowly taking its effect and slowing down certain parts of the economy.

With both inflation and the jobs market slowing for now, the hope of a soft landing is certainly alive and well.

As always, history has shown that it is easy for the Fed to tighten financial conditions to slow the economy. The hard part is fine-tuning it so that it doesn't result in an outright contraction. What makes it difficult is that the tighter financial conditions often affect different industries and sectors unevenly in terms of time lag and magnitude of impact. Plus, negative feedback loops are hard to predict.

For now, the data is moving in a positive direction, delivering the Fed's intended effect.

The technical action in the market remains positive. As expected, the major indices pulled back. After getting oversold, they have bounced nicely over the last couple of weeks. Most of the major indices are now only 2% to 3% off their highs. We do note that we are now in what is seasonally the most challenging month of the year - September.

The action after a pullback is worth watching closely. Such moves can often reveal clues to the health of the existing trend. Quick recoveries, along with healthy participation via good breadth numbers, signal strength. We will be on the lookout for that.

TACTICAL OPPORTUNITY

With stocks moving back and forth between groups as leadership, Tactical Opportunity has maintained a treading water position in terms of percent invested. Variation could even be seen in the big cap names, with Apple lagging, but Amazon and Google outperforming.

FULLY INVESTED STRATEGIES

ETF SECTOR ROTATION

It has been a rather even-handed pullback in the markets since the first of August. Only the Energy sector was up as it bounced after being the laggard for the year. With rates rising, Real Estate and Utilities were the biggest laggards, along with Consumer Staples which appear to have gotten a little overpriced. Otherwise, all the sectors were in the same neighborhood in terms of performance.

We remain overweight Communications, Tech, and Consumer Discretionary, with equal to slight overweights in Energy, Materials, and Industrials.

In the broad markets, Growth and Value were similar with Small Caps lagging. Internationals continued to lag, so much so that our model has eliminated all positions in the area for now.

EQUITY GROWTH OPPORTUNITY

August hit the pause button as the markets seemingly needed to catch their breath from the solid months of June and July. Leadership has returned back to Technology and Growth stocks. We have added some more risk to the portfolio in an attempt to capture more upside.

EQUITY GROWTH AND VALUE

While the sectors performed generally the same, individual stocks saw some decent variation. Bad earnings had big impacts on some holdings and weakness was felt in holdings like Johnson Controls and Carnival Cruise. Meanwhile solid months came from the likes of Cisco and Parsons Corp. More of the same is expected as the market continues to evaluate if it is happy with the inflation battle.

EQUITY DIVIDEND INCOME

Dividend paying stocks performed in line with the general markets. There was weakness from telecoms like Verizon and AT&T. Financials saw some good rebounds in names like New York Community Bank. No major changes at this time.

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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