Churchill Management Group

Monthly Market Update

October 11, 2023

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Fed Chairman Powell made it clear in his press conference that rates will likely have to remain higher for longer to battle stubborn inflation. The tough rhetoric along with September seasonality led most of the major indices to take some steps back, the S&P 500 down a little more than 4% since the start of September after a bounce this week.

Coming into October, the technical backing and filling in the market was quite normal following the impressive run during the earlier part of summer. However, along with tougher Fed speak, yields on bonds spiked spooking the market.

The biggest moves downwards came after the Fed meeting. What the market liked least was the fact that Fed members' projections included another rate hike before the end of the year, despite slowing economic conditions, as well as less rate cuts in 2024 and 2025.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, September 2023

Percent

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2023	2024	2025	2026	Longer run	2023	2024	2025	2026	Longer run	2023	2024	2025	2026	Longer run
Change in real GDP	2.1	1.5	1.8	1.8	1.8	1.9–2.2	1.2–1.8	1.6–2.0	1.7–2.0	1.7–2.0	1.8–2.6	0.4–2.5	1.4–2.5	1.6–2.5	1.6–2.5
June projection	1.0	1.1	1.8		1.8	0.7–1.2	0.9–1.5	1.6–2.0		1.7–2.0	0.5–2.0	0.5–2.2	1.5–2.2		1.6–2.5
Unemployment rate	3.8	4.1	4.1	4.0	4.0	3.7–3.9	3.9–4.4	3.9–4.3	3.8–4.3	3.8–4.3	3.7–4.0	3.7–4.5	3.7–4.7	3.7–4.5	3.5–4.3
June projection	4.1	4.5	4.5		4.0	[illegible]	[illegible]	[illegible]		[illegible]	3.9–4.5	4.0–5.0	3.8–4.9		3.5–4.4
PCE inflation	3.3	2.5	2.2	2.0	2.0	3.2–3.4	2.3–2.7	[illegible]	[illegible]	2.0	3.1–3.8	2.1–3.5	2.0–2.9	2.0–2.7	2.0
June projection	3.2	2.5	2.1		[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	2.9–4.1	2.1–3.5	2.0–3.0		2.0
Core PCE inflation[4]	3.7	2.6	2.3	[illegible]		[illegible]	2.5–2.8	[illegible]	[illegible]		3.5–4.2	2.3–3.6	2.0–3.0	2.0–2.9	
June projection	3.9	2.6	2.2			[illegible]	[illegible]	[illegible]			3.6–4.5	2.2–3.6	2.0–3.0		
Memo: Projected appropriate policy path															
Federal funds rate	5.6	5.1	3.9	2.9	2.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.4–5.6	4.4–6.1	2.6–5.6	2.4–4.9	2.4–3.8
June projection	5.6	4.6	3.4		2.5	[illegible]	[illegible]	[illegible]		[illegible]	5.1–6.1	3.6–5.9	2.4–5.6		2.4–3.6

Fed members now expect rates to be higher in 2024 and 2025 than in their previous forecasts

Investors appeared to finally be convinced that the Fed might be serious about the higher-for-longer mantra, causing a sell-off in U.S. Treasuries and equities. The 10-year Treasury has risen about half a percent to 4.8% in less than three weeks since the Fed's last meeting. In the bond market, that constitutes a big move.

As Treasuries sold off and yields rose, the equity markets adjusted with a quick sell-off to some key levels. The S&P 500 is now testing the 4200-breakout level, which also happens to coincide with its 200-day moving average. This should be a key technical benchmark to watch. So far, that level has held.

Economically, there were some concerns over consumers such as the restart of student loan payments combined with big strikes in Hollywood and the automobile industry. The tragic news out of the Middle East could also have an impact, depending on what actions are taken going forward.

Small Caps have been the weakest by far, having seen a 13% drawdown off the highs that brought it once again around the bear market lows. The smaller capitalization stocks have had a much tougher time, likely because of higher rates. Their weaker balance sheets make them less creditworthy and more subject to rising yields as their cost to borrow has risen significantly.

The big concern is whether the Federal Reserve's tight monetary policy will ultimately lead to a larger economic problem. Coming out of over a decade of ultra-low rates, it is not hard to believe that some companies are not prepared for the current regime of much higher rates.

Volatility has spiked and more uncertainty has arisen about what effects the Federal Reserve's tightening policy will have. Yet, the consensus is that the Fed will be data-dependent. That likely means it will take time as we await more data over the coming months, data that will hopefully paint a clearer picture of the direction of the economy.

The technicals are being tested but so far remain intact. We will be patient and watch our indicators for clues as to how this resolves itself.

TACTICAL OPPORTUNITY

Markets have been feeling some heat, but signals remain dormant. The good news is that there have not been too many sell signals. Retailer Lowe's had the worst month in the portfolio while medical company Centene Corp had the best. Some cash is still being held in the portfolio.

FULLY INVESTED STRATEGIES

ETF SECTOR ROTATION

With rates spiking during the month, the more interest rate sensitive sectors of Utilities and Real Estate performed the worst. Additionally, the normally defensive Consumers Staples also lagged as the group had gotten expensive. Most sectors were in close range of the S&P with the Communications sector being the only positive group for the month.

The model is still close to neutral, but overweight Communications, Discretionary, and Tech, with equal weights in Energy, Industrials, and Materials. The model is underweight Staples, Financials, and Healthcare and completely out of Utilities and Real Estate.

The broad markets were down slightly more than the market, especially in the Small Caps. Only Large Cap Growth performed better than the market. Globally, Internationals were around the U.S. We remain out of Internationals in the model.

EQUITY GROWTH OPPORTUNITY

September saw the markets re-price themselves with the realization that rates may remain higher for longer. Growth stocks took an especially big hit for the month. The selling was in line with September's negative seasonality and the majority of stocks held their technical sell levels. A 4th quarter rally is still possible and should rates level out or ebb lower, we could see Growth resume its course.

EQUITY GROWTH AND VALUE

The portfolio saw some consumer area weakness in stocks like Carnival Corp and Home Depot. Growth and Energy stocks like Meta and Chevron were among the best.

EQUITY DIVIDEND INCOME

Behind higher rates, dividend stocks lagged the general market. After a brief rally over the summer, Financial stocks took a step back. Energy stocks showed some renewed strength since September. Normal activity expected for now.

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
