Churchill Management Group

Monthly Market Update

October 3, 2024

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Despite some seasonal bumps that hit the market in early September, the major indices responded positively and have been slightly higher over the last month. Both the Dow and the S&P 500 hit new highs recently, with the Nasdaq still just around 4% from all-time high territory.

The bumps weren't too rough, and along the way market breadth (which is the advance/decline line which shows whether more stocks are going up or down) was making new highs throughout the pullback. Technically, this strength in the breadth was a bright spot as stocks began to broaden out from narrow leadership and gave hints that the indices were likely not in too deep of trouble.

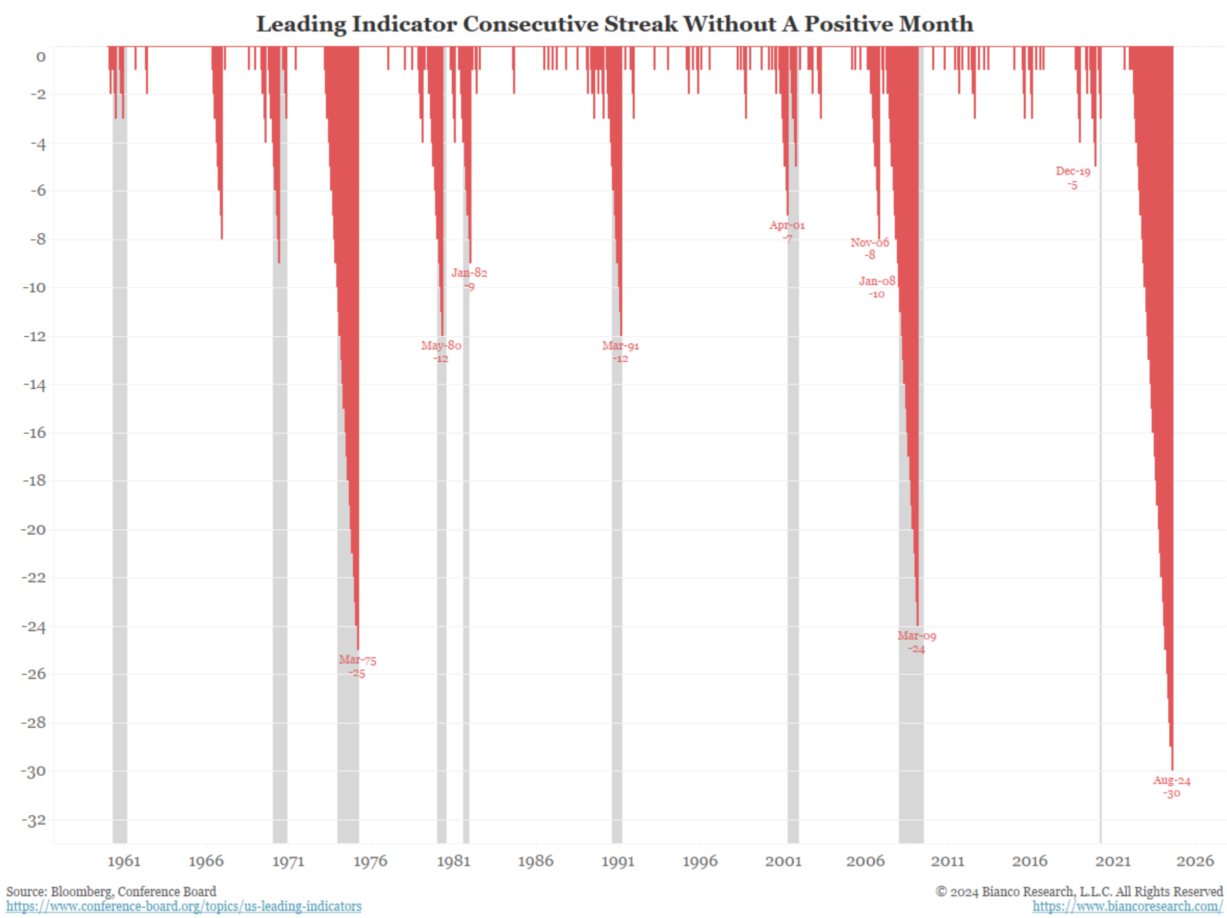
The big news for the month revolved around monetary policy. With an interest rate cut a foregone conclusion, the debate became over if the cut would be a quarter point or a half. In somewhat of a surprise to some, the Fed dropped rates with a more aggressive 50 bps move to show its support for the jobs market. The Fed has said it feels good about the direction of inflation and therefore appeared to be making a switch from its fight with inflation to that of its second mandate – a focus on jobs.

While we may not be out of the woods with inflation, it has been trending down steadily which appeared to give the Fed the confidence to go bigger on the cut. Interestingly enough, the longer end of the yield curve moved higher with the yield on the 10-year Treasury rising after the rate cut. For stocks, markets have mostly cheered the cuts, as evidenced by the new highs for the Dow and S&P 500.

Recently, China surprised with a move to stimulate the country's economic malaise. While the initial read is that China has yet to do enough, the clear indication is that the government appears to be in stimulus mode. Of course, the concern remains that the stimulus could also drive prices higher, making the Fed's inflation fight here more difficult.

At present, it is hard to look at markets and not see them positively. The Fed is expected to continue to cut rates, but Fed policy remains contingent on incoming data staying positive in terms of inflation numbers. The issue is that there remain many unknowns with the trajectory of both inflation and the economy. Reading the tea leaves on this one is difficult. This current cycle appears unlike anything in the past cycles given the effects of the pandemic spending which is still affecting the economy in unprecedented ways.

An example is a fundamental signal known as the LEI or Leading Indicator Index which is a composite of 10 indicators that is used to predict the direction of the economy. Historically, 8 or more consecutive negative readings typically gave way to a recession. The LEI has been negative for 30 consecutive months now, yet without a recession materializing, which is a testament to the resilience and uniqueness of the current economic run.



Additionally, Tim Timiraos – who covers the Fed as chief economics correspondent for The Wall Street Journal and is viewed by many as the way the Fed leaks information to the public – recently published an article arguing that lower rates may not help as much this cycle as they have in the past.

This is due to the nature of the speed in which the Fed raised rates to fight the recent inflation battle. Again, a unique post-pandemic set of circumstances

Even with the new rate cuts, however, rates remain significantly higher than they were before the hiking began. That means anyone who needs to tap into the credit markets today to replace their pre-hike loans coming due today will still see much higher rates. Additionally, home buyers still seem hesitant to take on the higher financing costs.

Technically, the market remains on solid footing with the market continuing to broaden out as new highs are being made. Historically, rallies with broad participation tend to have more staying power. With breadth consistently making new highs, we remain constructive on the markets.

Fundamentally, with a Fed that is still data dependent, we will be monitoring any changes to incoming data that could change the narrative. We are also keenly aware that today's lofty valuations increase market vulnerability in the event anything else goes wrong. For now, we are staying the course.

TACTICAL OPPORTUNITY

Market strength has allowed the percent invested to remain consistent. We saw some weakness in healthcare stocks like Elevance and Novo, but good jumps from Advanced Micro and Meta offset the weakness. No change in the outlook as of now.

FULLY INVESTED STRATEGIES

ETF SECTOR ROTATION

With markets up around 1% since the start of September, it was a somewhat strange brew of leadership for the month. Utilities, behind higher electricity demand, and Discretionaries, behind a pop in Tesla, were the top performers. We saw no huge laggard for the month, though Healthcare performed the worst, dropping around 3% after a nice run into the month. Markets seem unwilling to commit to an area for anything beyond a month or two, so we remain fairly neutral in our positioning.

Broad markets were neutral as well. Growth outdid Value after having lagged for a bit. Mid-caps were in line with general markets while Small Caps slightly lagged. For the international markets, the surprise came from China's stimulus which has us watching closely for a buy signal on Emerging Markets. We continue to prefer the U.S. over Europe.

EQUITY GROWTH OPPORTUNITY

September defied negative seasonality and provided a solid month. We are seeing strength across the board which is positive compared to the previously concentrated market. Semiconductors had a big boost but remain volatile while the remaining sectors played catch up. Optimism for a soft landing is still in place but the market will continue to remain data dependent with recession fears lurking.

EQUITY GROWTH AND VALUE

We have been happy with the way the portfolio of stocks has been holding up. Some of the weaknesses in healthcare was felt in our holdings, like Universal Health and Eli Lilly, but nothing out of the ordinary. Real nice pops were seen from the likes of Home Depot, Caterpillar, and Oracle. As with the other strategies, no significant changes in direction at present.

EQUITY DIVIDEND INCOME

Dividend stock indices have been essentially flat for the past month resulting in no significant changes in our portfolio. We saw some stalls in Financials and Healthcare but mostly positive action was seen in our holdings.

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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