Churchill Management Group

Monthly Market Update

August 9, 2023

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Markets appear to be taking a much-needed breather over the past few weeks following what had been a surprisingly blistering rally in many of the Large Cap Growth names. Since the start of July, the market has been largely flat, though we have seen the Technology leadership tap the breaks while some of the lagging groups have filled in.

While some backing and filling is normal after a big run, this pause was especially muted until last week when Fitch downgraded the credit rating of U.S. debt. The downgrade was not especially meaningful since the S&P did the same in 2011 when the economy was in much worse shape. However, last week's move by Fitch did give investors a reason to take profits.

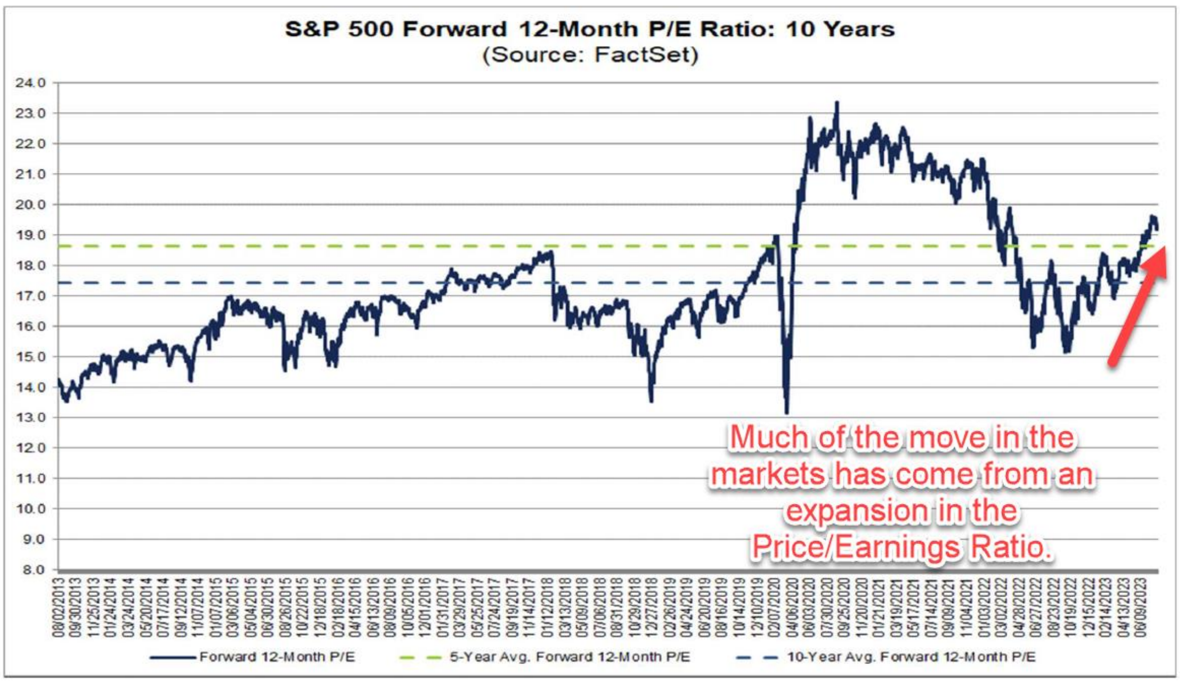
As a result, Tech saw its biggest weekly decline since March. It would not be a surprise if investors take a wait-and-see approach as they weigh the better-than-expected earnings and inflation data against the prospects of tighter financial conditions and the ultimate effects on the economy.

The hope is that the Federal Reserve has done just enough to bring inflation down without causing an outright recession – a scenario often labeled as a soft landing.

As expected, the Fed raised rates another 25 basis points during July, part of their continued fight against inflation which has dropped a bit faster than expected. The soft inflation number for June was an easy beat due to the unchallenging comparison against last year's high number when energy prices were high. Unfortunately, energy prices have again turned up and future inflation comparisons won't be so easy.

On the earnings front, 84% of S&P 500 companies have reported. The positive take is that earnings have generally been better than expected, with 79% beating their expectations. The negative view is that beating expectations is great, but earnings still posted a 5% year-over-year decline, the third consecutive quarter of earnings declines.

Most of the appreciation in equities has come on the back of P/E expansion. While earnings have come in better than expected, they are still relatively flat or down for most stocks. Rising prices without an accompanying lift in earnings means investors are discounting a better outcome and paying higher prices per share of earnings today. In sum, stocks remain expensive.



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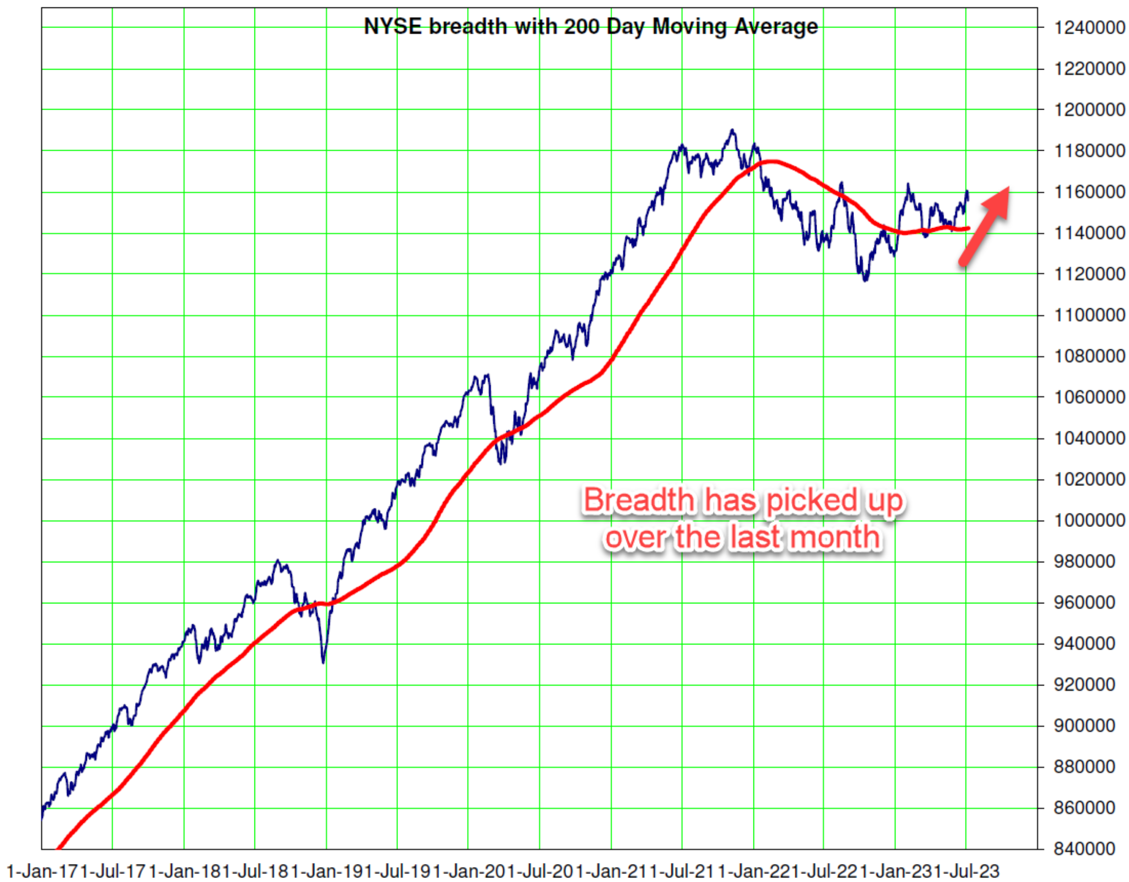
Technically, the markets continue to look good. After breaking out of a bottoming formation in a narrow fashion – where a limited number of Large Cap Tech stocks accounted for most of the gain – we have seen the rally expand to include a wider array of stocks.

The hope is that breadth continues to broaden because rallies where most stocks participate on the upside tend to be more robust and longer lasting. Breadth on the NYSE and the Nasdaq have both picked up, but we'd like to see that continue.



For now, the action in the market remains constructive, with the technicals leading the way. Fundamentally, it remains to be seen whether the elusive soft landing materializes, but markets appear to be pricing that in.

We remain hopeful, but incoming data over the next few months will shed some clues on whether inflation has been tamed without a material decline in the economy.

TACTICAL OPPORTUNITY

Tech tapped the breaks as Apple and Microsoft corrected after a spectacular run to start the year. Pleasantly, those stocks were offset by good moves from other Mega Caps such as Google and Amazon. Disappointing earnings forced a sell of a stock or two, while pleasant results helped some value plays like Bank of Hawaii.

FULLY INVESTED STRATEGIES

ETF SECTOR ROTATION

Overall, the market has been flat since July but has seen a mini rotation. Most noticeably, Tech tapped the breaks and has been down around 3% compared to a flat market. Not terrible, but a pause to its strong leadership year to date. Energy saw a bounce from being the laggard for the year. It was a sell the leader buy the laggard type of month.

At present we are overweight Growth through Tech, Communications, and Discretionaries. We are equal weight Energy, Industrials, and Materials. It is the type of market where conviction in leadership is difficult to have.

For broad markets, there wasn't much variation with Growth and Value within a percent of each other. Small Caps, particularly Value, outperformed. Internationals performed pretty close to the S&P.

EQUITY GROWTH OPPORTUNITY

The market uptrend remains in place despite some recent consolidation which is fairly routine at this point. Technology stocks lead the way for the year but we are seeing strength broaden out to other sectors in the market, namely Energy. We are watching this consolidation closely should it provide an opportunity to reallocate the portfolio as needed.

EQUITY GROWTH AND VALUE

A quiet month for most, though some violent reactions for some from earnings. Apple and Microsoft have stepped back, as might be expected given their strength so far. We also saw some good rebounds from some Energy and Financial holdings. We will be watching the holdings to see if the recent rotation is a temporary pause or a course change for the back half of the year.

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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