



Churchill Management Group

Monthly Market Update

December 7, 2023

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Stocks ended a three-month losing streak in November, abruptly turning upward as it appears many investors have decided that interest rates are headed lower sooner rather than later.

Additionally, there could be some seasonality at play as for the fifth straight year markets have seen a meaningful double-digit rally off of a pullback or low in September/October.

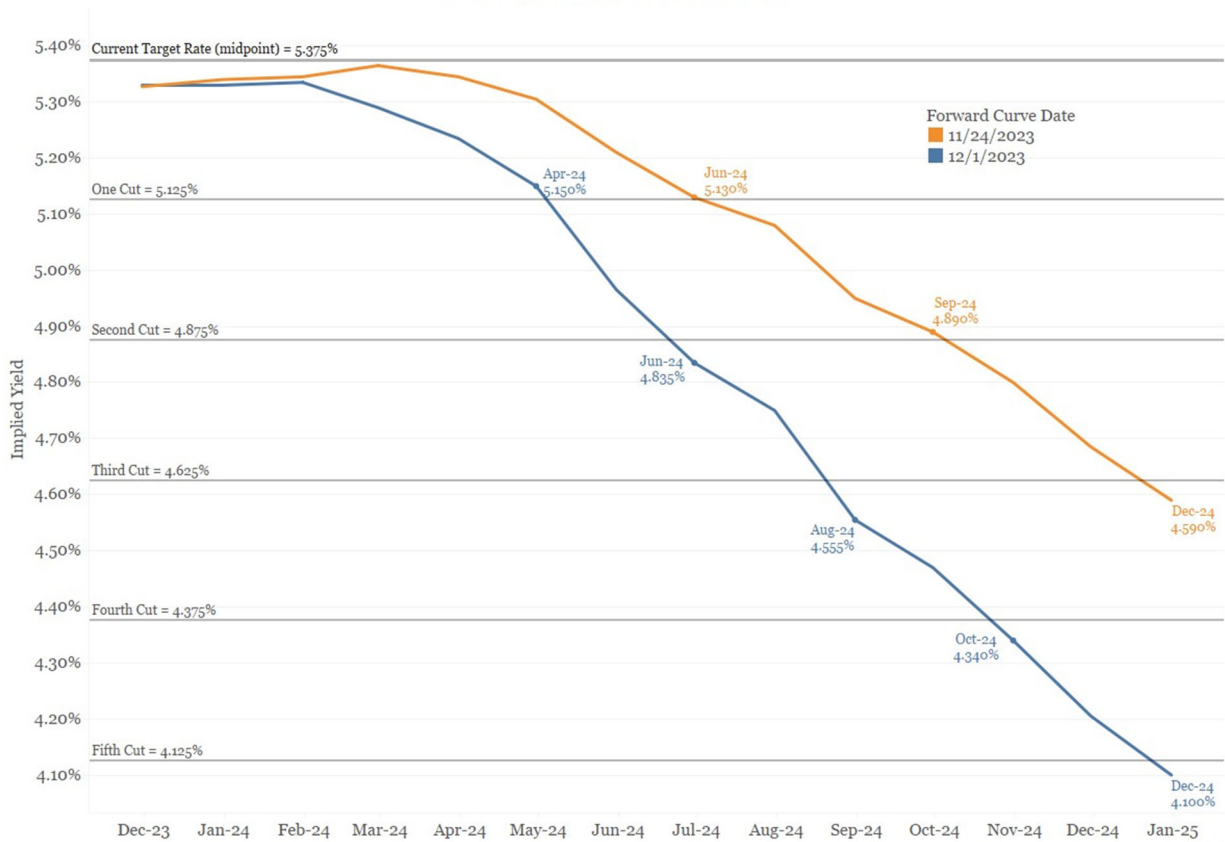
What happens next has been a mixed bag. In 2022, the uptrend came off the bear-market lows but rallied strongly into mid-December before taking a breather. The rally in 2021 ran through December before succumbing to a Bear Market the next year. The year-end rally in 2019 persisted until Covid hit in February, while the upturn in 2020 continued through most of the next year.

The big catalyst this time around coincided with data showing that inflation continues to come down consistently while data about the economy held up better than expected. In fact, the data has been so good that a “soft landing” now seems to be the consensus forecast.

Investors seem to be convinced that the final rate hike may be in, a position somewhat supported by a Federal Reserve that is acting content with its progress. As Chair Jerome Powell noted in his speech last Friday at Spelman College in Atlanta, “the risks of under- and over-tightening are becoming more balanced.”

While there is near consensus on the peak rate having been reached, the big question now is whether the market’s assumption of multiple rate cuts is in line with reality.

What the Market Has Priced In



Source: Chicago Mercantile Exchange, Bloomberg

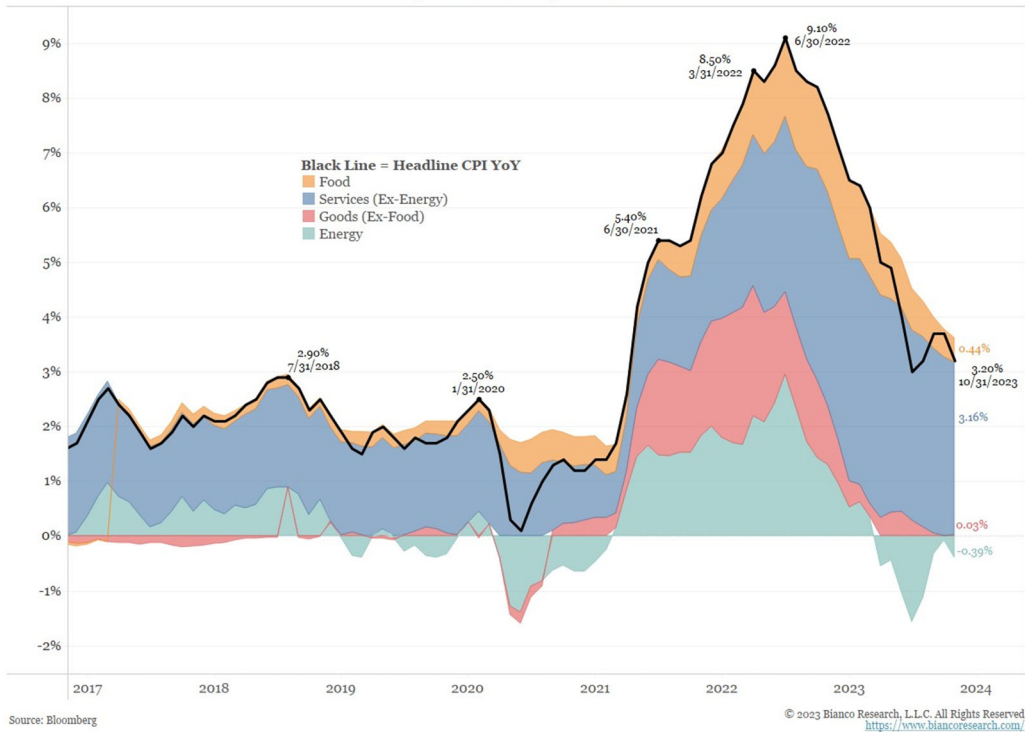
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The market has now priced in five rate cuts through the end of next year. Is the optimism overdone? Expectations in the futures market called for only three cuts the week before.

It is clear market participants have gotten quite aggressive with their expectations. If right, we could see the rally extend further, but our experience says it is better to let the data tell us than to guess that far out.

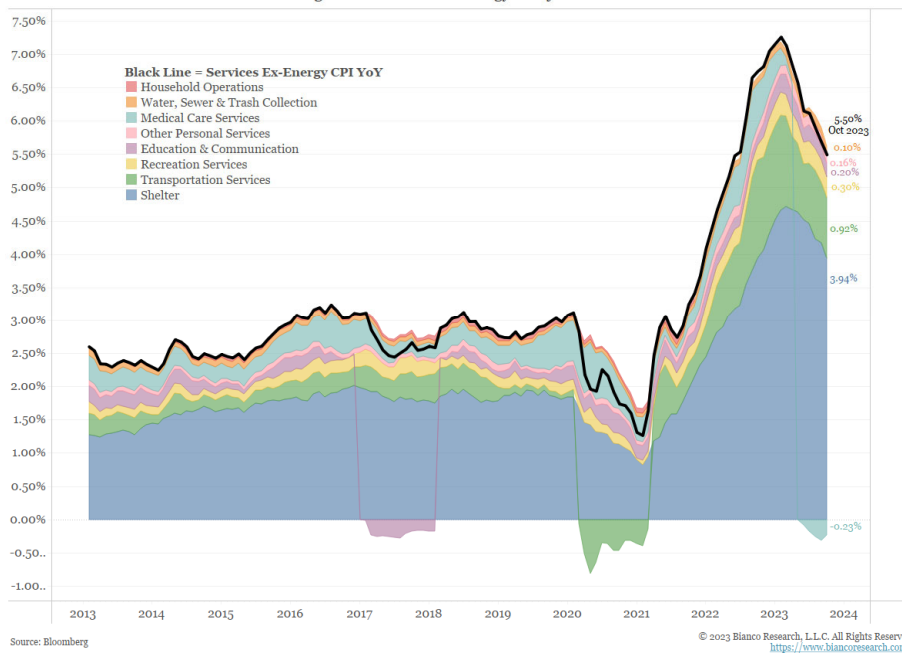
A lot will depend on where inflation goes, and it does appear the “low hanging fruit” – as it relates to inflationary pressures – has abated as expected. The prices of energy, food and goods have come down as the economy worked through the Covid-induced supply disruptions.

Breaking Down CPI's Major Contributors



For inflation to come down further, it will have to come from services. Interestingly enough, the biggest component of services is shelter.

Breaking Down Services Ex-Energy's Major Contributors



The good news is that shelter has been coming down, albeit from some high levels. Housing prices still need to come down in a meaningful way, but prices have been stickier than most would have predicted due to a lack of supply. No one wants to sell because they are locked into mortgages well below the current rates. Why move and have to pay twice the mortgage for the same house? It is ironic that the high rates are what is keeping housing prices high.

It is clear that markets are enthusiastic about a soft landing. While we see it as a possible outcome, we do not have the conviction that the market does. Historically, the odds are against it. Since WWII, there has only been one generally accepted soft landing, and that was in 1995. Hopefully, this will be the second one.

The short term technicals have taken a more bullish lean after flashing trouble just a month ago. While the odds say that a pullback or a pause is likely, a breakout off that pullback would be a bullish event – were it to happen.

For now, the action in November was quite positive. We actually saw the Small Caps and Mid Caps participate. Anytime we see broad participation, it is a positive. We will keep a close eye to see how things play out and take any action as necessary.

TACTICAL OPPORTUNITY

A mixed bag of results from the market's turnaround during November. Energy holdings like Devon lagged, while some great months were seen from Netapp, Lululemon and Apple.

FULLY INVESTED STRATEGIES

ETF SECTOR ROTATION

With the market pulling a sharp U-turn and heading up after a couple of months of trouble, it was some unexpected sectors leading the way. YTD laggards like Real Estate and Financials led the bounce back, along with a strong month from Industrials and a snap back from Discretionaries. Energy was the laggard, enough to trigger a cut back in the model after the group

had shown some recent promise. Our model remains barbelled in what is a murky looking view. Overweights in growth areas like Communications and Tech are combined with at least equal weights in more defensive areas like Staples and Healthcare. After having recently reduced some of the Discretionaries, the action over the past few weeks signaled to move back to a slight overweight

In good news, the broad markets outperformed, a rarity these days. Both Mid Caps and Small Caps were up nicely and about three percent better than the S&P on both the Growth and Value sides of the ledger

For internationals, they were up, but not as much as US Markets. Europe was better than the Emerging Markets. Our model has no holdings in the internationals.

EQUITY GROWTH OPPORTUNITY

November provided a solid month of returns in the portfolio. Optimism regarding a soft landing and lower rates provided a boost across the board enabling the portfolio to gain ground on the benchmark. We look to capitalize on a potential seasonally strong December.

EQUITY GROWTH AND VALUE

Same theme here. Energy holdings lagged and growth areas led, especially the likes of Home Depot, Caterpillar, and Chipotle. The Big Stocks like Apple, Microsoft, Google, and Nvidia had good months but probably averaged right around where the market was. We may see some small rotating headed into year-end especially where tax harvesting opportunities are available.

EQUITY DIVIDEND INCOME

Dividend stocks moved right along with the markets. Following the theme, lags in Energy stocks like Exxon, were offset by big moves from other areas such as Extra Space and Bank of Hawaii. Generally, a positive move from the dividend 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,

CHURCHILL MANAGEMENT GROUP

877-937-7110

info@churchillmanagement.com

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