Churchill Management Group

Monthly Market Update

January 9, 2024

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

The new year has started in a somewhat predictable manner. Stocks backed off in the first week of January after a blistering fourth quarter, before bouncing on Monday. It makes sense that investors would want to take profits, especially in the Tech area that performed best last year. Surely, some rebalancing after the run in the magnificent seven stocks would be required.

As we come into the New Year, the markets have been in an optimistic place feeling that the Federal Reserve's higher for longer talk turned out to not be all that long and that odds for a soft landing in the economy were looking better than expected.

You would have to say the Fed had a good year. In response to a battle with inflation running at multi-decade highs, it pushed rates up 11 times to 5.25%. While most economists assumed that would have caused a recession in the economy, or at least a material slow down, that simply did not play out. The economy remains strong on the heels of a robust jobs market – all while the inflation rate has fallen, though high prices remain.

As we begin the New Year, it is prudent to recognize that the markets have priced in a relatively rosy scenario. If it works out that way, all is fine and dandy. However, the bar is set quite high, so it would be easy to upset the apple cart. For example, market expectations are for six rate cuts next year, all while avoiding a recession. Additionally, earning expectations are high. All could happen, but it is a higher bar than what 2023 found itself facing. If the Fed doesn't cut as quickly or as much as the market has priced in, expectations will have to be reset.

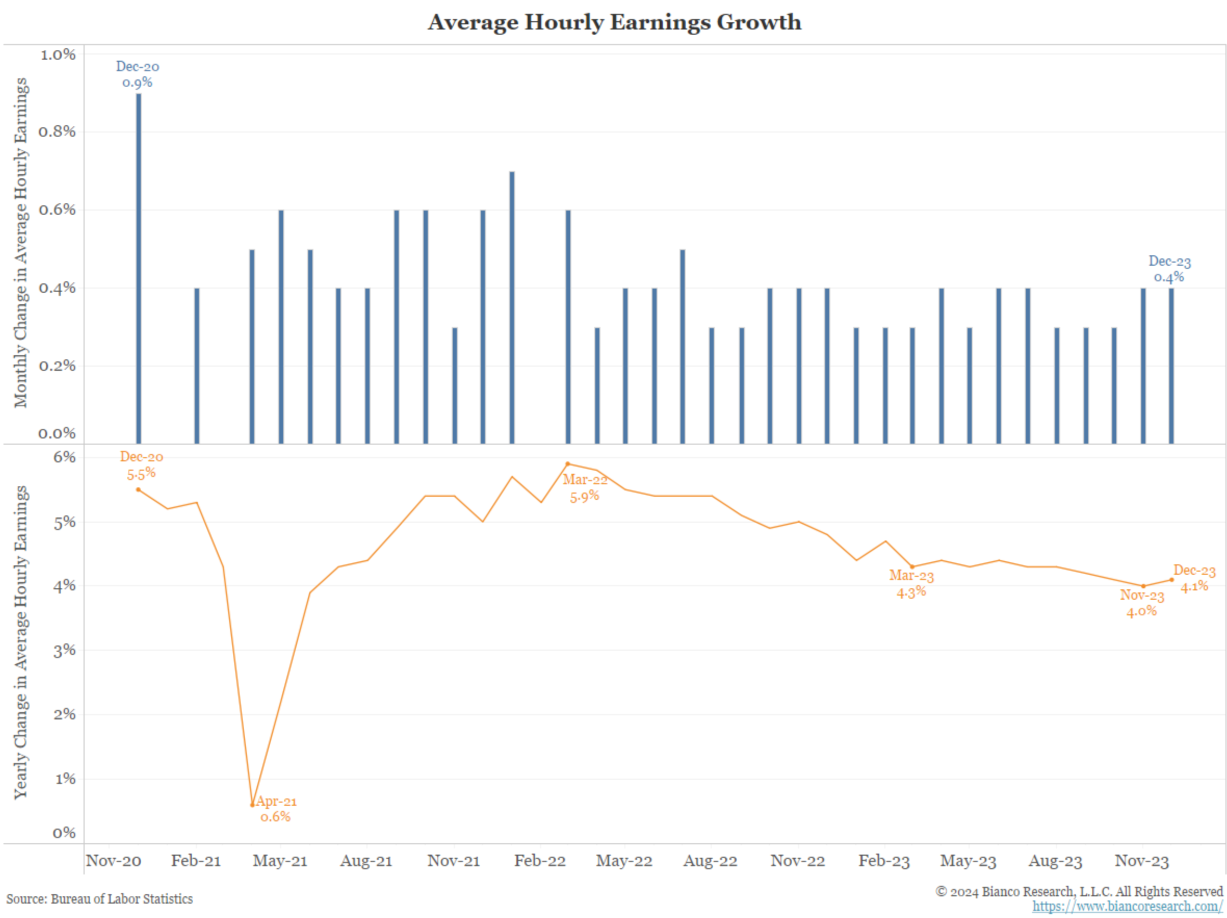
For now, the economic assumption is that inflation has been slain without a material slowdown in the economy – the so-called soft landing scenario. There is no question that the data is currently headed in that direction. The question isn't whether we can achieve a soft landing. Rather, it's whether we can maintain it.

If the Fed ends up loosening financial conditions too quickly, it could run the risk of reigniting the inflation flames. That would lead to the "no landing" scenario – where a stronger economy could lead to core inflation falling slower than expected and holding at a level higher than the Fed's long-term target of 2% which could then open up the possibility of tightening again.

The Fed is very data-dependent and those that watch economic data know most data series are lumpy. That is, trends can be identified but there will be outliers. It is often difficult to discern what is an outlier and what is the start of a new trend.

There will likely be a lot of debate on economic data points in 2024. So far, the data continues to point in the right direction. Last week's jobs numbers once again beat expectations.

One little nugget to watch was the wage gains. It continues to be sticky and has held steady above 4%. Structural inflation can not occur without wage gains to support it. Otherwise, demand simply falls as consumers can not afford the goods. If wage gains persist, consumers can "afford" higher prices on goods. That will be something to watch.



For now, the technicals look good. After an impressive year-end rally, the indices broke out into new 52-week highs and are now backing and filling, which is very normal. We do note the all-time highs are acting as resistance and form the ultimate litmus test for the longer-term picture. However, the shorter-term picture is positive.

We are encouraged as we begin the new year, but not without some reservations.

We commend the job the Fed has done, but we are also aware that the job is not finished. Monetary policy has long and variable lags, which is likely the reason for the Fed's pivot. It now appears it is actively seeking a soft landing, which is why the Fed is conscious about not leaving rates higher for too long.

While we applaud the Fed's enthusiasm in aiming for the best-possible scenario with a soft landing, we note that in doing so, it could undermine its fight on inflation. Only time will tell, but we are hopeful the Fed can get this one right.

TACTICAL OPPORTUNITY

Despite some bumps, the bulk of the portfolio has held up nicely. Bigger names Apple, Amazon, and Microsoft have taken very minor breathers, down just slightly from December 1. The majority of the portfolio, however, has gone along with the market nicely.

FULLY INVESTED STRATEGIES

ETF SECTOR ROTATION

December saw markets broaden out amid some randomness among the sectors. Tech has been the laggard since the first of December, the result of a pause from Apple. Leaders have been Healthcare and Financials. It is hard to say the market is showing any conviction toward a leading group at present. We remain with slight overweights in the Growth areas.

Broad markets have fared better of late with Small Caps showing some strength. No green light on the Internationals at present.

EQUITY GROWTH OPPORTUNITY

The stock market profited from a Santa Claus rally to end 2023. We saw the rally expand and several names in the portfolio benefitted, including Cabaletta Bio, Inc, Vertex Pharmaceuticals, and Quanta Services which all had strong showings in December. The market is flashing a green light, and despite some beginning of the year profit taking, we are looking to take advantage of the market setup.

EQUITY GROWTH AND VALUE

Weakness from an Apple downgrade slowed some of Tech, but there were plenty of offsets from the likes of Vertex Pharmaceuticals and Invesco. The story stays the same as last month, and we expect only minor weeding for now.

EQUITY DIVIDEND INCOME

Dividend stocks bounced with some strength in December, with big jumps from the likes of Financial stocks like Bank of Hawaii and Keycorp. The good news is that there really weren't any big laggards from the group. For now, we will stay the course.

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

** This report is meant to inform the reader of our current market opinion, which we, as professional money managers, use in our decision-making. It should be noted that stock market and bond market data are subject to varying interpretations and any one interpretation will not necessarily guarantee investment success. The information obtained from the sources specified herein and used as basis for our current market opinion is believed reliable, but we do not guarantee the accuracy of such information. The references to specific investments were chosen based on our current market outlook, as examples representing how aspects of the market have performed and as representation of what a strategy might own. Those are included for informational purposes only and past specific investment advice does not guarantee future results.