Churchill Management Group

Monthly Market Update

February 6, 2024

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Following a short pause to begin the year, the markets are back on the move. Both the S&P 500 and the Nasdaq 100 joined the Dow Jones Industrial Average in making a new all-time high, which all but confirms a new bull market is in play.

While it is nice to get that confirmation, it is hard not to notice how stretched the major indices are.

The S&P 500 has been positive 13 out of the last 14 weeks, netting over 20%, something that likely isn't sustainable. At any point, a small pullback or a longer sideways period could be in store as markets digest the massive gains.

In continuing to make new all-time highs, the markets have had to digest a plethora of news this week, including another inflation and jobs report, a Federal Reserve meeting, and a slew of earnings.

The Fed's favorite inflation report – the Price Consumption Expenditures (PCE) – continues to come down within expectations. The fact that this has been falling has given the Fed the confidence to cut rates later this year.

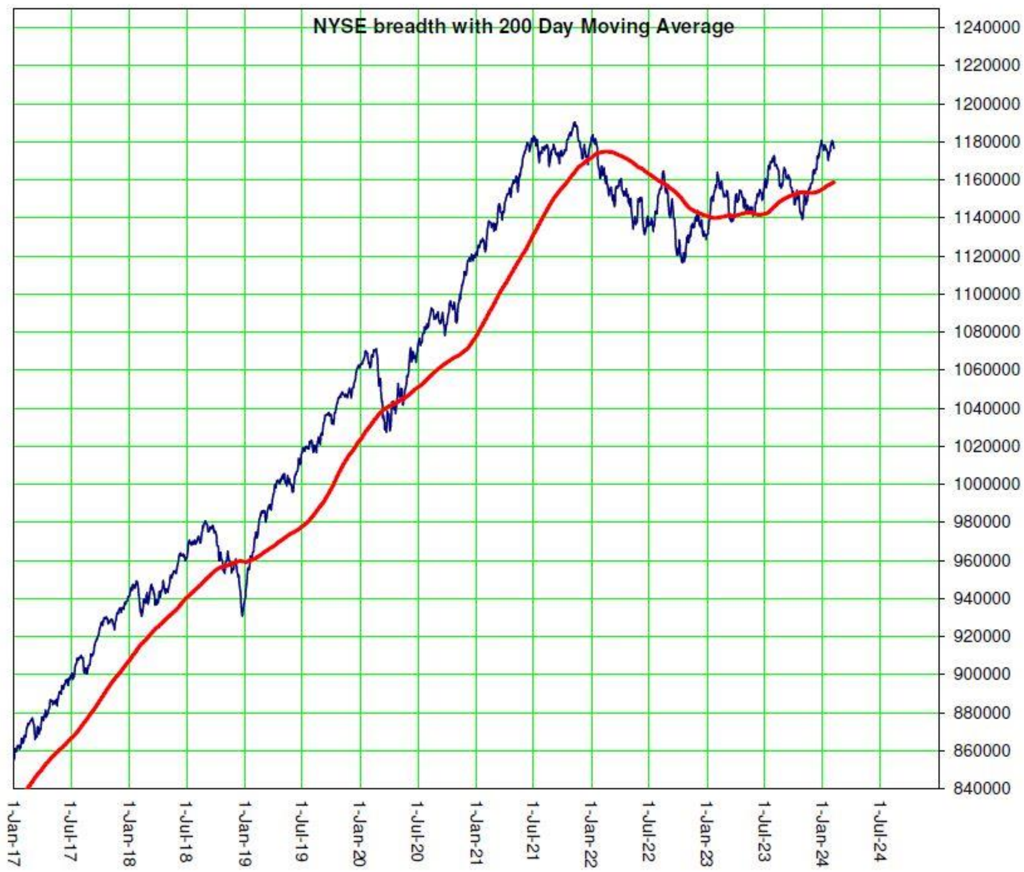
However, the Fed meeting on Wednesday was a bit more hawkish as Chairman Jerome Powell pushed back on the idea of rate cuts beginning in March. He suggested the most likely case was for rates to come down at a later date as the Fed members gather more confidence.

Markets sold off on that news, but earnings after the close buoyed markets once again with Amazon and Meta Platforms coming out with blockbuster earnings. Meta jumped over 20%!

The jobs report the following morning gave traders a little pause after coming in much higher than anticipated. However, by the end of the day, the momentum from earnings buoyed the market.

As we pointed out last month, something to keep an eye on is wages once again rose more than expected, ticking up to a 4.5% year-over-year gain. Higher wages can lead to higher costs for consumers (i.e., inflation) as companies must charge more for their goods and services to keep the same level of profits. Unless productivity goes up, profitability declines if the cost isn't passed through.

From a technical perspective, the action on the major indices continues to look good. Even the breadth on the NYSE appears on the verge of making new highs.



Current up to 2/5/2024

The only negative is how narrow and top-heavy this market is. Less than half of the S&P 500 is in the positive so far this year.

Tech, especially the Mega caps, continues to carry the day. The last time we saw such a narrow, yet powerful market was in the late 1990s dotcom bubble. The difference today is that the companies leading the way have good earnings, which is positive.

Additionally, while valuations are elevated, they are far from the nosebleed levels during the dotcom period. That said, the fact that leadership is narrow means that the foundation for the market's strength hinges on a limited number of stocks. Just as a few names can take the markets higher, should a few of those names encounter a correction, they could bring the entire market with them.

In summary, there is reason to be optimistic. Financial conditions are likely moving out of restrictive territory, while earnings remain robust in the leading parts of the market.

It would be nice to see the rally broaden, but that isn't a requirement for further gains. At some point, some backing and filling would also be healthy for the markets. We will continue to keep a close eye should the data change the current narrative.

TACTICAL OPPORTUNITY

Additions have been made to the portfolio, but unless they are in Mega cap Technology stocks, progress has been slower. Lagging has been retail stocks like Lululemon and Starbucks. The Netflix and Amazon's of the world have performed better.

FULLY INVESTED STRATEGIES

ETF SECTOR ROTATION

While markets are celebrating new highs, a look under the hood at the sectors reveals how narrow the rally has been and how difficult returns have been for the average stock.

Of the eleven S&P 500 sectors, just two have bested the market by more than a percent to start the year. Communications (META, GOOGL, NFLX) has led the way, up 9%, with Technology (MSFT, NVDA) up 5%.

Even more surprising, five of the eleven sectors are down year to date. Real Estate, Materials, Utilities, Consumer Discretionary, and Energy are all in the red to start 2024.

Additionally, the narrow success is also evident in the broad markets. Large Cap Growth has been the winner, while Large Cap Value is flat for the year. Among Mid Caps, only Growth is positive, with the Blend and Value down YTD. Lastly, no area of Small Caps has been spared, all three (Growth, Blend, and Value) are down for the year.

Meanwhile both Emerging Markets and European holdings are negative to start 24.

Picking leadership, as a result, is no easy task. Our model remains overweight in Communications and Technology, with slight overweights in Consumer Discretionary and Consumer Staples. We are slightly underweight all of the other seven sectors, which really puts the portfolio close to neutral as some of the sectors make up very small percentages of the S&P.

In the broad markets we have Growth and got a buy signal on Small Caps a couple of months ago which we are watching closely to see if it reverses. We remain a red light on Internationals.

EQUITY GROWTH OPPORTUNITY

The goldilocks scenario remains in play as the economy continues to shine despite overall worries. In a perfect world, we would like to see market gainers expand beyond the magnificent 7 stocks which are fueling the majority of the index gains. Nonetheless, we are encouraged by the market and are looking to take advantage.

EQUITY GROWTH AND VALUE

Let’s hear it for the Mega cap Technology type stocks! Meta and Nvidia both have jumped more than 30% to start the year, while Netflix and Advanced Micro are up more than 15%. Not all tech. has won, with the likes of Intel struggling, but so far this year our weighting is looking good. No significant changes are expected.

EQUITY DIVIDEND INCOME

With Growth stocks being in favor, more Value oriented dividend stocks have lagged, though the portfolio has fared ok. Financials gave back some of their gains from last year, leading us to reduce some exposure there. Other holdings like IBM and Verizon have had a nice start to the year. At present, we like the look of the portfolio.

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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** 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.