Churchill Management Group

Monthly Market Update

August 7, 2024

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Volatility has returned! For the first time since April, markets saw volatility creep back in over the last few weeks, and as a result, the indices have taken a breather. The S&P 500 has come down as much as 9% off its highs, while the tech-heavy Nasdaq (-15%) has officially entered correction territory, defined by a greater than 10% drawdown. Meanwhile the VIX, a measure of market volatility, spiked upward.

Markets were digesting a combination of events. To start, stocks may have just gotten ahead of themselves on the upside. Coming off April's lows, markets had shot straight up to all-time highs without much of a pause. Many short-term indicators have been flashing overbought signals for many weeks, so a rest after such a fast run doesn't come as a surprise.

Given the market run up, the bar had been high for earnings and the economy. So, when unemployment came in slightly higher than expected last week, some investors began to fear the early signs of a recession may be at hand. Much focus was put on the "Sahm rule", where the three-month average for the jobless rate rises more than a half a percent over its lowest point over the past year. The Sahm Rule has occurred prior to each recession since the 1970s.

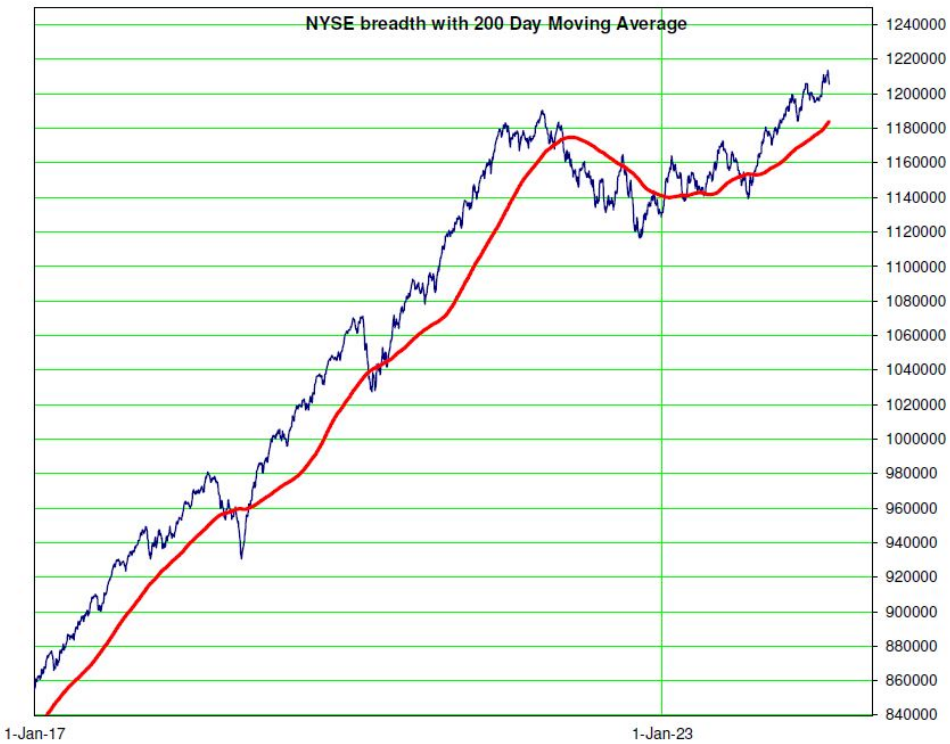
Interestingly, Claudia Sahm – inventor of the rule – said she sees the indicator as a "statistical regularity" that has happened in concert with recessions, rather than as a rule that tells you something must happen. Keep in mind: Only 7 recessions have occurred since the 1970s, so it is a very small sample size. Correlation is not causation. She additionally said she does not currently believe we are in a recession.

Finally, Japan's stock market added to the volatility as it plunged over 12% in a single day to start the week following an increase in rates. Mix it all together, and stocks had a rough couple of days.

Whenever a pullback occurs, the big question is whether it will lead to a meaningful top for the bull market, or if it will simply turn into just another run-of-the-mill correction. Keep in mind, while it has been a quick decline, the S&P didn't even make it into the 10% drawdown correction territory.

While it is too early to tell if the market is heading for a more serious decline, our indicators have yet to flash enough warnings to sound the alarm and justify a significant move to protect capital.

The key trendlines and moving averages have yet to be breached, and the breadth – represented by the advance-decline line – reached an all-time high just days ago.



Major tops are typically accompanied by a breadth divergence, in which the major indices make new highs that are not confirmed by the breadth also making new highs. That is certainly not the case today. So far, the correction has been relatively textbook. The selling has followed the usual pattern, with the leading Tech stocks getting hit the hardest. There has been some rotation and there are a surprising number of stocks outside of Tech holding up very well. Additionally, major tops usually take time to form, bringing a series of declines and retracements.

While a pullback has been expected for some time and this one is so far acting relatively normal, living through such action is never fun. Patience is always required.

From a fundamental standpoint, a confluence of catalysts drove the pullback. Profit-taking and high expectations from earnings have caused some major volatility in individual names. Another catalyst is a shift in the narrative from excitement about rate cuts to fears of economic growth slowing, possibly leading to a recession.

Wall Street has hoped for lower rates but is now grappling with the circumstances that could bring them about. The markets had pushed for weaker economic data to drive the Fed to lower rates. We have now seen weaker economic data, including less-than-expected payroll numbers last week, as well as higher jobless claims.

Now that the data has softened, the market has changed the narrative to that of a possible recession and concerns the Fed is behind the curve. That drove the 10-year Treasury yield to fall below 4% last week, marking the lowest it has been since December. Lower rates themselves can be stimulative. At present the market is absolutely expecting a rate cut in September.

To sum it up, the markets have gotten dicier, but it remains too early to draw any major conclusions. As usual, we will continue to watch our indicators closely for any significant changes. For now, we are remaining patient and awaiting greater clarity.

TACTICAL OPPORTUNITY

Despite the volatility, few sell signals for individual holdings have been triggered keeping the percent invested toward the higher level.

FULLY INVESTED STRATEGIES

ETF SECTOR ROTATION

With the market hitting some bumps, stocks have seen a rather dramatic rotation. Since the start of July, Tech has lagged, while defensive plays Consumer Staples and Healthcare outperformed. However, the biggest bumps came from interest rate sensitive sectors Utilities and Real Estate. With expectations for a Fed rate cut in September, those groups saw some inflows. We remain mostly neutral right now as we watch the market sort out its next steps.

In the broad markets, Small Caps spiked up and then back down in some true rollercoaster trading. Net net, the group has still fared better than the overall market for the past month plus. Value has been significantly better than Growth during the rotation.

Internationals have been struggling along with the U.S. markets and we remain out of the group and are favoring U.S. markets.

EQUITY GROWTH OPPORTUNITY

Volatility hit the portfolio and affected several stocks off their highs. While there are not a lot of sell signals in the portfolio, we did exit Crowdstrike after the faulty update news clobbered the stock. We have our eye on a few underperformers to potentially rotate out of at better price points.

EQUITY GROWTH AND VALUE

Tough month for the year’s leaders like semiconductors. Nvidia, Applied Materials and others all saw sharp drawdowns after strong upward moves. Mag 7 stocks Microsoft and Google were also weak. Sticking with the theme, Value oriented plays like United Health and Evergy Inc did well.

EQUITY DIVIDEND INCOME

With a rotation to Value, dividend stocks have shined over the past month. As a group they have been mostly up since the start of July. Utility and defensive plays have been the most positive contributors. No significant changes despite the market volatility.

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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