Churchill Management Group

Monthly Market Update

January 8, 2025

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

December Ends a Dynamic Year on a Calm Note

December brought a subdued conclusion to an otherwise exciting year. The major indices were slightly down for the month as the much-anticipated Santa Claus Rally failed to materialize. Nonetheless, 2024 was a stellar year for U.S. stocks, marked by strong economic performance and groundbreaking technological advancements.

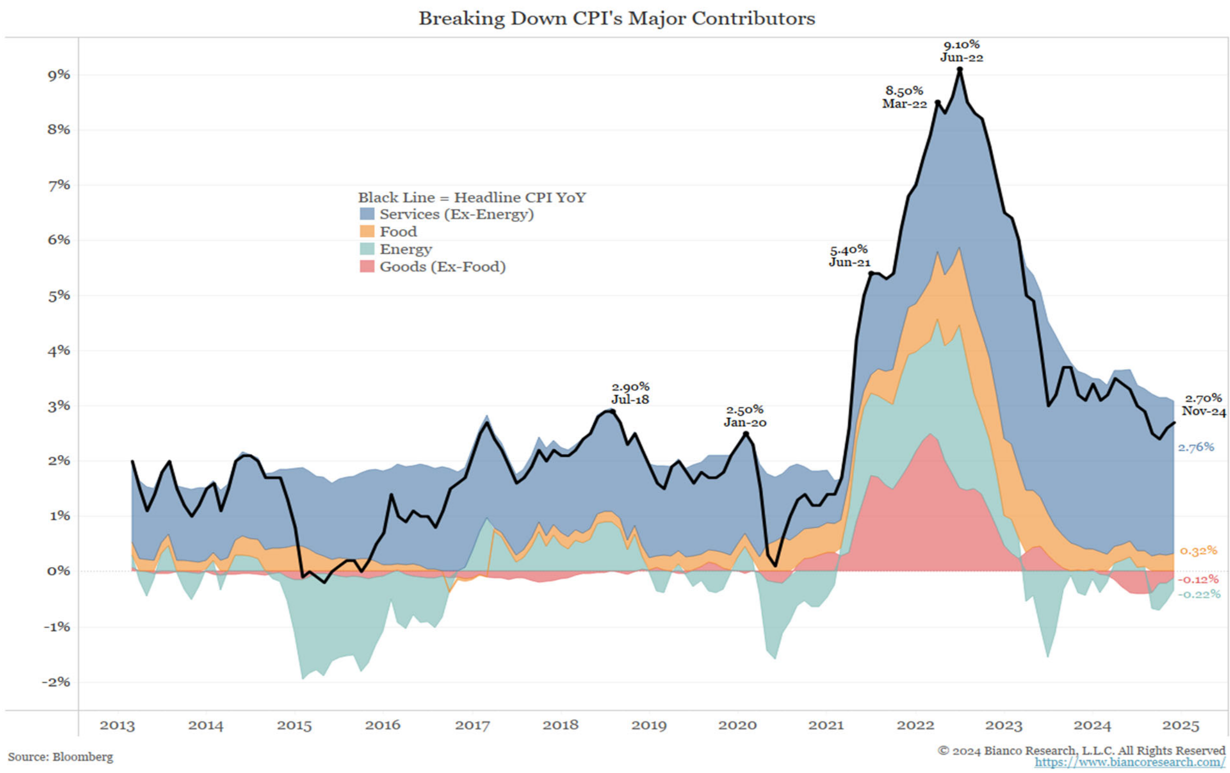
The S&P 500 soared 23%, propelled by a resilient economy, moderating inflation and an AI-driven technological revolution that boosted broad markets. The Nasdaq surged over 28%, led by Technology and Growth stocks, while the Dow delivered more modest gains of 13%. Small and Mid-cap stocks also posted respectable increases of approximately 11% and 14%, respectively. A post-election rally fueled additional optimism, with the prospect of deregulation and tax cuts in 2025 amplifying market enthusiasm.

The "Magnificent Seven" stocks—Meta, Tesla, Alphabet, Amazon, Nvidia, Microsoft, and Apple—dominated the year, driving Technology's continued leadership with no signs of slowing. A combination of robust earnings, easing inflation, and solid economic data kept hopes alive for the Federal Reserve's elusive "soft landing."

The U.S. economy showcased remarkable resilience throughout the year, supported by steady consumer spending, low unemployment, and a technological revolution led by American innovation.

Key positive economic indicators included:

- **Inflation:** Moderated to 2.7%



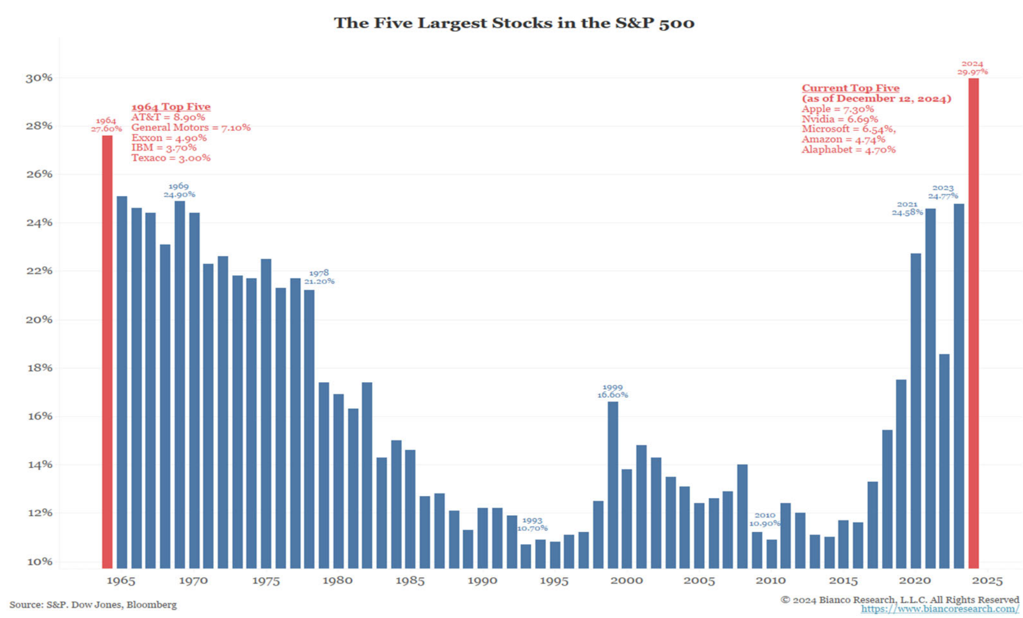
- **GDP Growth:** Recently expanded by an estimated 3.1%, with steady quarterly gains exceeding potential growth of 2.5%.
- **Unemployment:** Held steady at 3.8% for much of the year.

This strong economic backdrop, coupled with moderating inflation and defied recessionary fears delivered the best two-year performance for stocks in a quarter-century. The question now is what surprises 2025 may bring.

While optimism remains high, some concerns linger:

- **Rising 10-Year Treasury Yields:** Despite rate cuts by the Federal Reserve, the 10-year yield climbed nearly one full percentage point since their rate cut cycle began. The bond market likely perceives that rate cuts are not needed as the economy is humming along. If inflation edges higher the Fed may be forced to reverse course, potentially weighing on equities.

- **Concentrated Market Leadership:** The dominance of the Magnificent Seven stocks raises questions about market breadth. The five largest stocks in the S&P 500 now account for nearly 30% of the index. While some view this as a sign of massive productivity gains driven by Technology, a healthier market would benefit from broader participation



As we enter 2025, we remain bullish while staying vigilant for changes in market direction. Inflation and economic health remain key areas of focus, but optimism persists that the U.S. economy will continue to thrive. With solid footing and the momentum of a technological revolution, 2025 holds promise for continued growth and innovation.

TACTICAL OPPORTUNITY

The Tactical Opportunity portfolio experienced mixed results this month, with overall market and stock performance remaining lackluster. Several stocks within the portfolio declined in value, and high-performing stocks such as Cava Group experienced profit-taking by investors. However, the portfolio's emphasis on Technology stocks proved beneficial, with companies like Waystar and Google exhibiting double-digit gains despite the predominantly downward market trend. The total investment in the portfolio remained unchanged.

FULLY INVESTED STRATEGIES

ETF SECTOR ROTATION

How narrow was the market in 2024? Of the 22 ETF groupings we consider across the investment spectrum, only 4 outperformed the average, while 18 lagged.

Tech, Communications, and Discretionary (driven by a surge in Tesla) were the only 3 sectors to outperform since December 1. This continued the narrowness of outperformance seen throughout the year.

Highlighting the narrowness even more is the fact that six of the eleven sectors were down 5% or more since the start of December.

We maintain a slight overweight in Tech, Communications, and Financials, while being cautious of the high concentration the indices have in Discretionary areas.

In the broad markets, only Large Cap Growth (IWF) showed positive results for the month. Mid Caps are down approximately 6%, and Small Caps are down around 8% since the beginning of December. International markets are down around 3%.

EQUITY GROWTH OPPORTUNITY

After a period of broadening out in November, the market ended the year as it had spent most of the year dominated by a narrow set of leaders. AI related large cap Tech stocks led the way, while most other sectors, particularly the smaller capitalization stocks, lagged behind. With the Fed in a rate-cutting cycle, historical trends suggest a favorable environment for smaller capitalization stocks. From that standpoint, we are well-positioned to capitalize if that trend materializes. While it's still early in the year, smaller growth stocks have taken an early lead. Should the Mag 7 concentrated leadership persist, we are prepared to adjust accordingly.

EQUITY GROWTH AND VALUE

With more stocks stumbling in a weak environment for breadth, a lean on the Mag 7 helped.

Well, maybe the Mag 8 as Broadcom, now the 8th largest company, surged toward year end. Other Mag 7's were positive as well despite a sour month. Apple, Amazon, Google, Meta, and Nvidia all had nice months.

Only slight alterations expected at this point as we watch to see if the market regains its footing in what, for now, looks like normal turbulence.

EQUITY DIVIDEND INCOME

A great year for dividend stocks limped to the finish line in December. In general, the group was down over 5% in the last month of the year.

Given the run up for the year, and really the last two years, a step back month does not come as a surprise. Despite the volatility, no significant changes within the 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,

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