Churchill Management Group

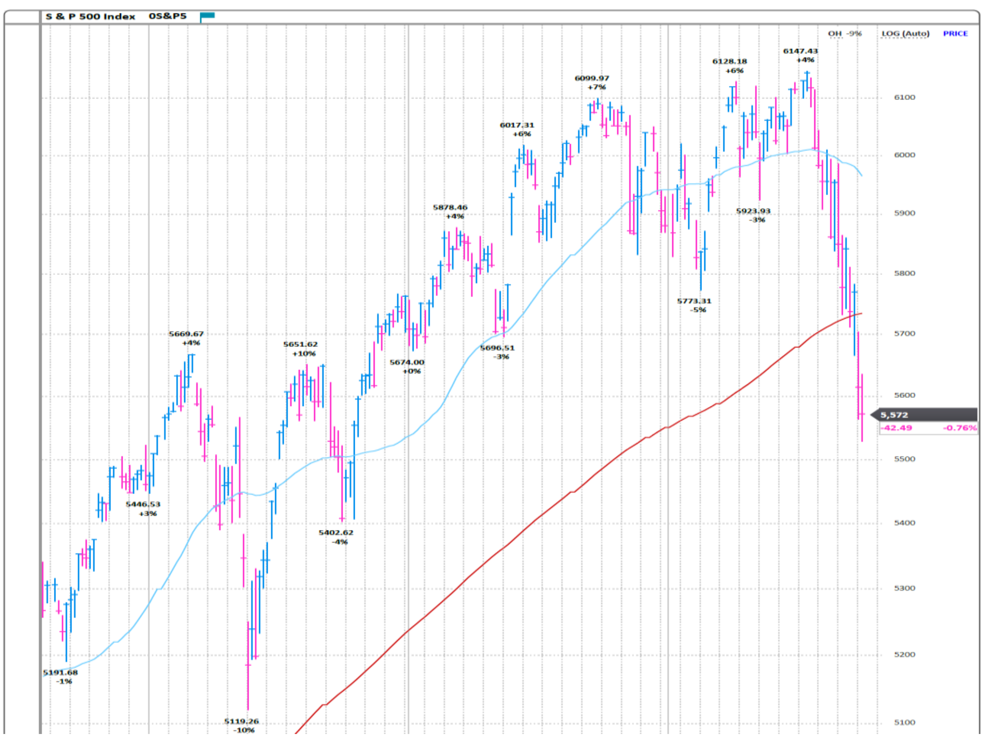
Monthly Market Update

March 12, 2025

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Just three weeks ago, on February 19th, the stock market posted an all-time high on the S&P 500 of 6,147. Since then, stocks have had a case of an upset stomach, with stocks falling in nine of the past thirteen days and the S&P sitting, at the time of this writing, a little over 9% off its recent highs.



First, some perspective on market dips. Drawdowns of some type are expected in virtually all calendar years. Historically, the average intra-year drawdown is around 14%. Of course, that number is weighed down by the bad bear market years. We last saw a drop in this range last summer when stocks fell 9.7% in just three weeks during late July and early August before quickly recovering. The question now is will this market hold at a correction level (down in the 10-15% range) or is something more negative brewing.

Weighing on stocks has been a combination of concerns. At the top of the list might be uncertainty. Markets hate uncertainty. Most uncertain is the path to expect from all of the tariffs talk which has been dominating the headlines. Is it strong talk which resolves itself quickly, or will the friction lead to higher prices and a slower economy? The answer to that is hard to know.

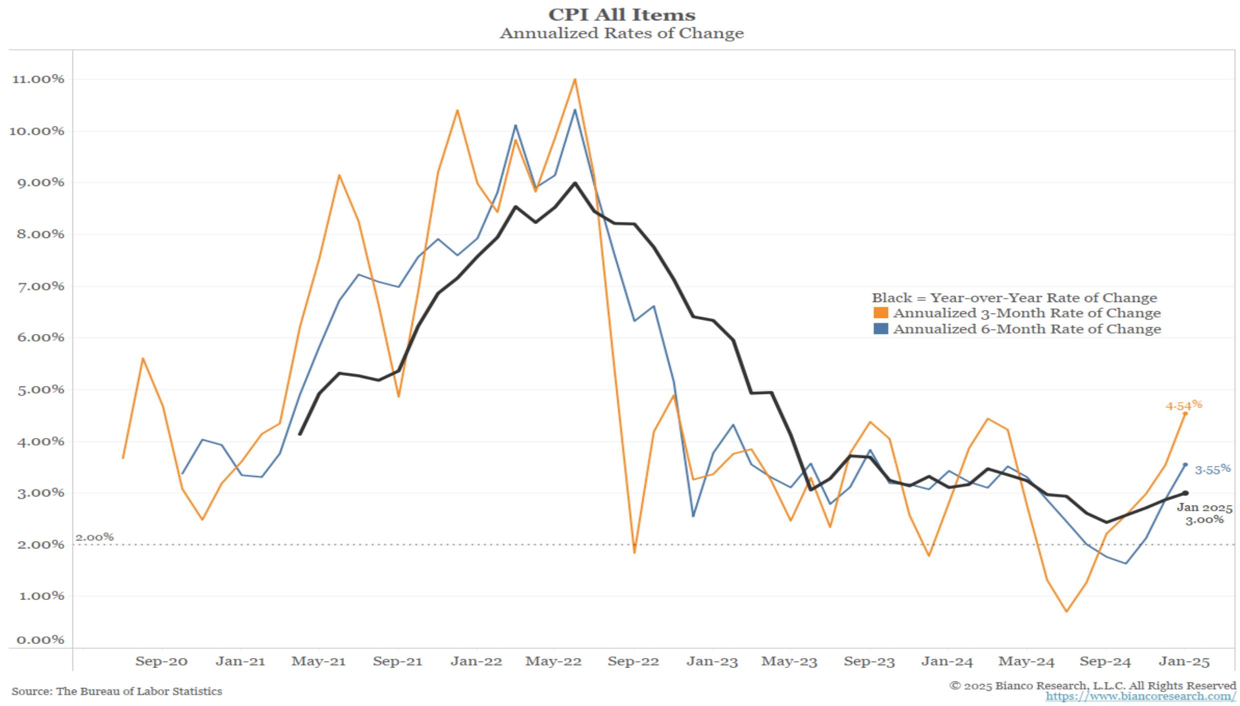
In tandem, worries over an economic slowdown have become more prevalent as government spending cutbacks look to slow what had been stock friendly doses of stimulus that did increase asset prices, but have also aggravated inflation numbers. Economic forecasts are for a slowing quarter ahead, though it is hard to determine how much of that is a math trick given a pull forward of imports to get ahead of tariffs.

You can add to those troubles the fact that stocks had elevated to a high enough valuation to invite some profit taking after back-to-back fantastic years for stocks.

Fundamentals

Regarding the good news, corporate earnings have been relatively strong, consistently exceeding expectations. However, the bar has been raised due to significant earnings growth over the past two years, which has set a higher benchmark to beat and resulted in several downward gaps post earnings announcements. If you are a corporate CEO, this is the perfect opportunity to try to temper expectations.

Inflation remains a challenge, hovering around 3%. The final push to bring it down to the Fed’s 2% target appears to be a difficult hurdle.



Technicals

In addition to the major indexes breaching their uptrends, Momentum stocks and the "Mag 7" have experienced a notable pullback after an extended rally. Over the past two years, the S&P 500's performance has been largely driven by these Mega-Cap stocks. This year, weakness in the outsized Mag 7 is having a heavy impact on the averages. There is a potential change in leadership away from the great Technology/AI plays into defensive sectors as investors have become concerned about a potential slowdown.

Outlook

No question the ongoing volatility and headline-driven market fluctuations have created technical damage in the market. In our Premier Wealth Tactical Core portfolio, we have taken the first steps toward some defense by exiting our Small-Cap positions and reducing our Technology exposure. We are closely monitoring to determine if we need to further reduce exposure. Corrections are never fun but unfortunately come with the territory. The key is to be prepared to do more side stepping in case markets are headed for big trouble like 2008. In those cases, stocks tend to be hit the hardest at the end. If we were to draw an analog to 2008, we would be at the arrow in the chart below.

As you can see, this is very early even in a worst-case scenario. For now, we expect the market to continue with some volatility. Hopefully, it finds its footing but if not, we will act accordingly.

TACTICAL OPPORTUNITY

Increased selling in momentum stocks led to some profit give back. Recent sells have not been replaced with buys leading to a slight increase in cash in the strategy. With the market at a fork in the road, more selling would not be unlikely.

FULLY INVESTED STRATEGIES

ETF SECTOR ROTATION

Despite a seven percent or so decline since the first of February, most of the sectors have held up ok. Surprisingly, five of the eleven sectors are flat or up since that date. Fairing the worst was the

Consumer Discretionary sector, which declined around 15% due to weakness in both Tesla and Amazon’s stocks. Tech was also weaker, though only down nine compared to the market's seven. Given the volatility, the model did signal a move toward defense. Our model reduced Discretionaries to an underweight and Tech to an equal weight, directing those weightings toward the more defensive Healthcare and Consumer Staples. It is not uncommon to see a reversal back to Growth after such a signal, but we will let the model tell us.

In the broad markets, Mid-Caps, particularly on the Growth side, fared the worst, with Small Caps also down around 10% in the last six weeks. The model reduced its Small Cap holdings by two-thirds in the past few weeks.

Internationals have been performing well on a relative basis to the U.S. We have taken a position in European holdings recently though we are still not invested in Emerging Markets.

EQUITY GROWTH OPPORTUNITY

Growth and Momentum stocks started the year hot but quickly met heavy selling in February which accelerated in March. Momentum names in the A.I. space have been guilty until proven innocent in this selloff. Despite the selling, we are remaining patient to assess on a potential bounce whether we need to de-risk or if the gloomiest scenario has been priced in given the uncertain environment.

EQUITY GROWTH AND VALUE

Quite a mixed bag from our stock holdings amid the volatility. Stocks that had been cooking, like Utility stock Vistra, Carnival Corp, and Mega Cap Google, gave some winnings back over the past few weeks. Of the Mag 7, Google’s 19% decline since the start of February was the worst. Despite market fears, other big holdings such as Apple, Nvidia, and Microsoft have recently moved with the market. There were some winners despite the market troubles. Gilead Sciences has been up nicely, along with Autozone and Berkshire Hathaway. Some increased activity is expected if the market continues to rotate.

EQUITY DIVIDEND INCOME

More defensive minded dividend stocks have not been immune from troubles, especially Financials. Stocks like Wells Fargo, Bank of America, and Janus Henderson Group saw larger drawdowns. Meanwhile, a fair amount of our dividend stocks have shown strength. Stocks like

Philip Morris, Altria Group, AT&T, and Verizon were all up more than double digits. As with Equity Growth & Value above, increased activity may result from recent 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,

CHURCHILL MANAGEMENT GROUP
877-937-7110
info@churchillmanagement.com
