

# Notes from the Trading Desk

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## Market Movers & Shakers

Equities were once again higher this week. The Dow, the S&P 500, and the Nasdaq all closed for the week at all-time highs. Certainly not a bearish indicator for the marketplace. We saw a momentary selloff Thursday afternoon as Marco Rubio and Mike Lee threatened to pull their vote for the GOP tax bill. However, their concerns were allayed as the GOP increased the child tax credit in an attempt to secure their votes, which resulted in the nearly 1% up-day we witnessed Friday. The Dow, which has ripped nearly double digits QTD alone, closed higher by 1.33% for the week. Not to be outdone, the Nasdaq moved 1.41% higher. The Nasdaq, which showed signs of temporary weakness at the start of the month, has continued its upward trajectory as Congress removed the corporate AMT, which allows companies to continue to benefit from lower tax rates. The S&P closed up a *measly* 0.90%. Tech, Staples, Healthcare, and Consumer Discretionary all moved higher by more than 1%. Meanwhile, Utes, Materials, Energy and Fins were all in the red for the week.

Taxes were not the only financial highlight this week though. The Fed met for Janet Yellen's final press conference. The Fed delivered on expectations as they raised rates by 25 bps. This marked the third rate hike of the year, and the Fed is expected to continue delivering rate hikes throughout 2018. The Fed's current dot plot shows the expectation for three rate hikes in 2018 and two more in 2019. Odds of a current March hike remain near 64%. The Fed is often credited with causing recessions by raising rates. The Fed raised rates from 2004 to the end of 2006. They also raised rates from the start of 1999 through much of 2000. However, in 2006, when they finished raising rates, the effective federal funds rate was 5.25%. The current rate is not even half of that. We have a long way to go until rates "normalize".

Many market bears are pointing towards the acceleration of the flattening of the yield curve as looming danger. Since the late 70s, an inverted yield curve has always preceded a recession. Yellen argued that "correlation is not causation" and pointed out that the yield curve has not yet inverted. While she is certainly correct, her predecessor, Ben Bernanke, similarly dismissed the yield curve in 2006 when he famously said "I would not interpret the currently very flat yield curve as indicating a significant economic slowdown to come." While hindsight is certainly 20/20 in Mr. Bernanke's case, it is always a tough argument to make when asserting that "this time is different".

M&A has also been quite active in the marketplace of late. This week, Disney confirmed that they were acquiring a portion of assets from Twenty-First Century Fox for \$52.4 billion in stock and an additional \$13.7 billion in the assumption of FOX debt. FactSet, who has data on Disney M&A dating back to 1992, shows that all of Disney's prior deals add up to \$50 billion, a number they just exceeded in one deal. Other M&A highlights include CVS's \$72b acquisition of Aetna, United Technologies \$30 billion offer to buy Rockwell Collins, Amazon purchased Whole Foods for a little under \$14 billion, and Discovery's purchase of Scripps Networks for \$14.5 billion. There are a number of reasons for why this plethora of activity could be happening. First, it is often a strategy deployed by companies to mask the lack of organic growth going forward. This strategy is typically used when we are late in the economic cycle as growth becomes harder to come by. Another potential cause would be that interest rates have been held at very low levels by the Fed for years now. However, the Fed has recently been raising rates, implying that rates might not always be at these artificially low levels. Thus, CFOs should get their debt while it is cheap at these low levels. This would naturally cause a barrage of M&A activity as companies "get it while they can." Finally, when a company sees that their stock is highly valued they might be inclined to issue equity. Lately, companies have been issuing stock to help make these huge acquisitions. By issuing stock, they are effectively using their stock as a form of currency to complete the acquisition. Well, when stocks are highly valued, this "currency" becomes quite strong, which makes acquiring companies through the use of stock that much more attractive.

## Upgrades & Downgrades

**ABT** — upgraded to outperform from market perform at BMO Capital Markets, price target increased to \$65 from \$58 (12/12).

**D** — upgraded at JPMorgan to overweight from neutral, price target increased to \$90 from \$84 (12/14).

**FDS** — initiated neutral at DA Davidson with a price target of \$174 (12/15).

**MD** — initiated overweight at Piper Jaffray with a price target of \$58 (12/13).

**NKE** — outlook changed from mixed to positive at OTR Global (12/11).

**NKE** — upgraded to buy from hold at Argus Research, target is \$75 citing strong competitive positioning and direct-to-consumer initiatives (12/14).

**ORLY** — Upgraded to outperform from sector perform at RBC Capital Markets, price target increased from \$282 from \$218 (12/13)

**WAB** — initiated outperform at Cowen with a price target of \$90 (12/13)

**WCN** — initiated outperform at BMO Capital Markets. Their price target is \$79 (12/12).

## Dividend News

**ABT** — increases quarterly dividend by 5.7% to \$0.28 per share

**D** — increases their 2018 dividend by 10% to \$3.34

## Earnings Calendar

Date	Time	Ticker
12/19	Pre-Market	FDS
12/21	Pre-Market	ACN
12/21	Post-Market	NKE

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## Portfolio News

It was a rather quiet week here at Tandem as far as portfolio activity is concerned. We took no new positions on the composite level this week, nor did we liquidate any of our core holdings. Excluding Friday, the price action for the week was quite muted as well.

For the week, Nike was our greatest outperformer. NKE made a 5.7% move to the upside on the backs of a couple upgrades, closing just shy of \$65. As far as short-term trading is concerned, Nike appears to be a little overbought with a current print greater than 80 on its RSI (typically a read above 70 is overbought). However, the longer technical setup of Nike has been great. Nike made an all-time high towards the end of 2015, closing at \$67.16 on November 27th, before running into a rough stretch through much of 2016. It made a series of lower lows in 2016 before ultimately bottoming around \$50 just prior to the 2016 Presidential Election. Since that bottom, Nike has been making successive higher lows — a bullish technical sign for sure. However, Nike had a ceiling on its stock price around \$60 where it more or less made a quadruple top since its 2015 high. Nike broke through this ceiling at the start of the month and has not looked back since. While Nike has certainly gone quite far quite fast, the previous resistance at \$60 should become support should the price retreat from its current levels.

Another steady performer for us here at Tandem has been Intercontinental Exchange (ICE). ICE, up 24.9% YTD, has been trading in a very consistent upward channel since stalling out in the Summer of 2014. Minor selloffs have brought the stock price back to its 50 day moving average before heading higher. The consistency has been a great technical setup!

	WTD	MTD	QTD	YTD
Dow Jones	1.3%	1.4%	9.8%	24.5%
S&P 500	0.9%	0.6%	5.7%	19.0%
Nasdaq	1.4%	0.9%	6.8%	28.9%
Russell 2000	0.6%	-0.9%	2.7%	12.8%
C.D.	1.1%	1.1%	8.2%	19.8%
C.S.	1.3%	2.1%	5.9%	10.6%
Energy	-0.1%	0.5%	1.0%	-7.7%
Fins	-0.1%	1.6%	7.9%	19.7%
H.C.	1.2%	0.0%	1.9%	21.0%
Ind.	0.3%	0.5%	4.2%	17.1%
I.T.	1.8%	0.5%	9.2%	37.6%
Mats	-0.2%	-0.3%	4.2%	18.9%
Utes	-0.7%	-2.0%	4.0%	13.3%
REITs	0.9%	0.1%	3.2%	7.8%

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