

Notes from the Trading Desk

May 7, 2018

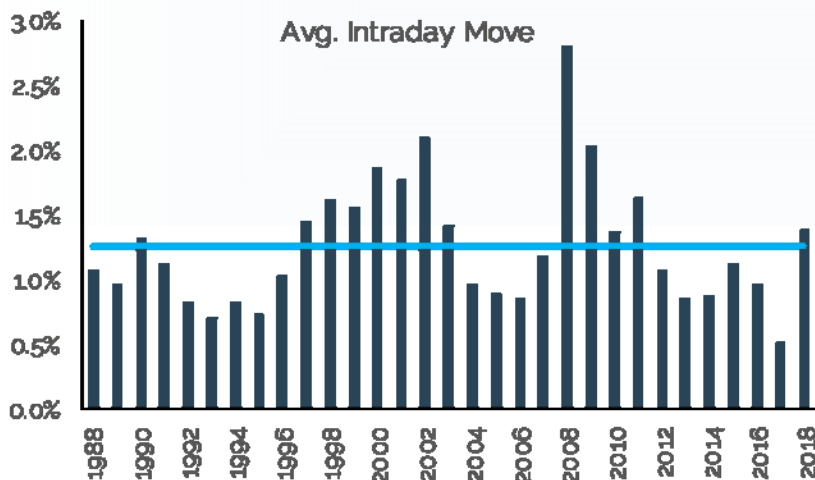
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Domestic indices were mixed for the week. The Dow and the S&P were down 20 and 24 bps respectively. The Russell 2000 was up 60 bps, while the Nasdaq closed up 126 bps. Tech led the way higher — up 3.21% for the week — as Apple had its best week since October 2011. REITs were up nearly 1%. Meanwhile, Materials, Energy, and Consumer Discretionary stocks were more or less flat for the week. Utilities were off a little more than 40 bps. Financials and Industrials were down 1.69% and 1.36%. Staples, Healthcare, and Telecomm were the real laggards for the week — they were down 2.04%, 3.04%, and 4.58% respectively. Treasuries were mixed for the week with slight curve flattening. The 10-year briefly retreated back to 2.91 during Friday's action. The DXY was up 1% for the week as it broke through some major resistance at 92. It was the dollar's second straight weekly 1+% move. Crude continued its impressive performance. WTI was up 2.5% for the week and is looking to sustain levels north of \$70 for the first time since its dramatic slip in 2014.

Trading action was rather choppy throughout the week. The average daily swing — from intraday low to intraday high — was 1.5%. Friday ripped 2.1% off its early morning lows. The whipsaw action however has been pretty standard year to date. At Tandem, we have discussed at length through our various pieces that the volatility, or lack thereof, in last year's market, was the aberration. As shown in the chart below, over the last 30 years the average intraday move has been 1.25%. We are slightly above that long-run average this year, as the average price swing has been 1.38% for 2018. YTD, we are experiencing the largest average intraday price swing since 2011. However, we are a far cry from the volatility we saw in 2008 and throughout the tech bubble.

One of the largest takeaways QTD has been the robust earnings growth. Earnings have come in way above analyst expectations. According to FactSet, 78% of S&P 500 companies have reported a positive EPS surprise for the quarter — this is the highest since at least Q3 2008. Per Standard & Poor's S&P 500 Index Earnings, Operating Earnings year over year growth for the 83+% of companies that have reported is 28.6%. This is the highest number since Q3 2010, when the S&P's earnings grew 36.6% year over year. These booming numbers have begun to beg the question of whether or not this quarter will be as good as it gets. As seen in the table below, "peak earnings" forward 1-year returns actually are a tad more muted than the average 1-year return over the last 90 years. If this quarter is in fact the "high-water" mark, as was suggested by some CEOs last week, then maybe we are due for dampened returns as growth rates roll over.



S&P 500 Qrtly EPS Growth	Avg. S&P 500 1-Year Return (1/31/27 - 4/30/17)
> 20%	5.9%
0% to 20%	8.6%
-20% to 0%	11.2%
< -20%	-2.4%
Average	7.8%

Source: Online Data Robert Shiller

Upgrades & Downgrades

COST — assumed hold at Deutsche Bank with a target of \$199 (4/30).

ECL — downgraded to neutral from overweight at JPMorgan, though the target was increased to \$146 (5/2).

ROST — assumed buy at Deutsche Bank with a target of \$94 (4/30).

TJX — assumed buy at Deutsche Bank with a target of \$98 (4/30).

Portfolio News

Earnings are largely in the rearview for the broad market as well as for Tandem's holdings. According to FactSet, nearly 83% of all companies in the S&P 500 have reported their quarterly numbers. Here at Tandem, 77% of companies have announced their earnings with reported growth of 24.24%, which is roughly in line with FactSet's reported growth of 25.93% for the S&P 500. Per FactSet, at the start of the year, 2018 earnings growth for the S&P was estimated to be 9.59%, this number has since risen to 19.40%, good for a 102% increase. Our core holdings estimated earnings growth has increased 109% from 7.41% to 15.55%.

On the portfolio front, we finished our liquidation of MEDNAX, Inc. MD was liquidated for failing to adhere to our fundamental requirements. We have also trimmed our positions in Brown-Forman and Ecolab — both of which were valuation sales. On the buy-side, we added incrementally to the position in Celgene for our Equity strategy.

United Technologies, a holding of ours for the last 10+ years, recently found itself the target of an activist shareholder. Dan Loeb at Third Point LLC announced a "significant stake" in UTX as they push for the company to split into three businesses: Otis, Aerospace, and Carrier. UTX is currently in the process of closing their acquisition of Rockwell Collins — which aims to help their Aerospace business. The Board, in response to Third Point's letter, said they will conduct a full review of the UTX portfolio upon closing the deal with COL. David Faber of CNBC also reported that the Board strongly disagrees with some of Loeb's assertions. Regardless, it will be an interesting battle to keep an eye on. UTX was up 1.54% on Friday — slightly outperforming their sector.

	WTD	MTD	QTD	YTD
Dow Jones	-0.2%	0.4%	0.7%	-1.8%
S&P 500	-0.2%	0.6%	0.9%	-0.4%
Nasdaq	1.3%	2.0%	2.1%	4.4%
Russell 2000	0.6%	1.5%	2.4%	2.0%
C.D.	-0.1%	0.3%	2.6%	5.4%
C.S.	-2.0%	-1.5%	-5.9%	-13.2%
Energy	0.0%	0.1%	9.3%	2.1%
Fins	-1.7%	-0.7%	-1.2%	-2.6%
H.C.	-3.0%	-1.5%	-0.4%	-2.0%
Ind.	-1.4%	0.0%	-2.8%	-4.8%
I.T.	3.2%	3.7%	3.8%	7.1%
Mats	0.1%	1.4%	1.5%	-4.6%
Utes	-0.4%	-0.1%	1.9%	-2.4%
REITs	0.9%	1.3%	0.6%	-5.5%

Earnings Calendar

Date	Time	Ticker
5/7	Pre-Market	CTSH
5/8	Pre-Market	EXPD
5/8	Pre-Market	HSIC
5/9	Post-Market	COST

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