

# Notes from the Trading Desk

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It was a wild ride in equities this past week. The S&P 500 closed higher again — as it has done every week so far this quarter. The S&P rallied 0.61%, while the Dow marched higher as it moved up 1.57%. The Russell was down 1.97%. However, much of the week's drama was centered around the Nasdaq and the FAANG trade. The tech heavy index had an outside reversal as it made an all-time high before closing down 1.06% for the week. Alphabet and Amazon both reported strong quarters, though Amazon's guidance came in a little light for Q3 revenues relative to the street's estimates. The real stunners though have been Netflix and Facebook. Facebook closed at all-time highs on Wednesday. It then proceeded to fall out of bed on earnings as it gapped down nearly 25% after hours, before opening 19.5% lower on Thursday morning. Facebook's rough Thursday was one of the worst one-day losses in terms of market cap as the social media giant lost nearly \$120b. Netflix posted similar, though much more subdued, price action the week prior on weaker than expected subscriber growth.

While the past week was the busiest week for earnings this quarter — with 35% of the S&P reporting — outside of Facebook and Amazon, earnings seemingly took a backseat to a plethora of macro headlines. Markets rallied on Wednesday after reports emerged that European Commission President Jean-Claude Juncker and President Trump were working together to avert any sort of potential trade war. Per FactSet's StreetAccount, President Trump said that the US and EU will work towards zero tariffs on non-auto industrial goods. The EU is also reportedly set to increase its import of soy beans and LNG.

On Friday, we received our strongest measure of GDP growth since 2014 as we finally printed a number higher than 4%. Despite 4.1% growth, the number was actually a slight disappointment as analysts were expecting 4.4% growth, and there were even whispers throughout the week of a number potentially north of 5%. The strong growth was given a big boost from business investment spending which grew 7.4%.

Going forward, it will be worthwhile to keep an eye on Tech. This past week, tech stocks were the key outlier. The sector was down 1.15%. The drag on tech was more than just a Facebook meltdown. Twitter was down more than 20%, Intel was down 9.2%. Even semis were shaky for the first half of the week. Next week will pose another test for the market leaders as Apple is set to report on Tuesday. Disappointing numbers out of the world's largest company might be enough to shake the market in the short-term.

Stocks had been led by the extreme strength of tech-related stocks throughout the first half of the year. According to a July 2nd Bloomberg article, Amazon, Microsoft, Apple, Netflix, Facebook and Alphabet contributed 99% of the S&P's first half gains. Leadership has been narrow. It would be troublesome to see these long-time leaders falter now. The chart to the right shows the percentage of the S&P 500's total market capitalization for the top five stocks, and the bottom 50% of stocks. The absolute level is not very telling — as we are well below the peak levels seen in the 1970s. However, what is interesting is the sharp ascent prior to periods of weakness. The top 5 stocks gained going into the weakness in the back half of 1981 and into 1982. There was a slight ascent into the recession of the early 90s. The sharpest ascent was during the Tech Bubble. The top five strengthened during the Financial Crisis, during the 2012 pullback, and it is certainly ascending now as well.

## Combined share of the S&P 500's market capitalization

- Top five stocks in the S&P 500
- Bottom half of stocks in the S&P 500



Source: Ned Davis Research analysis of S&P Dow Jones Indices data

### Upgrades/Downgrades & Dividends

**COST** — Downgraded to accumulate from buy at Gordon Haskett with a price target of \$235 (7/25).

**D** — Initiated sector perform with a price target of \$70 at Scotia Howard Weil (7/24).

**EEFT** — Resumed outperform at Wells Fargo with a \$120 price target (7/26).

**HRL** — Downgraded to underperform from neutral at Mizuho Securities, price target cut from \$34 to \$33 (7/25).

**NEE** — Initiated sector perform with a price target of \$167 at Scotia Howard Weil (7/24).

**RSG** — Increased their quarterly dividend by 8.7% to \$0.375, payable 10/15/18.

**WBA** — Downgraded to market perform from outperform at Cowen with a price target cut to \$71 from \$77 (7/23).

### Earnings Calendar

Date	Time	Ticker
7/31	Pre-Market	ECL
7/31	Post-Market	VRSK
7/31	Post-Market	FISV
8/1	Pre-Market	D
8/1	Post-Market	YUMC
8/2	Pre-Market	CTSH
8/2	Pre-Market	BDX
8/2	Pre-Market	YUM
8/2	Pre-Market	ICE
8/2	Post-Market	RMD

## Portfolio News

Earnings season has begun in earnest as it kicked into high gear last week. 35% of the S&P 500 reported earnings this past week, while roughly a third of our core names reported as well. 10 of our 13 names that reported beat on the bottom line, while 11 of the 13 beat their top line estimates. Quarter-to-date, our companies have fared well. Per FactSet, roughly half of our core holdings have reported this quarter with EPS growth of 17.93% year over year and top-line growth of 13.92%. For comparison, the S&P 500 has reported EPS growth of 21.62% and sales growth of 10.65%.

While earnings certainly dominated the news last week for Tandem holdings, there were still a few notable headlines elsewhere. PayPal received a nice little bump going into earnings following Dan Loeb's Third Point disclosed stake in the company. The company slid during the back half of the week however following earnings that were slightly disappointing compared to analyst estimates. Yum! China also made headlines as multiple firms are reportedly eyeing the firm as a potential takeout target. Hillhouse and KKR were both reported to be interesting purchasing the fast food chain.

This coming week should be busy as well, as another 10 names are set to report their earnings beginning with Ecolab before the market opens on Tuesday and not ending until ResMed reports Thursday after the close. After these 10 names, earnings season will begin wrapping itself up for us here at Tandem as only a few more names will be reporting through the end of the quarter.

	WTD	MTD	QTD	YTD
Dow Jones	1.6%	4.9%	4.9%	3.0%
S&P 500	0.6%	3.7%	3.7%	5.4%
Nasdaq	-1.1%	3.0%	3.0%	12.1%
Russell 2000	-2.0%	1.2%	1.2%	8.3%
C.D.	-0.5%	2.1%	2.1%	13.1%
C.S.	1.0%	3.5%	3.5%	-6.8%
Energy	2.3%	0.8%	0.8%	6.2%
Fins	2.0%	5.8%	5.8%	0.6%
H.C.	1.4%	5.3%	5.3%	6.4%
Ind.	2.1%	6.0%	6.0%	0.1%
I.T.	-1.2%	3.6%	3.6%	14.1%
Mats	1.8%	2.3%	2.3%	-1.9%
Utes	0.7%	1.4%	1.4%	-0.2%
REITs	-0.2%	-0.9%	-0.9%	-2.1%

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