

# Notes from the Trading Desk

January 28, 2019

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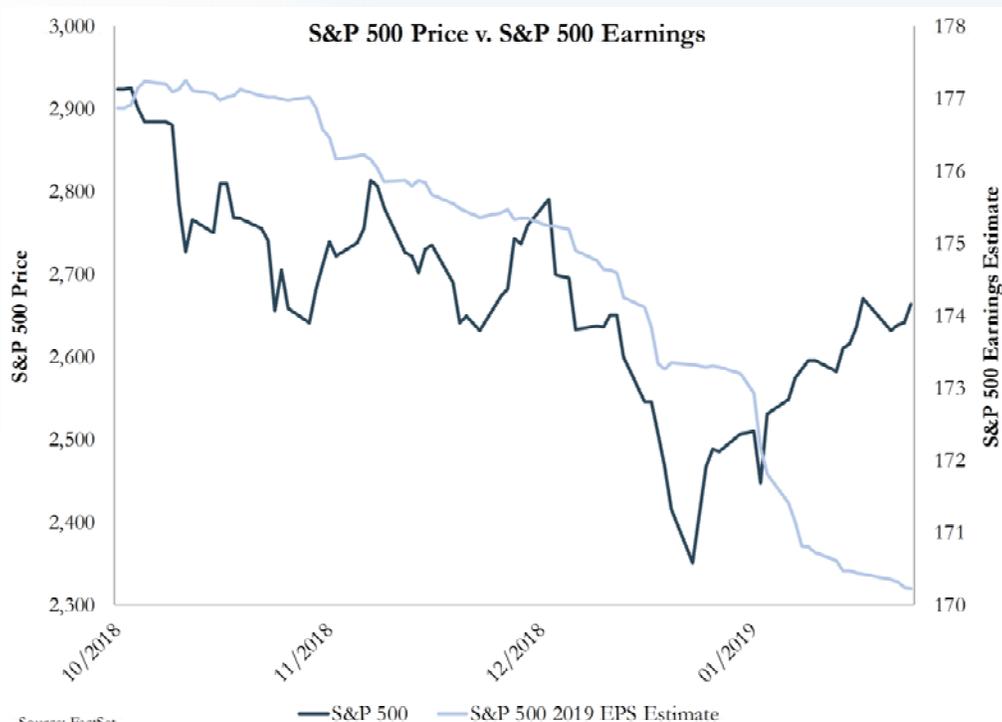
Tandem Investment Advisors

The market has continued its steady march higher since the last issue of *Notes*. While the major US indices, more or less, finished last week flat (S&P 500 -0.22%, Dow +0.12%, Nasdaq +0.11%, Russell 2000 +0.02%), their run month-to-date has been impressive! For the month of January, the S&P 500 is up 6.30% and the Dow Jones Industrial Average is up 6.04%. Meanwhile, the Nasdaq and Russell 2000 have soared higher. The Nasdaq is up 7.98% month-to-date, while the Russell 2000 is up 9.96%. In 13 of its last 17 trading days, the S&P 500 has found itself closing higher — a feat we have not seen since January 26, 2018 (the same day the market initially topped out prior to the February spike in volatility). If the month ended today, the 6.3% month-to-date gain on the S&P 500 would be its best January in at least 30 years. The annualized rate of return for the S&P so far this year is nearly 150%! Clearly, the rate at which we have been moving higher is not sustainable going forward — some sort of uncertainty is bound to, at the very least, slow down this rapid upward ascent from the Christmas Eve lows.

As we discussed in the January 14th edition of *Notes*, 2019 earnings estimates have been lowered (see chart below) over the past few months. With earnings estimates heading lower, all of the recent gains in the market have been pure multiple expansion. The S&P 500 is up 13.3% since its December low. During that same time period, its forward P/E has increased 15.4%. While earnings season is still young, there is a concerning trend that is worth monitoring. According to FactSet, of the 16 companies in the S&P 500 that have issued EPS Guidance for Q1'19, 15 of them have been negative. 126 companies in the S&P are set to report this week — a continuation of this trend would be concerning for the health of the market and its underlying fundamentals.

By and large, the market seems to have dusted off its 2017/2018 playbook in the last few weeks. FAANG stocks (with the exception of AAPL) have been moving higher. The recently beleaguered Facebook is up 21% since it bottomed on Christmas Eve. Amazon is up nearly 32% over the same time period. NFLX is up 46% from its December 26th low. Alphabet (Google's parent company) ought to be embarrassed — it is only up a mild 12.5% since December 24th. The iShares Momentum Factor ETF is once again leading the way — its up more than 13% from its lows. Semis are again in vogue as the SOX is up 20% from its 52-week low as well.

Lastly, let us turn our attention to the junk bond market. According to Forbes, December marked the first time in a decade since there was not a single issuance of a high-yield bond. Moody's Three-Year Refunding Indicator, which "measures the market's ability to absorb upcoming bond maturities through new bond issuance," has fallen to its lowest levels since 2009. As Moody's pointed out, "A combination of lower issuance, heavy maturities, climbing interest rates and widening spreads points to a more challenging refinancing environment for speculative-grade companies." Thankfully, this past week was much more lively in the junk bond market. Per Bloomberg, 15 deals were completed in the busiest week since August. However, companies rolling over debt at higher rates could lower their profitability.



Source: FactSet

— S&P 500 — S&P 500 2019 EPS Estimate

*Upgrades/Downgrades &  
Dividends*

**ABBV** — Initiated neutral at USB with a \$91 price target (1/22).

**CTSH** — Upgraded to outperform from market perform at Bernstein, price target is \$80 (1/25).

**D** — Downgraded to neutral from overweight at JPMorgan, target cut from \$79 to \$73 (1/22).

**FISV** — Upgraded to outperform from market perform at William Blair (1/22).

**FISV** — Upgraded to outperform from market perform at Cowen, target increased to \$90 from \$79 (1/24).

**ICE** — Upgraded to buy from neutral at Citi (1/22).

**NKE** — Upgraded to outperform from market perform at Cowen, price target increased to \$90 from \$80 (1/22).

**RMD** — Downgraded to hold from buy at Deutsche Bank, target increased from \$122 to \$123 (1/23).

**RMD** — Downgraded to neutral from buy at Goldman Sachs (1/25).

**SJM** — Initiated sell at Guggenheim Securities with a price target of \$85 (1/22).

**YUM** — Increased their quarterly dividend 16.7% to \$0.42 from

**Earnings Calendar**

Date	Time	Ticker
1/28	Post-Market	BRO
1/29	Post-Market	SYK
1/29	Post-Market	EBAY
1/30	Pre-Market	TROW
1/30	Post-Market	MSFT
1/30	Post-Market	PYPL
1/31	Pre-Market	CELG
1/31	Pre-Market	TSCO
1/31	Post-Market	YUMC
2/1	Pre-Market	D

## Portfolio News

Earnings season has officially begun for us. United Technologies, Comcast, Abbott Labs, ResMed, NextEra, and AbbVie all reported last week — results were largely a mixed bag as well. A slew of names are on deck to report in the next two weeks. In addition to the 10 Tandem holdings reporting this week, another 8 names will report during the following week.

A long time Tandem holding, eBay, made quite the splash last week. Starboard Value announced a large stake in the company, as did Elliott Management. Starboard reportedly wants eBay to consider the separation of StubHub and eBay's Classifieds. Per *The Wall Street Journal*, Elliott, with similar goals in mind, reportedly thinks StubHub could sell for \$3.5b to \$4.5b, while Classifieds could be worth \$8b-\$12b. Elliott went on to state that eBay's core marketplace business could be worth \$15b.

Elsewhere, Amazon continues to wreak havoc. After threatening the grocers, pharmacies, dollar stores, auto parts stores, and possibly even banks, Bezos' behemoth is reportedly interested in the home-energy space. *The Wall Street Journal* quoted former NRG Energy CEO David Crane as saying "In 10 or 20 years, the dominant retail electric provider in the United States is going to be Amazon or Google." Watch out utilities, you're next!

	WTD	MTD	QTD	YTD
Dow Jones	0.12%	6.04%	6.04%	6.04%
S&P 500	-0.22%	6.30%	6.30%	6.30%
Nasdaq	0.11%	7.98%	7.98%	7.98%
Russell 2000	0.02%	9.96%	9.96%	9.96%
Comm. Svcs	-0.69%	7.16%	7.16%	7.16%
Con Disc	-0.01%	8.39%	8.39%	8.39%
Con Staples	-1.39%	1.72%	1.72%	1.72%
Energy	-1.45%	9.58%	9.58%	9.58%
Financials	0.00%	9.02%	9.02%	9.02%
Health Care	-1.31%	2.79%	2.79%	2.79%
Industrials	-0.07%	8.77%	8.77%	8.77%
Info Tech	1.00%	6.41%	6.41%	6.41%
Materials	-0.68%	5.08%	5.08%	5.08%
Utilities	0.37%	0.80%	0.80%	0.80%
REITs	1.53%	6.81%	6.81%	6.81%

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