

Notes from the Trading Desk

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By and large, US equities finished last week higher. The S&P 500 was up 1.20%, while the Russell 2000 and the Nasdaq were up 1.66% and 1.85%, respectively. The Dow was down for the week, as its performance was curtailed by the weakness in MMM and UPS. After an abysmal performance two weeks ago, health care rebounded with strength. The sector led the way higher, as it closed up 3.66%. Outside of healthcare, earnings have largely dictated the tape. Consensus seems to be that earnings are better than originally feared. According to FactSet, the S&P 500's Q1 EPS is reporting blended growth (which uses estimates for companies that have not reported, and actuals for companies that have) of -2.27%. However, this is an improvement relative to the expected decline of 4.3% that was being estimated at the start of the month. Elsewhere, the DXY has been strengthening the last few weeks. The yield curve also steepened throughout the week.

The recent run to all-time highs has been breathtaking. Slightly less than 1/3 of the way through the calendar year, the Nasdaq is still annualizing out to a 91% total return. The S&P 500 and the Russell 2000 are not too far behind, annualizing a total return of 67% and 69%, respectively. If the year ended today, the 17.3% return for the S&P 500 would be its 29th best year since 1928 — again we are not even 1/3 of the way through the year yet. The trend in 2019 has clearly been subdued volatility while the markets continue climbing higher. The average daily move this year for the S&P 500 has been 0.20% — this is currently the best yearly average daily move using data going back to 1928. Similarly, only 36.3% of days so far this year have been down days. This is the second lowest percentage of down days using the same data. In other words, the markets have been climbing at an impressive and unabated clip.

On Friday, Bloomberg reported that Hedge Funds are shorting the VIX at rates "never seen before." Data only dates back to 2004, though the largest net short position ever in the VIX is currently in place. The short volatility trade is now even larger than it was during the infamous volatility blow-up that sparked the initial selloff in 2018. As Sarah Ponczek of Bloomberg correctly pointed out, markets are either confident or complacent. In reality, it is probably a combination of both confidence and complacency. Risk has been rewarded year-to-date. Per FactSet, Mid Caps and Small Caps have led the way higher — followed closely by growth. Semiconductors, as measured by the SOX, are up nearly 34% YTD — though the supposed leading indicator pulled back sharply last week on the heels of weak earnings for some chipmakers. The junk bond market has rallied sharply throughout 2019 as well. The ICE BofAML US High Yield Master II Option Adjusted Spread — which measures the spread between high yield bonds and a spot Treasury curve — has been steadily tightening all year. The threat of a Fed Cut, which has now increased to 64% by the December meeting, has caused investors to snap up yields while they are presumably higher than they will be a year from now.

Bloomberg's Vivien Lou Chen wrote last week that traders might be looking to 1998 for guidance in the Fed Funds futures market. Traders reportedly are beginning to think that the Fed might actually cut rates this year, despite signs of economic improvements and strengths in equities, so as to stave off global events that might force the U.S. into a recession. It is an interesting point to note, as there are a lot of similarities in our market today and 1998. The spread between 10s and 2s inverted — albeit for a brief moment — in 1998, while the spread between 10s and 3-month T-bills inverted briefly earlier this year. Prior to '98, markets had marched higher in a steady manner throughout much of 1995 and 1996. 1997 brought volatility back into the market with the Asian Financial Crisis that started with the collapse of the Thai baht. The Asian contagion finally reached our markets in October of 1997 as markets dropped nearly 11% intramonth. Following the Asian collapse, the Russian Ruble collapsed in the summer of 1998, which caused the dramatic closure of Long-Term Capital Management and a 19.4% drop in the S&P 500. The S&P recovered quickly though as it rallied 28.4% over the next four months from its Russian Financial Crisis lows. More recently, the S&P 500 climbed steadily throughout much of 2016 and all of 2017 before it dropped a little more than 10% in the face of the blow up in volatility linked products in February of 2018. Markets then sold off 19.8% into the year-end before bottoming on Christmas Eve. In the four months since then, the S&P 500 has rallied 25%. History doesn't often repeat itself, but it does often rhyme. While similarities between today's market and 1998's are present — no analog is perfect.

****Notes from the Trading Desk will not be published again until July 1st ****

*Upgrades/Downgrades &
Dividends*

ABBV – Upgraded to market perform at BMO Capital Markets with a price target of \$79 (4/28).

HRL – Downgraded at Goldman Sachs to sell from neutral, price target cut to \$35 from \$37 (4/23).

HRL – Downgraded to underweight from neutral at JPMorgan, price target cut to \$36 from \$40 (4/23).

RSG – Upgraded to buy from hold at Stifel, target increased to \$90 from \$86 (4/28).

Portfolio News & Notes

Earnings have begun to roll in for both the S&P 500 and Tandem's core holdings. 15 Tandem holdings reported earnings last week. All reported earnings in-line with, or higher than, analyst estimates. Another 12 companies are set to report this week, with an additional 4 reporting two weeks from now. Quarter-to-date, Tandem's core holdings blended earnings growth is 12.15% – well above the 6.94% consensus growth that was being estimated at the beginning of the year. Sales growth has been strong as well, with core holdings reporting a blended sales growth of 12.19% – above estimates of 11.7% from the end of 2018.

The S&P 500, as we already mentioned, has a blended growth rate of -2.23%, versus year-end estimates of 2.95%. Sales for the index have also lagged their year-end estimates. Blended sales growth for the S&P 500 is 5.08%, as of writing. This is below estimates of 6.59% from December 31st.

As earnings continue to be reported, it will be important to monitor guidance from companies. According to FactSet's Earnings Insight, 32 companies within the S&P 500 have issued negative guidance for Q2, while only 6 have issued positive guidance.

	WTD	MTD	QTD	YTD
Dow Jones	-0.06%	3.45%	2.37%	13.79%
S&P 500	1.20%	4.31%	3.72%	17.27%
Nasdaq	1.85%	5.91%	5.40%	22.77%
Russell 2000	1.66%	4.17%	3.38%	18.04%
Comm. Svcs	2.69%	7.28%	8.09%	22.81%
Con. Disc	1.42%	7.12%	6.23%	22.51%
Con. Staples	0.10%	1.72%	1.00%	12.27%
Energy	-1.29%	-0.28%	0.21%	15.66%
Financials	1.39%	8.43%	7.67%	16.18%
Health Care	3.66%	-2.45%	-3.05%	2.88%
Industrials	-1.03%	5.20%	3.25%	20.43%
Info Tech	0.99%	6.99%	6.14%	26.70%
Materials	-1.28%	4.58%	2.91%	12.87%
Utilities	1.40%	-1.46%	-0.15%	9.72%
REITs	1.33%	-0.57%	-0.81%	15.56%

Earnings Calendar

Date	Time	Ticker
4/29	Post-Market	YUMC
4/30	Pre-Market	EEFT
4/30	Pre-Market	EXLS
4/30	Pre-Market	ECL
4/30	Post-Market	FISV
4/30	Post-Market	VRSK
5/1	Pre-Market	CVS
5/1	Pre-Market	YUM
5/1	Post-Market	TYL
5/2	Pre-Market	ICE
5/2	Post-Market	RMD
5/3	Pre-Market	D

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