

Notes from the Trading Desk

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US Equities moved lower last week. The Russell 2000 was the worst performer, as it fell 1.41%. The Dow only dropped 0.65%, while the S&P 500 and the Nasdaq fell 1.23% and 1.18%, respectively. There was a slightly defensive tone in equities, as Staples and Utilities were two of the top three performing sectors. Communication Services (-3.06%), Energy (-2.70%), and REITs (-2.31%) all lagged. The fall in Communication Services was largely due to the sharp drop in Netflix, as the streaming giant fell 15.6% following a sizeable miss in subscribers. The underperformance in Energy can largely be attributed to the 7% plunge in oil. Elsewhere, the 10-year continued its sideways chop between 2.00% and 2.20%, while the 3-month T-Bill continued its move lower.

Once again, the Federal Reserve seemed to command the market's attention as the debate over whether or not the Fed should cut by 25 or 50 bps raged on. Thursday, New York Fed President John Williams said, "It's better to take preventative measures than to wait for disaster to unfold." Williams went on to remark that in an environment of low interest rates, central banks must act more quickly to combat "the first sign of economic distress". As we highlighted in the last edition of *Notes*, though the economy is still in a position of strength, cracks in the foundation are certainly beginning to show. Following Williams' Thursday speech, the probability of a 50 bps cut skyrocketed to 62.6%, nearly doubling from the 33.3% chance on Wednesday. However, the Fed quickly clarified Williams' comments and talked down the notion of a 50 bps cut. As a result, expectations for a 50 bps cut fell to 17.9% by Friday. So, with the Fed meeting next week, it seems that a 25 bps cut is all but set in stone.

A more pessimistic tone continues to emanate from the Industrial sector. CSX fell 10.5% last week due to lower guidance and weakness in volumes. Per FactSet, Honeywell noted a slowdown in short-cycle business, a handful of trucking companies preannounced due to the increasingly stagnant freight environment, and TXT expressed concern about the tariffs and economic growth. Earnings estimate for the Industrial sector have also continued to drop. According to FactSet, on March 31st, the sector was expected to grow 5.6% in Q2. That number has since dropped to -1.34%. Q3 estimates were projecting EPS growth of 8.40%, though the number is now a more meager 1.93%. A slowdown in the Industrial sector need not be the end of the economic cycle. In 2016, the Industrial sector's earnings fell 0.8% in Q3 and another 2.0% in Q4. However, the economy and the market both held up strongly despite the industrial earnings recession.

There will be a lot for the market to digest the next few weeks. Earnings will remain largely in focus as 294 S&P 500 companies report earnings in the next 14 days. When measured by market cap, 29.1% of the entire index is set to report this week alone. On top of earnings season getting underway in a meaningful manner, we also have the Fed Meeting on July 30-31st. Despite the importance the market has been placing on both earnings and the Fed, the VIX remains rather muted. Before Friday's selloff, the VIX was trading at the lower end of its YTD trading range. It seems that the market is currently rather complacent and is choosing to ignore some of the cracks.

Upgrades/Downgrades &
Dividends

EXLS — Downgraded to sell from neutral at Citi (7/17).

FDS — Initiated underweight at Huber Research Partners with a price target of \$225 (7/15).

FDS — Downgraded to underweight from neutral at Morgan Stanley, price target cut from \$264 to \$263 (7/16).

LH — Upgraded to neutral from underperform at Bank of America Merrill Lynch, price target increase from \$140 to \$182 (7/16).

NNN - Increased their quarterly dividend by 3%, payable August 15th (7/15).

PYPL — Assumed buy at Jeffries, target increased to \$140 from \$125 (7/18).

PYPL — Maintained outperform at Wedbush Securities, target increased to \$140 from \$125 (7/19).

RMD — Downgraded to neutral from buy at UBS, though they increased their target from \$118 to \$122 (7/16).

TSCO — Remains overweight at Piper Jaffray, though the price target was raised to \$125 from \$114 (7/16).

WCN — Downgraded to perform from outperform at Oppenheimer (7/18).

Earnings Calendar

Date	Time	Ticker
7/22	Post-Market	BRO
7/23	Pre-Market	UTX
7/24	Pre-Market	EEFT
7/24	Pre-Market	NEE
7/24	Pre-Market	TROW
7/24	Post-Market	PYPL
7/24	Post-Market	ORLY
7/25	Pre-Market	CMCSA
7/25	Pre-Market	LH
7/25	Pre-Market	TSCO
7/25	Post-Market	FISV
7/25	Post-Market	RMD
7/25	Post-Market	RSG
7/25	Post-Market	SYK
7/26	Pre-Market	ABBV

Portfolio News & Notes

Tandem's holdings kept themselves busy last week. National Retail Properties announced an increase in its quarterly dividend. Brown & Brown made not one, but two, acquisitions, as they continue to grow their ever-expanding portfolio of companies. Henry Schein announced the acquisition of Elite Computer Italia, which will be neutral to their EPS in 2019 and accretive to their bottom line after 2019. eBay also purchased a 5.5% stake in Paytm Mall — an online retailer that competes with Flipkart and Amazon India. Finally, the FTC granted antitrust clearance to Fiserv for their purchase of First Data — just one more hurdle they have cleared on their way to finalizing the acquisition.

Earnings season also kicked off in earnest last week for us as Abbott Labs, eBay, Signature Bank and Microsoft all reported their numbers. ABT missed on revenue, exceeded earnings expectations and guided FY2019 numbers higher. eBay also beat their EPS estimates and guided EPS higher, but sales lower, for FY2019 as well. Signature beat on both their top and bottom lines. Lastly, Microsoft's Q4 print beat on both sales and earnings as well. The next few weeks should be even busier as 25 Tandem companies report.

	WTD	MTD	QTD	YTD
Dow Jones	-0.65%	2.08%	2.08%	16.40%
S&P 500	-1.23%	1.18%	1.18%	18.74%
Nasdaq	-1.18%	1.75%	1.75%	22.78%
Russell 2000	-1.41%	-1.19%	-1.19%	14.78%
Comm. Svcs	-3.06%	0.78%	0.78%	19.26%
Con Disc	-1.65%	2.53%	2.53%	24.06%
Con Staples	0.22%	3.33%	3.33%	18.27%
Energy	-2.70%	-1.54%	-1.54%	9.42%
Financials	-1.34%	1.04%	1.04%	17.12%
Health Care	-0.80%	-1.07%	-1.07%	5.98%
Industrials	-1.25%	0.08%	0.08%	20.30%
Info Tech	-0.66%	3.10%	3.10%	30.03%
Materials	0.15%	-0.15%	-0.15%	15.78%
Utilities	-0.44%	1.04%	1.04%	13.99%
REITs	-2.31%	-0.14%	-0.14%	18.11%

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