

Notes from the Trading Desk

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Market Mover & Shakers

U.S. equities moved higher again this week — marking the third straight week of gains. The Dow, S&P 500, and Nasdaq were up 1.57%, 0.96%, and 0.91%, respectively. The Russell 2000 shot higher, as it climbed 4.85% — its best weekly gain since election week in 2016. The S&P 500 is now knocking on the door of all-time highs. It got within 7 points of an intraday high and 16 points of a closing high. Elsewhere, the spread between the 10-year Treasury and 2-year Treasury is no longer inverted. The 10-year yield has spiked 44 bps in the last 7 trading sessions — good for the largest move since the 2016 election as well, when the 10-year yield increased 45 bps. After having a remarkable start to the year, TLT — iShares' 20+ Year Treasury Bond ETF — is down 7.3% in the month of September, and was down 6.3% last week.

The biggest piece of news happened not during the week, but this past weekend, as tensions ratcheted higher in the Middle East following the drone attack on Saudi Aramco's oil facility. *The Wall Street Journal* estimates that roughly 5% of the global supply of oil was taken offline as a result of the attacks. The destruction of Saudi Arabia's oil supply sent the price of oil much higher on Monday morning. U.S. Secretary of State Mike Pompeo pointed the finger at Iran, despite Yemen's Iran-aligned Houthi group claiming responsibility. Until the dust settles, the oil market should be markedly more volatile. However, David Harrison of *The Wall Street Journal* argues that the U.S. economy should be able to better withstand oil supply shocks these days. The oil shock in the 1970s sent the U.S. economy into a recession, but as Harrison points out, the U.S. is now the world's top oil producer and total energy consumption by U.S. households has fallen from ~8% in the 1970s to just 2.5% today.

A notable trend in September has been the rotation in market leadership to value, and out of growth. VLU — iShares Edge MSCI USA Value Factor ETF — is up 7.48% in the month of September, while MTUM — iShares MSCI USA Momentum Factor ETF — is down 0.78%. According to Bloomberg, the divergence between value and growth has the potential to be painful for hedge funds should the trend continue. Hedge funds have the highest exposure to growth stocks in long-short funds since at least 2016. Bloomberg went on to suggest that the divergence was stemming from the unwinding of recession fear trades. As a result, both the Energy and Financial sectors have performed quite well in the month of September. Defensive and interest rate sensitive plays on the other hand — such as Utilities, REITs, and Consumer Staples — have all lagged.

Transition Update**

Volatility has become muted once more — the VIX is down 27.6% in the month of September. Some of the opportunities we saw to put money to work in August have dried up this month to a certain extent. So, while we were a bit more aggressive on the transition level throughout August, we have since pumped the breaks a little. However, we do not invest according to the market, we invest on a stock by stock basis. As such, we have still been able to take advantage of certain stock specific opportunities on the transition level. Last week, we added to AbbVie on the transition level as the stock cleared through a critical level of resistance/support at \$70. AbbVie remains attractively valued, but still has some hurdles to clear as a result of its recent downtrend. We also saw names such as ACN, ICE, and RMD pull back to the bottom end of their long-term uptrend which allowed us to add to those positions on the transition level as well.

***The transition update describes activity taken by Tandem on the transition level, not the composite or firm-wide level. The transition update is applicable to new accounts and new money. New accounts and new money are not automatically invested on the first day, rather it is transitioned into our strategy over a longer time period that is dependent upon market conditions. This update describes that transition.*

Upgrades/Downgrades & Dividends

ABBV — Upgraded to buy from neutral at UBS, though their target decreased to \$79 from \$85 (9/12).

COST — Downgraded to perform from outperform at Oppenheimer, target increased to \$300 from \$295 (9/11).

CVET — Initiated sell with a target of \$11 at Goldman Sachs (9/10).

CVS — Initiated buy and “top pick” at Deutsche Bank with a price target of \$91 (9/12).

DG — Downgraded to market perform from outperform at Bernstein, target increased to \$145 from \$135 (9/10).

FISV — Assumed buy with a price target of \$120 at Canaccord Genuity (9/11).

ORLY — Assumed neutral at Citi, previously a buy, target decreased to \$430 from \$441 (9/13).

PYPL — Assumed buy with a price target of \$118 at Canaccord Genuity (9/11).

WBA — Initiated sell at Deutsche Bank with a price target of \$53 (9/12).

Portfolio News & Notes

It was a slow week in terms of headlines for Tandem's core holdings. All of Tandem's holdings have now reported earnings for Q2. Per FactSet data, Tandem companies were estimated on March 31st to grow EPS 6.22% in the second quarter. However, reported earnings growth was actually 13.15%. Similar trends were seen in sales growth as well — Tandem's holdings were previously estimated to grow 11.71%, while they ended up growing 12.21%. The broader market did not hold up quite as well. Sales growth was 4% for the S&P 500 in Q2, slightly below the March 31st estimates of 4.73% growth. Earnings growth for the S&P 500 was actually -0.35%, though this was a slight improvement of the estimated -0.44%. S&P 500 earnings are expected to slide further in Q3 by 3.91%, while sales growth is expected to be 3.18% for the index. Tandem's holdings on the other hand, are expected to grow sales and earnings 12.60% and 9.09%, respectively, in Q3.

	WTD	MTD	QTD	YTD
Dow Jones	1.57%	3.09%	2.33%	16.68%
S&P 500	0.96%	2.77%	2.23%	19.97%
Nasdaq	0.91%	2.69%	2.13%	23.23%
Russell 2000	4.85%	5.57%	0.74%	17.02%
Comm. Svcs	1.47%	3.44%	4.92%	24.16%
Con Disc	0.41%	3.04%	2.48%	24.00%
Con Staples	-0.92%	0.23%	4.25%	19.32%
Energy	3.36%	6.09%	-4.98%	5.60%
Financials	3.89%	5.84%	2.78%	19.14%
Health Care	0.19%	0.86%	-1.56%	5.45%
Industrials	2.86%	4.71%	2.23%	22.88%
Info Tech	-0.39%	2.01%	3.55%	30.59%
Materials	3.34%	4.24%	0.59%	16.64%
Utilities	0.01%	0.37%	4.65%	18.06%
REITs	-3.31%	-1.97%	4.38%	23.46%

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