

Notes from the Trading Desk

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Ben Carew, CFA

Tandem Investment Advisors

Market Mover & Shakers

It was another good week for major U.S. indices in what has been a year full of them. The weekly increase in the S&P was its third in a row. For those keeping score at home, the S&P has only dropped once on a weekly basis since the first week of October. Last week, the S&P 500 gained 0.73%, while the Dow moved 0.43% higher. The Russell 2000 moved up only 0.25%. The Nasdaq, meanwhile, gained 0.91% as Tech and other cyclicals ruled the week. The Tech sector jumped 1.96%, while Consumer Discretionary and Financials trailed only Tech as they gained 1.07% and 1.00%, respectively. Laggards for the week were certainly the more defensive corners of the market. REITs got walloped as they dropped 2.61%. Utilities were more or less flat, as they gained a measly 0.14%. Communication Services also had a rough go as Facebook and Netflix were down 3.5% and 2.9%, respectively. Yields were fairly volatile following Jerome Powell's Wednesday presser, though yields ended the week mostly flat.

It was a week chock full of news. Domestically, the U.S. and China seem to have agreed to a phase one trade deal. The deal should pump the brakes on the tariffs that were set to roll out on Sunday. China, in exchange for the tariff relief, agreed to increase their agricultural purchases. The Trump Administration hailed the "phenomenal" deal as a victory. However, the tone out of Beijing was seemingly a bit more cautious. Calling this a large victory of any sort would be slightly hyperbolic as there is a lot of work to be done. Across the pond, Boris Johnson and the rest of the Tories landed a big blow to the Labour party. The Conservatives secured a large majority in the most recent election, which seems to all but solidify a Brexit in the coming months. Finally, not to be left out of the good news stocks have been clamoring for, the Fed struck a more dovish tone. Powell told reporters during his Wednesday press conference that it would take persistent and significant inflation for the Fed to remove their recent accommodation.

The recent central bank accommodation has been a little perplexing. The Chicago Fed's National Financial Conditions Index, which measures how loose or tight financial conditions are, has been near all-time lows throughout the year. In fact, 2019's average reading in the index is the third lowest annual number dating back to 1971. The United States only experienced easier financial conditions in 1993 and 1976. However, in 1993 we were two years removed from a recession and the unemployment rate was still moving higher into the mid-to-high 7s. Similarly, we were less than a year removed from a recession in 1976 with unemployment also in the mid-to-high 7s — quite a different environment than today! Today, we are more than 10 years into an expansion and we have unemployment sitting at the lowest levels since 1969. Ultimately, it looks like the easy conditions are here to last for a little while longer as the market is currently pricing in a 55.2% chance of one more cut by September of next year.

Transition Update**

The drubbing of REITs allowed us to take a couple of shots at NNN last week on the transition level. NNN has fallen more than 12% since it topped out on October 31. However, the REIT hopefully has caught some support around the \$51/\$52 level— a level that has proved to be pretty supportive over the last twelve months. In addition to NNN, we also were able to purchase a few other names that have also pulled back. Tyler Technologies and Verisk both have recently sold off but remain in longer term uptrends. Finally, we were also able to keep transitioning into Dollar Tree, JM Smucker and Comcast. All three names are attractively valued in our quantitative model and traded down to what appears to be longer term support. DLTR bounced right around the \$90 level, where it had previously bounced in mid August. Over the past two or three years, SJM has seemingly often bounced between \$100 and \$105. So between the attractive valuation and the appearance of strong support, we felt very comfortable continuing to transition into the long-time Tandem holding. Similarly, Comcast has seemingly been able to find support between the \$40 and \$42 levels over the past 6 months. Almost like clockwork, after having sold off the last couple of months, Comcast bounced at \$42.01 on Wednesday. Lastly, we were able to continue to transition into eBay in our Equity strategy 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, they are transitioned into our strategy over a longer time period that is dependent upon market conditions. This update describes that transition.*

Upgrades/Downgrades & Dividends

ABT — Increased their quarterly dividend by 12.5% to \$0.36 from \$0.32.

D — Increased their annual dividend in 2020 by 2.5% to \$3.76 from \$3.67 in 2019.

ORLY — Downgraded to neutral from buy at Goldman Sachs, price target is \$479 (12/9).

SJM — Resumed hold at Deutsche Bank with a price target of \$108 (12/12).

WBA — Downgraded to equal weight from overweight at Wells Fargo Securities with the price target cut to \$61 from \$65 (12/11).

YUM — Initiated sector perform with a price target of \$107 at RBC Capital Markets (12/9).

Portfolio News & Notes

It was a slow week in terms of headlines here at Tandem. Comcast made a splash on Monday as they announced the launch of Peacock. Peacock will be CMCSA's initial foray into the streaming space. They have reportedly not yet decided on the subscription levels, but the streaming service is expected to rollout in April. Unlike many of its peers, Peacock will reportedly be ad-supported. According to *The Wall Street Journal*, Comcast is planning to spend \$2b over the next two years on the endeavor.

The week was also a rather busy week in some of our strategies. We added to one name in all of our strategies. We also continued to build out positions in a handful of names in both Equity and Mid Cap. Finally, we began the liquidation process for a long-time holding here. Billy will certainly touch on these a bit more in depth during January's *Observations*.

While earnings season is largely behind us, we do have a few names reporting their earnings this week. Accenture and FactSet both report on Thursday morning prior to the opening bell while Nike will report after the close.

	WTD	MTD	QTD	YTD
Dow Jones	0.43%	0.30%	4.53%	20.61%
S&P 500	0.73%	0.89%	6.45%	26.41%
Nasdaq	0.91%	0.80%	9.19%	31.64%
Russell 2000	0.25%	0.83%	7.52%	21.46%
Comm. Svcs	-0.67%	0.02%	6.59%	28.45%
Con Disc	1.07%	0.27%	1.70%	23.27%
Con Staples	0.20%	1.12%	1.88%	22.86%
Energy	0.79%	2.31%	0.97%	4.08%
Financials	1.00%	1.74%	9.04%	28.22%
Health Care	0.40%	1.31%	11.53%	16.23%
Industrials	0.74%	-0.36%	4.78%	26.57%
Info Tech	1.96%	1.55%	10.86%	43.98%
Materials	0.60%	0.62%	3.54%	19.25%
Utilities	0.14%	0.38%	-2.71%	18.97%
REITs	-2.61%	-2.94%	-5.22%	19.92%

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Earnings Calendar

Date	Time	Ticker
12/19	Pre-Market	ACN
12/19	Pre-Market	FDS
12/19	Post-Market	NKE