Notes from the Trading Desk

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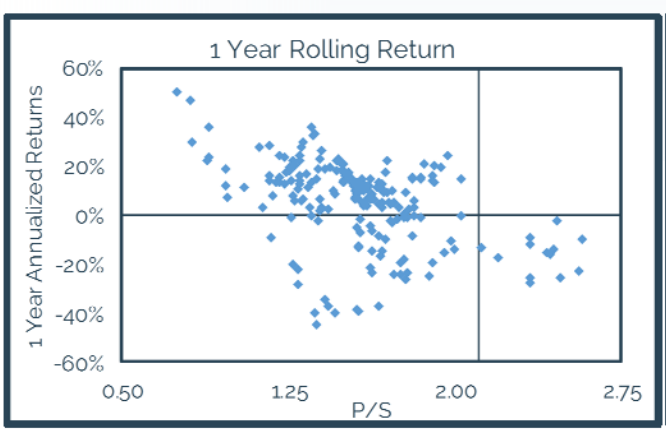
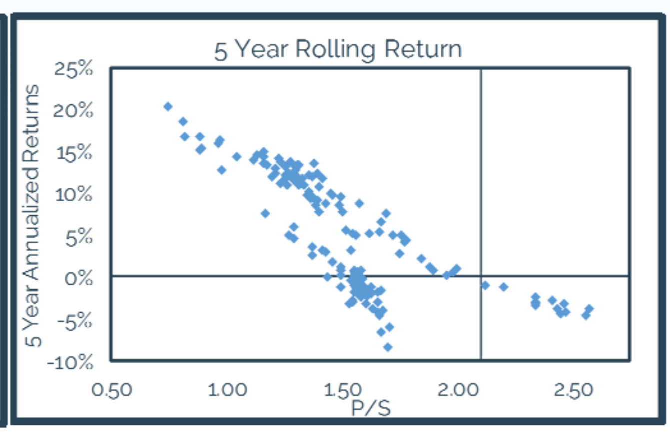
Equities finished slightly higher for the week. The Dow, the S&P, the Nasdaq, and the Russell 2000 were up 0.42%, 0.52%, 0.56%, and 0.94% respectively. However, trading finished the week fairly sloppy as we moved lower both Thursday and Friday. Staples were the weakest sector, trading down 4.36% off weakness in the tobacco industry. Yield sensitive stocks were also laggards as REITs and Telecomm were down 1.1% and 0.32%. The interest-rate sensitive sector's sell-off started with the spike in yields on Wednesday. The US 10-year moved up from 2.82 to 2.96 over the last week. It appeared to take its toll on equities as well, as the bond sell-off's quickened pace on Friday was also the worst day of the week in terms of equity trading. The dollar index was up 0.6% and Gold fell 0.7% — its first down week in three weeks. Finally, Crude continued its impressive run as it was up 1.5% and is knocking on the door of $70/barrel.

The 10-year's Friday close was its highest settle since January 2014 according to the Wall Street Journal. However, the front-end of the curve continues to outpace the back-end on their ascents higher. The two-year is currently yielding 2.46 — levels not seen since August of 2008 — and is up from its September low of 1.23. The yield curve, as measured by 10s an 2s is at its tightest level since October of 2007. However, that is a little misleading as the yield curve was actually steepening in 2007 after its inversion in 2006. Shorting treasuries is becoming an increasingly popular bet according to the most recent BofA Merrill Lynch Global Fund Manager Survey — and with good reason. The Treasury department is issuing massive amounts of debt — the most since 2010 according to some estimates. In fact, per the IMF, the United States is the only advanced economy expected to grow its debt-to-GDP ratio over the next five years. Of course, a lot can happen, and most certainly will happen, in the next five years, Long dated predictions seem to hardly be right. Though the typical measures of the yield curve have yet to invert, we are starting to see some irregularities. In a recent Deutsche Bank note, they highlighted the fact that swaps measuring US interest-rate expectations for 2021 have actually fallen below those of 2020.

The most recent TANDEM Report highlighted the discrepancy in sales and earnings growth over the last few years. The difference in growth rates between the two fundamental factors is also clear in their valuations — as was pointed out. Trailing P/S on the S&P 500 have remained north of 2.0 since the start of 2017 for the first time since the Tech Bubble according to FactSet. Not to beat a dead horse, but valuation matters. Price paid matters. The charts below show rolling 1 year and 5 year returns for the S&P 500 from various P/S ratios over the last 18+ years. Never have we experienced positive numbers from current levels. Again, as stated in the TANDEM Report, P/E ratios are no longer in the nosebleeds. In fact, the forward P/E on the S&P is currently 16.4x, which is good for the 64th percentile going back to the turn of the century. Yes, P/Es are technically slightly above average, but the 64th percentile is far from record highs! However, P/B, P/CF, P/FCF and EV/Forward EBITDA are all in the 83rd percentile or higher. Using any metric other than P/E highlights the major index still erring on the side of expensive.





Upgrades & Downgrades

COST — upgraded to outperform from market perform at Wells Fargo, target increased from $195 to $220 (4/16).

DG — downgraded to outperform from strong buy at Raymond James, target cut to $105 from $110 (4/16).

DG — initiated neutral with target of $105 at Credit Suisse (4/18).

DG — upgraded to overweight from neutral at JPMorgan, price target increased from $104 to $115 (4/17).

DLTR — downgraded to outperform from strong buy at Raymond James, target remains $110 (4/16).

DLTR — initiated outperform with target of $114 at Credit Suisse (4/18).

DLTR — upgraded to buy from hold at Loop Capital Markets, target increased to $120 from $92 (4/17).

ORLY — downgraded to neutral from buy at Guggenheim (4/16).

SBNY —upgraded to outperform from market perform at Wells Fargo with a target of $160 (4/19).

SJM — downgraded to underperform from neutral at Credit Suisse, target cut to $115 from $120 (4/16).

TSCO — upgraded to buy from neutral at Goldman Sachs, target decreased to $72 from $79 (4/16).

TSCO — upgraded to overweight from neutral at Piper Jaffray, target increased to $72 from $71 (4/20).

Earnings Calendar

Date	Time	Ticker
4/23	Post-Market	BRO
4/24	Pre-Market	UTX
4/24	Pre-Market	NEE
4/25	Pre-Market	EEFT
4/25	Pre-Market	TROW
4/25	Post-Market	PYPL
4/25	Post-Market	ORLY
4/26	Pre-Market	ABBV
4/26	Pre-Market	TSCO
4/26	Post-Market	RMD
4/26	Post-Market	SYK
4/26	Post-Market	MSFT
4/27	Pre-Market	D

Portfolio News

Earnings season is officially underway here at Tandem. Last week, it was kicked off by Abbott Labs reporting largely positive numbers on Wednesday. Abbott had slight beats on both the top and bottom line and reaffirmed guidance that was well inline with analyst expectations. For the week, Abbott was up 1.2%. Signature Bank also reported their quarterly numbers. SBNY's adjusted EPS was slightly ahead of analyst expectations, and they grew their deposits an additional $1.4b to $34.8b. The next few weeks should be fairly busy here at Tandem with 13 names reporting earnings this week and another 11 names next week.

On the performance front, it was a rather mixed bag for us. The average Tandem stock was up 0.7% this past week, led by a variety of names. EcoLab and eBay were both up 5+%. While Becton Dickinson, Stryker, and Tractor Supply were all up more than 3% for the week. Signature and Smucker were the notable laggards as both were off 6.5%. Smucker traded lower with Consumer Staples in general. The staples sector was hit hard and sold off largely in unison due to poor numbers out of tobacco.

Finally, CVS and Walgreens both saw a little jump on Monday as CNBC reported that Amazon is currently shelving their plan to sell and distribute drugs. Both stocks have sold off since the news initially broke in September that Amazon was interested in crashing the pharmacy party. The "Amazon Effect" has allowed us to incrementally add to positions within the space, as we continued to do so this past week as we added to our position in Walgreens in both Equity and Large Cap.

	WTD	MTD	QTD	YTD
Dow Jones	0.4%	1.5%	1.5%	-1.0%
S&P 500	0.5%	1.1%	1.1%	-0.1%
Nasdaq	0.6%	1.2%	1.2%	3.5%
Russell 2000	0.9%	2.3%	2.3%	1.9%
C.D.	1.7%	1.6%	1.6%	4.4%
C.S.	-4.4%	-4.4%	-4.4%	-11.8%
Energy	2.6%	8.7%	8.7%	1.5%
Fins	1.6%	1.2%	1.2%	-0.2%
H.C.	0.3%	1.0%	1.0%	-0.7%
Ind.	2.1%	1.7%	1.7%	-0.4%
I.T.	-0.2%	1.1%	1.1%	4.4%
Mats	1.5%	3.6%	3.6%	-2.6%
Utes	1.0%	-0.4%	-0.4%	-4.6%
REITs	-1.1%	-2.9%	-2.9%	-8.8%