Notes from the Trading Desk

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Market Movers & Shakers

Volatility certainly reared its head last week. The S&P moved ±1% four of the five trading sessions as the VIX spiked 7.61% higher to 21.49. For the week, the S&P was down 1.38%. The Nasdaq and the Russell 2000 were down 2.10% and 1.05% respectively. Meanwhile, the Dow was down nearly 0.75%. All sectors closed lower for the week. However, Energy, Utes, Telecom, and Staples were all down less than 1/3 of a percent. Tech and Industrials were both off more than 2% and Fins were off 1.45% despite slight curve steepening. The dollar was largely unchanged for the week — though the DXY continues to set up well technically. Gold was up a little less than 1% for the week, but it continues to struggle in its effort to sustain levels above $1,350.

The trade war sabre rattling continued to have a stranglehold on investor attention throughout much of the week. On Tuesday, the USTR released its list of proposed tariffs on $50b of Chinese imports. China quickly responded and proposed reciprocal tariffs on $50b of US goods. Following the Chinese retaliation, President Trump urged the USTR to consider placing an additional $100b in tariffs on Chinese imports. The market took a turn for the worse on this news as futures moved lower overnight Thursday into Friday morning.

A key driver of the most recent leg up in our aging bull market has often been attributed to global synchronized growth. The Baltic Dry Index, a bellwether for the global economy, rallied more than 500% from its February 2016 low into its 3-year high this past December. 2017 also witnessed the first time since 2007 that all 45 countries tracked by the OECD were growing. However, the global growth has recently been called into question. A slew of articles came out this past week discussing the potential fallout from cracks in the international economic expansion. In *The Wall Street Journal*'s "What if Global Growth Falters Now?", they discuss a number of indicators that are beginning to appear more worrisome. Copper, which enjoyed a nearly two-year rally into the end of 2017 has faltered YTD. Global PMIs have begun slowing their pace of growth as well. And, the aforementioned Baltic Dry Index is down more than 30% YTD. According to Bespoke Investment Group, 21 of 30 countries they track experienced a dip in manufacturing in March.

The global synchronized growth story does appear to be losing some steam. Couple a potential stalling out of global economies with threats of a trade war and the international outlook seems less than stellar. However, not all is dreary. Earnings season is set to start in earnest in a few weeks time. According to FactSet, Q1 EPS is expected to grow at 17.1%. If this growth rate is met, it will be the highest earnings growth since Q1 2011. Earnings growth has been, and is expected to be, robust. However given the recent volatility, it would not be surprising to see misses be severely punished by this market.

Of note this week will be the major banks reporting on Friday. Citi, JPM, Wells, and PNC are all slated to report. March's CPI number will come out Wednesday — could be a mover in the treasury space, and ultimately find its way into equities. Fears of inflation sparked the initial selloff back in February. A big CPI number would certainly spook markets as many would anticipate the Fed needing to quicken their pace of hiking interest rates.

Lastly, a little food for thought. Markets have been incredibly volatile YTD — especially relative to 2017. In 2017, we had eight 1% days. YTD, we have had 27 such days. 2017's 8 was the lowest number of 1% days in a calendar year since we had 8 such days in 1965. We are currently on pace for around 100 1% days, which over the last 60 years has only happened in 1974, 2000-2002, and 2008/2009. The yearly returns for those time periods were –29.7%, -10.1%, -13.0%, -23.4%, -38.5%, and 23.5%. Going back to 1929, the average return for years in which we experience more than 100 1% days is –11.56%. The average yearly total is roughly 53 1% days. Typically, years of low volatility are followed by an increase in volatility as we return to more "normal" market conditions. However, it would seem that as the volatility pendulum swings back towards its average, it often overshoots.

***Notes from the Trading Desk will not be published next week. The next issue should be published April 23rd.*

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, 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, 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 (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, 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

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.

	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%