

# Notes from the Trading Desk

Tandem Investment

Advisors

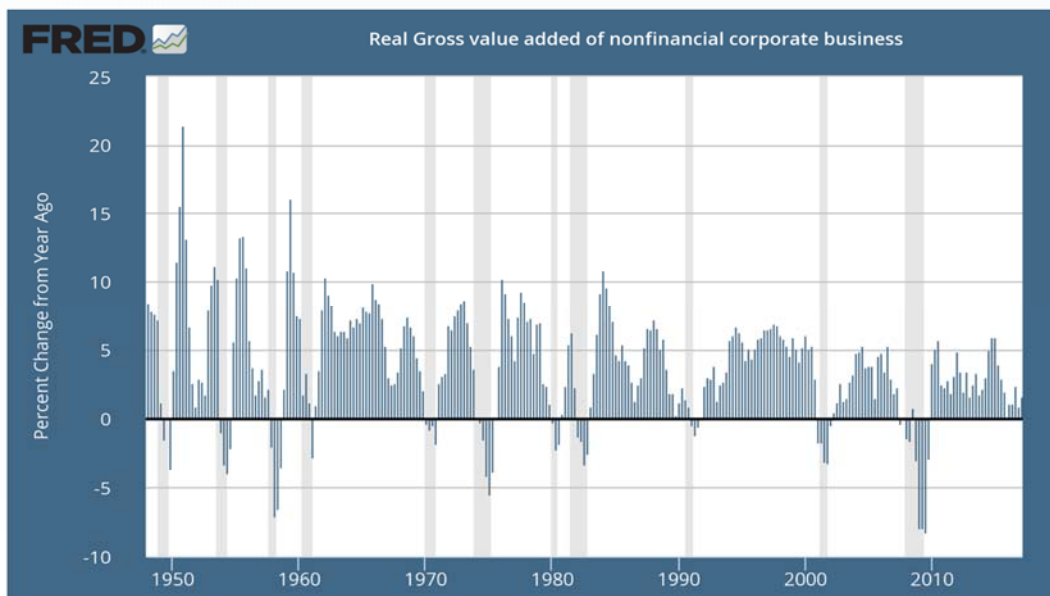
## Market Movers & Shakers

Another week is in the books. All eyes were on Jackson Hole as Central Bankers around the world convened to discuss economic issues, policies and more. Little additional information came out of Wyoming this week. Yellen added little in terms of monetary policy. Draghi, another potential market mover, added very little in terms of policy as well.

The markets drifted higher this week with yield plays leading the way. REITs were up 230 bps and telecomm was up nearly 200 bps. Utes were also up 1%. Staples were the only sector that closed lower this week — closing off 97 bps. Staples were hit rather hard on the Whole Foods/Amazon deal closing. The entire sector sold off dramatically. It was not surprising to see names like Kroger, Costco, and Sprouts sell off — however seeing a simultaneous selloff in CVS and Walgreens highlights the disruption that passive investing brings. The news broke, around 1:50 pm, that Whole Foods would begin cost cutting on Monday. XLP, a staples ETF, proceeded to sell off close to 1% in the next hour. The entire sector got punished on the news that Amazon will begin implementing price cuts at Whole Foods.

A few trends worth noting outside of the equity markets. First, metals have been performing incredibly well YTD. Copper is up over 21% YTD and is up nearly 45% in the past year — it is currently trading at a 3 year high. Aluminum is also trading at a 3 year high, and Iron Ore is up 35% since the end of May. The metals rally has been incredibly strong of late. It has also been supported by the precipitous decline in the Dollar. Since topping out in early January, the dollar is down 11%. Lastly, the 10-year is back to the low end of its tight trading range. Treasuries continue to perform well despite the Fed having hiked twice thus far. TLT is up nearly 7% YTD, and the 10-Year currently sits just below 2.20% — it started the year just below 2.50%.

On to the macro front... C&I Loan growth continues its deceleration. YoY growth for all commercial banks C&I loans is a paltry 1.6%, numbers last seen on the downside in 2009 and 2001 before that. We've discussed this measure in the past, so we won't spend too much rehashing it this week. But, the one bright spot with this data point is that it is typically reactionary. Banks often constrict their loan growth once the economy has already soured. C&I Loan growth typically goes negative well into a recession — it does not often precede a recession. This slowdown could entirely be a reaction to the earnings recession and hiccup the economy hit in much of 2015/2016. Lastly, Real Gross Value Added, a metric designed to measure economic contribution for goods and services is teetering and is on the verge of going negative (see the top chart below). Each and every recession since 1948 has seen this metric go negative. Certainly a trend worth watching the next quarter or two.



## Upgrades & Downgrades

- **CVS** — initiated hold with an \$83 target at Loop Capital Markets
- **DG** — reinstated a reinstated buy at Bank of America Merrill Lynch with a target of \$90
- **DLTR** — reinstated a strong buy at Ray J from market perform, target of \$95
- **DLTR** — reinstated buy at Bank of America Merrill Lynch with a target of \$91
- **HRL** — downgraded to neutral from outperform at Credit Suisse, target cut to \$33 from \$39
- **NKE** — downgraded to hold from Buy at Jeffries, target cut from \$75 to \$60
- **SJM** — downgraded to neutral from overweight at JPM, target cut to \$116 from \$135. JPM noted challenges in Pet & Coffee
- **SYK** — upgraded to hold from underperform at Needham
- **WBA** — initiated buy with a target of \$95 at Loop Capital Markets

## Earnings Calendar

Date	Time	Ticker
8/30/2017	Pre-Market	BF.B
8/30/2017	Post-Market	COST
8/31/2017	N/A	DG

## Portfolio News

Our portfolios saw a flurry of action and headlines this past week. We continued to add to CVS this past week — taking it up to 2% on Thursday morning. We got in between \$76.85 and \$77. However, the Amazon wrecking ball on Thursday took its toll on CVS. CVS sold off over 2% within an hour of the news breaking after our purchase that morning. We also finished liquidating our position in Thermo this past week.

We had three names report this past week — Smucker, Hormel, and Dollar Tree. None of the three reported quietly. Hormel is off over 7.5% since they reported Thursday morning. They had slight misses and proceeded to guide lower for the fiscal year. Smucker also reported Thursday morning — they are 11.5% lower than their Wednesday close. Smucker has continued to see challenges in coffee and pet food. The volume for Folgers dried up early in the quarter as they raised the price in response to increasing coffee prices. They proceeded to lower the price and are more optimistic about volume trends going forward. They did note the rise of private labels growing market share. Smucker also struggled in their pet food segment. Lastly, and on a much brighter note, Dollar Tree is up over 8% since reporting Thursday morning. Dollar Tree had a large beat and raised their FY earnings guidance by ~5%. They are also seeing positive trends in their same store sales.

A few other headlines worth pointing out. The NY Post reported that an unidentified hedge fund, rumored to be Dan Loeb at Third Point, has been accumulating a position in UTX. Apparently pressure is mounting on UTX to spin-off some non-core assets. UTX popped higher on the news. Stryker was forced to lower guidance on the back off a voluntary recall involving some oral care products. Their guidance was revised to the lower end of their previously guided ranges in earnings an sales. The numbers should not be dramatically different, though there is a slight material difference (the dilution should be no more than \$0.05 on numbers guided between \$1.50-\$1.55). EU regulators approved a Humira biosimilar this past week, and the FDA approved a second biosimilar — further turning up the heat on ABBV who receives ~2/3 of their total net revenues from Humira. T. Rowe also named Céline Dufétel as their new CFO. Dufétel will join T. Rowe in December and step into her role as CFO in 2018. She is currently a managing director at Neuberger Berman and serves as the global head of their Marketing and Client Service.

Lastly, there was a deluge of M&A activity. Brown & Brown scooped up Herronpalmer, a small firm with \$3.5m in revenue. Herronpalmer assists businesses with sourcing HR and employee benefit program administration. Fiserv acquired a small company, Dovetail Group, they should increase Fiserv's payment capabilities. Mednax acquired a team of 70 a radiology team comprised of 70 physicians that should be immediately accretive to their numbers. Hormel acquired the large Brazilian brand Ceratti for \$104m to increase their international presence. Verisk acquired LCI — an industry leading provider of risk insight, prediction, and management solutions for banks and creditors — for \$151m cash. Republic acquired ReCommunity Holdings II for an undisclosed amount. ReCommunity is the largest independent recycling-processing company in the US.

	WTD	MTD	QTD	YTD
Dow Jones	0.6%	-0.4%	2.2%	10.4%
S&P 500	0.7%	-1.1%	0.8%	9.1%
Nasdaq	0.8%	-1.3%	2.0%	16.4%
Russell 2000	1.4%	-3.3%	-2.7%	1.5%

Buy	Accumulate	Sell	Liquidate
CVS	ABBV	ACN	ITT
DLTR**	CERN	D**	KO
	CTSH	MSFT	OZRK
	DG	NEE**	
	FDS**	RSG	
	NNN	SYK	
	VRSK	WCN**	

\*\*Denotes a position that is either +3% in the case of a buy/accumulate, or less than 1.5% in the case of a sell

## Core Holding Performance

Performance					
Ticker	WTD	MTD	QTD	YTD	1 Yr.
ABBV	3.6%	3.7%	0.0%	15.7%	12.2%
ABT	1.3%	0.3%	1.5%	28.5%	14.8%
ACN	1.5%	0.4%	4.6%	10.5%	12.3%
BDX	0.4%	-1.4%	1.8%	19.9%	13.2%
BF.B	-0.9%	2.0%	3.7%	12.2%	-0.2%
BRO	1.5%	-0.7%	2.8%	-1.3%	20.1%
CERN	1.6%	1.4%	-1.8%	37.7%	0.9%
COST	-2.9%	-3.8%	-4.7%	-4.8%	-7.0%
CTSH	-0.4%	0.7%	5.1%	24.5%	20.6%
CVS	-3.0%	-5.7%	-6.4%	-4.5%	-19.2%
D	1.8%	3.8%	4.5%	4.6%	7.1%
DLTR	8.3%	11.5%	15.0%	4.2%	-6.0%
EBAY	-0.3%	-2.9%	-0.7%	16.8%	10.8%
ECL	0.7%	-0.5%	-1.3%	11.8%	6.6%
EXPD	0.3%	-6.5%	-2.5%	3.9%	7.8%
FDS	0.2%	-4.8%	-4.2%	-2.5%	-10.4%
FISV	1.6%	-4.8%	0.0%	15.1%	18.2%
HRL	-8.1%	-8.3%	-8.1%	-10.0%	-17.4%
ICE	1.3%	-1.9%	-0.8%	15.9%	17.8%
ITT	0.9%	-3.8%	-1.8%	2.3%	9.2%
KO	-0.2%	-0.6%	1.6%	9.9%	5.2%
MD	4.6%	-5.9%	-26.8%	-33.7%	-29.5%
MSFT	0.5%	0.2%	5.6%	17.2%	25.5%
NEE	0.1%	2.7%	7.1%	25.6%	23.4%
NKE	-1.9%	-8.7%	-8.6%	6.0%	-8.6%
NNN	2.1%	4.0%	6.3%	-6.0%	-17.3%
ORLY	2.2%	-1.0%	-7.5%	-27.3%	-27.3%
OZRK	2.1%	-2.2%	-10.0%	-19.8%	10.4%
PYPL	0.9%	2.4%	11.7%	51.9%	59.3%
RMD	1.5%	-3.8%	-4.7%	19.6%	7.5%
ROST	0.6%	7.3%	2.9%	-9.5%	-6.1%
RSG	0.8%	0.2%	1.0%	12.8%	27.3%
SBNY	2.6%	-5.5%	-8.7%	-12.8%	9.6%
SCG	-1.2%	-6.7%	-10.3%	-18.0%	-14.9%
SJM	-13.7%	-13.7%	-11.1%	-17.9%	-24.3%
SNI	0.6%	-1.4%	26.2%	20.8%	36.1%
SYK	-3.1%	-4.9%	0.8%	16.8%	22.2%
TJX	1.7%	1.9%	-0.7%	-4.6%	-8.9%
TROW	1.9%	1.4%	13.1%	11.5%	21.8%
TSCO	8.9%	6.2%	9.9%	-21.4%	-29.6%
UTX	-0.4%	-3.0%	-5.8%	5.0%	7.2%
VRSK	-1.2%	-8.7%	-5.6%	-1.8%	-4.2%
WAB	-0.9%	-6.8%	-23.3%	-15.4%	-6.9%
WBA	1.4%	0.6%	3.6%	-2.0%	2.2%
WCN	2.0%	-0.1%	0.7%	23.9%	27.0%
YUM	0.6%	0.5%	2.8%	19.7%	17.8%
YUMC	-3.5%	-0.1%	-9.3%	36.9%	
Avg.	0.4%	-1.4%	-0.7%	6.1%	5.1%
SPX-SPX	0.7%	-1.1%	0.8%	9.1%	12.6%

*DISCLAIMER: This writing is for informational purposes only. The information contained in this writing should not be construed as financial or investment advice on any subject matter. Tandem Investment Advisors, Inc. does not represent that the securities, products, or services discussed on, or accessible through, this site are suitable for any particular investor. You acknowledge that your requests for information are unsolicited, and the provision of any information through this site shall not constitute or be considered investment advice, or an offer to sell, or a solicitation of an offer to buy any product, service, or security. Past performance is no guarantee of future results. Indices are unmanaged and not available for direct investment. They are shown or referred to for illustrative purposes only and do not represent the performance of any specific investment. No data in this writing should be construed in any way as performance of any Tandem investment product. For complete performance information and disclosures, please contact John Carew at [jcarew@tandemadvisors.com](mailto:jcarew@tandemadvisors.com)*

*From time to time Tandem may discuss select purchases and/or sales within this report. All past portfolio purchases and sales are available upon request. Any portfolio transaction discussed here does not constitute advice or a recommendation. Please consult your financial advisor before making any investment decisions. For information regarding past purchases and sales, please contact John Carew at [jcarew@tandemadvisors.com](mailto:jcarew@tandemadvisors.com).*