Notes from the Trading Desk

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Market Movers & Shakers

US Equities continued to rip this week. The NASDAQ extended its impressive clip YTD as it closed up 231 bps. The S&P moved higher for the 9th time in 10 weeks as it closed up 2.23%. The Dow moved higher by more than 2% as well. The Russell 2000 was the laggard of the major indices, closing up by 65 bps. What's more, the rally was uniform across all sectors. Each sector moved higher at least 1%. Healthcare, Telecomm, and Discretionary stocks led the way as they moved up 3.5%, 3.5%, and 3.2% respectively. Crude continued its impressive 7 month run, as WTI closed up an additional 4.5% (That's good for more than 55% since its June bottom). The DXY continued its year long slide. It was down for the sixth straight week as it closed 1.5% lower. All major indices hit ATHs this past week — a bullish sign for sure. On top of everything, the S&P has just blown through year-end targets according to Barron's 10 top wall street analysts. The 10 analysts forecasted an average YE target of 2,840. The spoos closed Friday over 2,870 and January isn't even over!

In fact, the only real weakness to speak of can be seen in trannies. The DJ20 had a divergence this past week off a rough report from United Continental. UAL was off 13% for the week. This significant drop caused trannies to drop a few percent off their highs, though they ultimately rallied more than 1% on Friday. The markets got a little spooked on Wednesday as the S&P fell 25 points intraday. All major indices actually made a lower low on Wednesday — a bearish technical setup. However, the dip was bought without fail and equities rallied into the back half of the week.

FOMO and earnings seems to be in the driver's seat of this market. According to The Financial Times, EPFR Global Equity Funds attracted $33 billion dollars in the week ending January 24th. YTD alone, flows are roughly $77b — that's 5x the flow total at this time last year. Furthermore, Tech alone attracted $1.7b in fund flows — that's the highest total since March 2000 (Dot-Com Bubble burst March 24, 2000). These fund flows and this recent melt up have been pretty astonishing. This is the best January since 1996 and it isn't even over. The S&P YTD is still annualizing over 159%! The probabilities of continuing at this clip are low — though that doesn't mean in and of itself that we are due for a correction.

The US Dollar Index is currently sitting at its lowest level since late 2014. The recent move in the DXY has certainly been notable and is making a splash across all markets. Dollar weakness has certainly been contributing to overseas strength. Emerging Markets experienced their largest inflow in a few years this past week. EEM, the MSCI Emerging Markets ETF, is up more than 10.5% YTD. The Dollar was also grabbing headlines this week after Treasury Secretary Mnuchin said that a "weaker dollar is good for Trade." He ultimately walked this statement back a little as he later went on to tell the WSJ that "the dollar is going to get stronger and stronger, and ultimately I want to see a strong dollar." However, Mnuchin's comments did not go unnoticed by all. Draghi during his ECB presser went on to more or less blame Mnuchin's comments for the Euro appreciation, and even went so far as to say that Mnuchin's comments were "targeting the exchange rate". A big no-no for sure. The move in the DXY has also been moving our markets here. Per Bespoke Investment Group, companies in the Russell 1000 that derive at least 50% of their revenues overseas are up 7.3% YTD and 35.35% since 12/28/16. Comparatively, largely domestic firms — those that derive 10% or less of their revenues abroad — are up 3.62% YTD and 16.23% since 12/28/16.

BofAML's Bull & Bear indicator is currently sitting at 7.9. Any reading north of 8 is considered a market sell signal. The recent print of 7.9 is the highest reading since an 8 was printed at the start of 2013. Since BofA started tracking the indicator in 2002, there have been 11 indicated sell signals. The batting average for BofAML's signal is 100% on those 11 signals. According to Reuters, the average peak to trough drop in the next 3 months following a sell signal is 12%. This leaves BofAML analysts saying a pullback to 2,686 throughout February and March seems likely.

Lastly, I thought I'd leave a little food for thought. Howard Marks' most recent memo, "Latest Thinking", came out this past week and I thought I'd repeat some of what he said as I think it is relevant to the current market environment we find ourselves in. According to Marks, most valuation metrics are at their richest ever or near their richest ever. The Buffett Indicator (Stock Market Capitalization to GDP), P/S, P/E, Shiller Cyclically Adjusted P/Es, etc. are all near or at highs. Regardless of the metric one would like to use, the stock market is not cheap and certainly appears to be expensive. To be an uber-bull in the marketplace today requires a mindset that "it's different this time". Returns at these levels certainly do not have to be negative, but investing in riskier names at high valuations can certainly limit one's potential for returns.

Upgrades & Downgrades

ABT — Upgraded to outperform from market perform at William Blair (1/25).

ABT — Downgraded to neutral from buy at BTIG (1/23).

DG — Upgraded to outperform from underperform at Wells, target increased to $117 from $83.

ECL — Initiated outperform at Boenning & Scattergood, target is $215! (1/28).

MD — Mentioned positively at Hedgeye. Firm sees potential 25% return over the coming year (1/24).

RMD — Downgraded to underperform from neutral at Macquarie (1/23).

RMD — Upgraded to market perform from underperform at Northland Securities, target increased to $80 from $55 (1/23).

RMD — Upgraded to hold from underperform at Needham (1/23).

TSCO — Downgraded to market perform at Telsey Advisory Group, target increased to $83 from $82 (1/25).

UTX — Initiated buy at UBS with a price target of $158 (1/23).

Earnings Calendar

Date	Time	Ticker
1/29	N/A	D
1/30	N/A	SYK
1/30	Pre-Market	TROW
1/31	Post-Market	TSCO
1/31	Post-Market	PYPL
1/31	Post-Market	MSFT

Portfolio News

It was another good week here for Tandem stocks. The average stock here at Tandem was up 2.6% vs. the S&P's 2.2%. These returns to the upside where significantly bolstered by a few beats in our healthcare stocks. On Wednesday, Abbott Labs reported largely positive numbers as they beat on both the top and bottom line. They also issued Q1 and FY guidance with midpoints above the street's estimates. Not to be outdone, RMD's EPS of $1.00 beat estimates by $0.23. The stock quickly went to the moon as it gapped up from $87 to $100 prior to its open on the 23rd. RMD was up 15.9% for the week. Lastly, AbbVie reported great numbers on Friday. Not only did AbbVie beat on the top and bottom-line, but they absolutely blew analyst estimates out of the water for the FY. Analysts were coming in around $6.66 for FY18. AbbVie guided FY EPS estimates to be between $7.33-$7.43. Additionally, they guided $1b in revenue above estimates. AbbVie jumped nearly 14% on Friday alone as it closed up 17.7% for the week — quite the move for a $200b company. FWIW, ABBV is up 105.4% in the last 1 year. Crazy. Even NextEra got in on the action. They reported good numbers on Friday and closed the week up 5%.

Tractor led to the downside, which has not been the norm for the stock that began last year as a huge laggard. Tractor, which was down 4% last week on a downgrade, is still up 58% since its July bottom at roughly $50. Tractor is set to report this week, along with SYK, TROW, PYPL, and MSFT, all of which have had very good recent performance. Dominion is also set to report on Monday. It will be interesting to listen in as Dominion discusses their recent proposed acquisition of Scana (SCG). One thing is for certain this earnings season, good numbers are definitely being reported and rewarded.

	WTD	MTD	QTD	YTD
Dow Jones	2.1%	7.7%	7.7%	7.7%
S&P 500	2.2%	7.5%	7.5%	7.5%
Nasdaq	2.3%	8.7%	8.7%	8.7%
Russell 2000	0.7%	4.7%	4.7%	4.7%
C.D.	3.2%	10.5%	10.5%	10.5%
C.S.	1.1%	3.0%	3.0%	3.0%
Energy	1.5%	7.5%	7.5%	7.5%
Fins	2.2%	8.0%	8.0%	8.0%
H.C.	3.5%	10.8%	10.8%	10.8%
Ind.	1.2%	6.4%	6.4%	6.4%
I.T.	2.0%	8.8%	8.8%	8.8%
Mats	1.3%	6.0%	6.0%	6.0%
Utes	2.1%	-3.1%	-3.1%	-3.1%
REITs	2.3%	-2.5%	-2.5%	-2.5%