

Notes from the Trading Desk

Tandem Investment Advisors

July 25, 2017

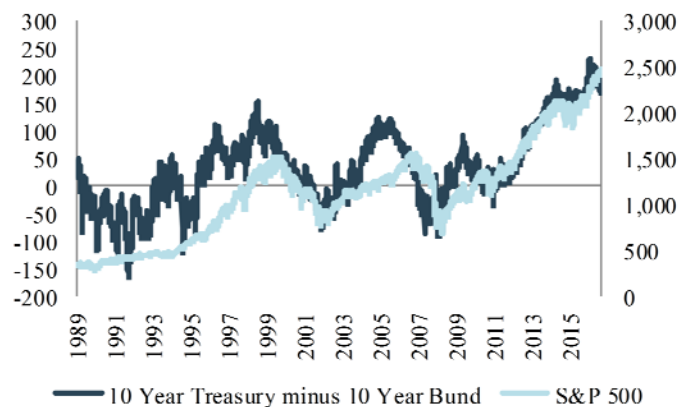
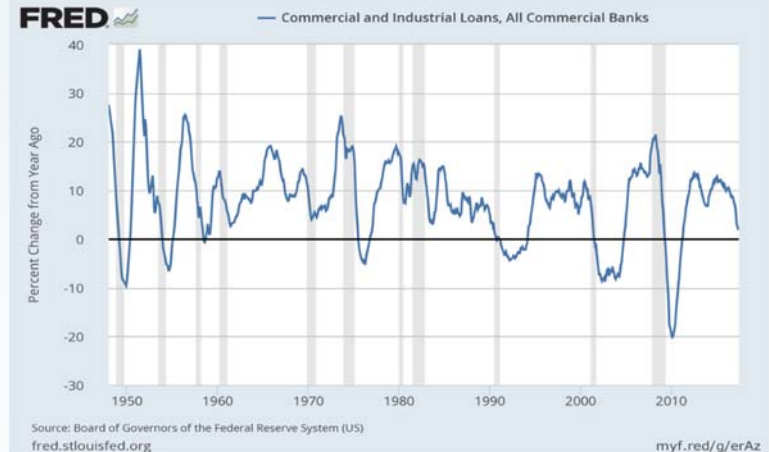
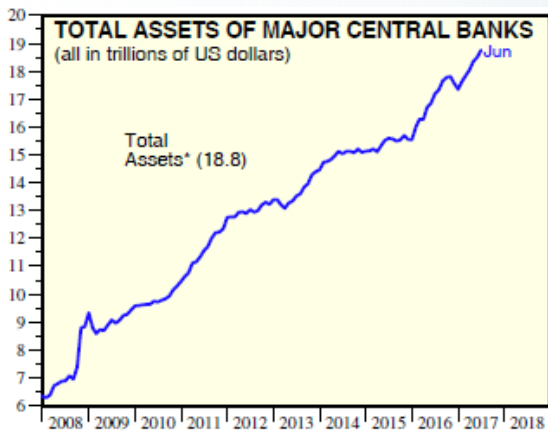
Market Movers & Shakers

The bull market continues! Last week, the S&P 500, Nasdaq Composite, NYSE Composite, S&P MidCap 400, Russell 2000, and the Dow Jones Global Index all closed at All-Time Highs. That certainly is not pointing towards any sort of top being in place yet. As the Wall Street Journal put it, "Stock markets go up and down: It is a fact of life. Except in 2017." YTD, the S&P 500, the MSCI Europe, and MSCI Asia-Pacific ex Japan have all avoided 5% pullbacks—a feat which hasn't been done in a full CY in over 30 years. According to the WSJ, the S&P 500 has only avoided a 5% pullback 5 times in the last 60 years — history most likely errs to the side of a more volatile (i.e. pullback) for the remainder of the CY.

A couple things to keep in mind though from these lofty views. First, the VIX continues to dominate conversation. It ended last week with a closing print of 9.36. This is the second lowest closing print of all time — the first being just before Christmas of '93. Now low volatility is *not* at all an ill omen for these markets. Rather, it is just interesting to point out whenever anything is at an All-Time Low or an All-Time High. Since 1990, the VIX has printed a daily close of less than 10 only 26 times — 16 of which have occurred this year, and 8 of which have happened this month. Second, Central Bank intervention is hitting an All-Time High — without the largest player (hint, hint, think US) actively participating. The combined total assets of the BOJ, ECB, and Fed have hit a record level as of the end of June. What's more, according to Bloomberg, the BOJ owned 71% of all shares in Japanese listed ETS at the end of June. We are 8 years, 8!, and CB's are still priming the pump. These two things are interconnected. It is no coincidence that we are seeing a low in volatility while witnessing a breathtaking amount of CB intervention (See Chart 1, top left).

C&I Loans (Chart 2, top right) are worth keeping an eye on as a gauge for the overall health of our economy. Loan growth has turned negative only seven times since the late 1940s and we are getting dangerously close to turning negative in the next few months. Each of those seven times either occurred during a recession, or coming out of one, either way negative loan growth spells bad news for our economy. However, on the healthier side of the spectrum, delinquency rates are not rising, which is positive for our banks. The delinquency rate for all loans, at all commercial banks, is continuing to decelerate towards a 10 year low.

Spreads are tightening again. Yield spreads hit YTD lows in mid-to-late June before beginning to widen. Well, it looks like the steepening of the curve has temporarily topped out as curves have begun to flatten again during the last 2 weeks. While we are still very far from an inverted yield curve — the supposed age old predictor of recessions — one must ask whether or not inversion is really even likely given the manipulated fixed income environment in which we find ourselves. One last chart for consumption below... The spread between the US 10Y Note and the 10Y Bund is overlaid with a chart in the S&P 500. Since the Berlin wall came down, a tightening in spreads between the 10Y Treasury and the 10Y Bund has preceded market tops or temporary stumbles in greater bull markets. The tightening of the spread began in 1999 and again in 2006. Spreads also tightened in '97, prior to the 19% pullback in '98. The spread also tightened before the 15% pullback in 2010, and again in 2011 prior to the 19% pullback then. The spread has been steadily tightening since the start of the year.



Upgrades & Downgrades

- **Costco** has been added to the Hedgeye's Best Ideas Long seeing 20% potential upside
- **Fiserv** — upgraded by Guggenheim to buy, target is now \$136
- **Nextera** — reinstated buy at Goldman, target of \$160
- **Nike** — upgraded to overweight by Morgan Stanley, price target was raised to \$68. **Nike** was also initiated with a hold at Needham.
- **O'Reilly** — upgraded to buy at Northcoast Research upgraded, target is \$230
- **PayPal** — price target increased to \$67 from \$55 by Susquehanna. **PYPL** was also downgraded to hold at Suntrust.
- **PayPal** — downgrade at SunTrust to hold
- **Scana** — upgraded to neutral from sell at Goldman, target of \$66
- **Scripps** — initiated at Wells with a market perform and a target of \$82
- **SJM** — downgrade to equal-weight by Stephens
- **TMO** — upgraded to buy from neutral at Cleveland Research
- **Wabtec** — downgraded to hold by Stifel, price target remains \$92

Portfolio News

Portfolio action has been relatively light of late. We completed our liquidation of Grainger. We began selling Grainger at \$250, and just sold for the last time just shy of \$167. Even the transition activity has been fairly light during the past week or two. We have been aggressively buying Costco, TJX, Tractor, Walgreens, and a few others in all new accounts. We have also bought a handful of other names.

Our transition accounts are slightly ahead of schedule as well, as we were aggressive throughout much of June. An account opened May 31st, is currently 60% and 40% equity. Our current equity level in LCC is ~71%, this means that this account 56% invested 7 weeks in.

Our Core Holdings have been making headlines of late. Most notably, Scripps has begun to have its name tossed around the rumor mill. Last week, Discovery was said to be in talks to buyout Scripps. Viacom's name was shortly thereafter added to the ring as well. Today news broke that the Scripps family is said to be seeking at least 50% cash and that a deal should be announced soon. The stock is up ~18% MTD, and almost 22% in the last week. T. Rowe has also had an impressive month on the back of a June AUM, followed by a solid beat today. T. Rowe is up nearly 7.5% relative to the S&P 500 MTD/

However, not all of the news is so peachy. Wabtec reported poor numbers today, with even softer guidance. They traded down nearly 15% on the open this morning before rebounding a little. Costco, Signature, TJX, Mednax, Tractor, and Ross stores all continue to be our largest laggards.

Buy	Accumulate	Sell	Liquidate
DG	ABBV	ACN	ATR
DLTR**	CERN	ECL	ITT
ORLY	CTSH	FISV	KO
SBNY**	FDS**	MSFT	PYPL
TSCO	NNN	NEE**	TMO
	TJX	RMD	
	TROW	RSG	
	WBA**	UTX**	
		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

Earnings Calendar

Date	Time	Ticker
7/25/2017	Before Market	WAB
7/25/2017	Before Market	UTX
7/25/2017	Before Market	TROW
7/25/2017	After Market	WCN
7/26/2017	Before Market	KO
7/26/2017	Before Market	TMO
7/26/2017	Before Market	NEE
7/26/2017	After Market	TSCO
7/26/2017	After Market	PYPL
7/26/2017	After Market	ORLY
7/27/2017	After Market	ATR
7/27/2017	After Market	CERN
7/27/2017	After Market	RSG
7/27/2017	After Market	SYK
7/28/2017	Before Market	ABBV
7/28/2017	Before Market	MD

Core Holding Performance

Ticker	Relative Performance				
	1 Yr.	YTD	QTD	MTD	WTD
ABBV	2.3%	7.7%	8.9%	0.0%	0.5%
ABT	4.1%	21.9%	9.9%	2.6%	4.2%
ACN	-0.1%	-1.0%	2.2%	1.6%	1.1%
ATR	-2.4%	11.5%	11.7%	1.1%	-0.9%
BDX	4.8%	13.9%	7.6%	3.5%	1.6%
BF.B	-17.5%	-3.5%	-0.6%	-3.2%	1.4%
BRO	5.8%	-11.7%	1.5%	0.8%	3.6%
CERN	-7.4%	28.5%	7.2%	-3.0%	-0.8%
COST	-23.4%	-16.0%	-14.5%	-7.5%	1.1%
CTSH	6.3%	14.5%	13.0%	3.4%	1.7%
D	-15.8%	-10.1%	-5.6%	-1.7%	-0.1%
DLTR	-41.5%	-20.6%	-16.2%	-2.8%	1.9%
EBAY	5.8%	12.2%	3.8%	2.3%	-1.4%
ECL	-3.5%	2.3%	0.8%	-2.5%	0.3%
EXPD	4.2%	1.3%	0.1%	2.7%	1.3%
FDS	-15.6%	-8.6%	-3.7%	-1.9%	2.8%
FISV	0.9%	8.7%	5.2%	1.5%	1.0%
HRL	-23.2%	-14.6%	-8.3%	-4.3%	3.5%
ICE	13.3%	8.0%	7.0%	-0.7%	1.1%
ITT	16.0%	-2.2%	-2.9%	1.9%	0.9%
KO	-15.7%	-2.2%	1.1%	-1.9%	1.0%
MD	-37.0%	-23.2%	-20.8%	-5.7%	-0.2%
MSFT	16.5%	8.1%	7.2%	4.9%	1.2%
NEE	-3.3%	9.5%	7.0%	0.2%	0.7%
NKE	-9.6%	5.7%	1.2%	-2.0%	2.9%
NNN	-36.4%	-19.3%	-12.3%	0.9%	1.4%
ORLY	-46.2%	-44.1%	-36.2%	-17.6%	-0.7%
OZRK	13.5%	-20.2%	-13.4%	-0.8%	0.1%
RMD	3.5%	14.1%	2.7%	-2.8%	-0.1%
ROST	-25.1%	-29.4%	-24.0%	-10.0%	-0.4%
RSG	9.6%	2.8%	-1.8%	-0.7%	0.2%
SBNY	-5.3%	-20.9%	-14.0%	-8.3%	-0.5%
SCG	-27.4%	-22.2%	-5.7%	-5.6%	-0.2%
SJM	-35.4%	-16.9%	-13.3%	-0.8%	3.7%
SNI	3.2%	-0.9%	-4.9%	12.4%	21.4%
SYK	11.9%	12.2%	7.0%	3.9%	0.6%
TJX	-29.8%	-21.3%	-19.9%	-9.2%	-1.6%
TMO	2.5%	18.8%	14.1%	2.5%	0.5%
TROW	-4.1%	-2.6%	14.5%	7.4%	5.1%
TSCO	-57.3%	-42.4%	-29.8%	-6.9%	3.1%
UTX	3.6%	2.0%	5.2%	-1.1%	-1.7%
VRSK	-12.0%	-3.0%	2.8%	1.3%	1.0%
WAB	8.6%	-5.6%	6.9%	-6.9%	-12.2%
WBA	-15.7%	-14.1%	-8.7%	-0.3%	1.8%
WCN	15.9%	11.6%	4.1%	-2.7%	0.3%
YUM	1.6%	7.5%	12.2%	-0.8%	1.6%