Notes from the Trading Desk

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Stocks ended the quarter on a high note. The Russell 2000 led the way higher last week, as it climbed 2.25%. The Dow, the S&P 500 and the Nasdaq closed up 1.67%, 1.20%, and 1.13%, respectively. The week — by and large — went by in a fairly quiet manner. Let's rephrase that… financial news went by in a fairly quiet manner. The rest of the news cycle seemed quite busy! Various treasury spreads remain inverted, which seems to have captured much of the marketplace's attention. The spread between the 3-month treasury and the 10-year treasury inverted on the 22nd, which sent the market into a bit of a tizzy. Equities responded favorably though as the inversion narrowed in the back half of last week.

Stocks have garnered a lot of attention, as they closed out their best quarter since Q2 of 2009. But, we would be remiss not to mention Crude's 40% rally since the Christmas Eve bottom. For the quarter, the Texas Tea gained 32% — its best quarter since Q2 2009 as well. We touched on the high correlation between Crude and the S&P 500 back in February — and the relationship remains strong, despite starting to falter towards the end of last week. Correlations between the two assets remain near levels we have not seen since oil's recovery in 2016 following its ~70% fall. In other words, the two assets have been trading in a similar fashion for the last few months. Generally speaking, assets across the board in Q1 seemed to rise — even junk bonds got in on the action as they posted their best quarter since 2010.

The appetite for risk seemed to coincide with the Fed's recycling of their old playbook. The apparent belief in a Fed shift from hawkish to dovish seems to have triggered the markets QE-instilled Pavlovian response. The probability of a Fed rate cut continues to steadily rise. Per FactSet's Policy Rate Tracker, the market is now pricing in a 55.8% chance of a rate cut by September. We have touched on this notion a couple of times now, so we do not mean to belabor an already belabored point! But again, the idea of a Fed cut has the market salivating as it reminisces about the good ole days of QE.

Maybe it is naivety, but the idea of a Fed cut in response to a 20% drop in a historically elevated market seems misplaced. It is worth stepping back and reevaluating the landscape. The yield curve remains inverted across various maturities — an age-old recession indicator. Earnings estimates for 2019 have fallen from $173.23 to $167.62 just this quarter — while the peak estimate was actually even higher than that with September's estimate of $176.84. Much of this drop is seen largely in Q1 estimates, which begs the question — have analysts not updated their numbers further out, or are they assuming that the earnings trouble is going to be isolated to Q1? Q1 earnings estimates have slid nearly 10%, while Q3 and Q4 estimates have dropped only 3.6% and 4.9%, respectively. Moreover, the global economy continues to point towards a slowdown at the very least, or worse a recession. The third largest member of the Eurozone, Italy, has already slipped into a recession for the third time this decade. Germany seems to be teetering on the edge of a recession. And, the whole world seems to watch in fascination as the UK continues to slip further and further into political uncertainty. Even ECB President Mario Draghi reportedly told EU leaders that markets are underpricing the risk of a no-deal Brexit.

Market's climb a wall of worry — an adage that continues to be tossed around for good reason. As Sir John Templeton once famously said, "Bull markets are born on pessimism, grown on skepticism, mature on optimism and die on euphoria." There seems to be little to be euphoric about, which is arguably a positive for stocks. However, it brings us back to our original point. Maybe the Fed is on to something. Maybe Jerome Powell & Co. could care less about a 20% drop in the marketplace as so many commentators seem to be suggesting. Maybe the Fed is actually keenly aware of the problems that the global economy is facing. Judging Fed action, a slowdown seems imminent, but is a recession possible?

Unfortunately, we do not possess a crystal ball. However, we do have a discipline that requires us to buy low and sell high. If stocks continue to march higher in the face of deteriorating fundamentals, we will surely stick to our guns. If stocks should stumble, our quantitative process will lead us to hopefully good opportunities. To quote Sir John Templeton one last time, "If you want to have a better performance than the crowd, you must do things differently from the crowd."

Upgrades/Downgrades & Dividends

ABBV — Downgraded to hold from buy at Argus Research (3/25).

CMCSA — Downgraded at RBC Capital Markets to sector perform from outperform, price target cut from $45 to $42 (3/28).

ORLY — Added to Focus List at JPMorgan with an overweight rating and a price target of $398 (3/25).

SBNY — Added to Best Ideas List at Wedbush Securities with an overweight rating and a price target of $150 (3/31).

TYL — Initiated buy at Northcoast Research with a price target of $250 (3/28).

Earnings Calendar

Date	Time	Ticker
4/2	Pre-Market	WBA

Portfolio News & Notes

It was a relatively peaceful close to the quarter for Tandem's core holdings. FactSet and Accenture both reported strong numbers last week. Subsequently, both of the stocks rallied through the end of the week.

Celgene also benefitted from a positive news flow. The biopharmaceutical company has recently been subject to investor tug-of-war regarding Bristol-Myers' announced merger with CELG. A number of high profile manager's came out against the BMY proposed merger, which caused CELG to falter in the past. However, on Friday it was announced the proxy advisory firms ISS and Glass Lewis are both recommending that BMY shareholdings vote in favor of the proposed merger. This news, coupled with a positive settlement regarding Celgene's main drug Revlimid, led to a nearly 8% pop in Celgene's price on Friday. The BMY shareholder vote is April 12th.

Peeking ahead to earnings season… According to FactSet, Tandem's core holdings are expected to grow earnings 5.29% with sales growth of 11.89% in Q1. The S&P 500 is set to report negative earnings growth of –4.14% and sales growth of 5.07%. This would be the first quarter of negative earnings growth since Q2 2016 — though at that time, the broader market was accelerating out of an earnings recession, not potentially heading for one.

	WTD	MTD	QTD	YTD
Dow Jones	1.67%	0.05%	11.15%	11.15%
S&P 500	1.20%	1.79%	13.07%	13.07%
Nasdaq	1.13%	2.61%	16.49%	16.49%
Russell 2000	2.25%	-2.27%	14.18%	14.18%
Comm. Svcs	-0.50%	2.39%	13.62%	13.62%
Con Disc	1.85%	3.94%	15.32%	15.32%
Con Staples	1.56%	3.67%	11.16%	11.16%
Energy	0.95%	1.98%	15.42%	15.42%
Financials	1.45%	-2.75%	7.90%	7.90%
Health Care	1.24%	0.35%	6.12%	6.12%
Industrials	2.85%	-1.24%	16.64%	16.64%
Info Tech	0.96%	4.75%	19.37%	19.37%
Materials	2.04%	0.94%	9.68%	9.68%
Utilities	-0.51%	2.65%	9.88%	9.88%
REITs	0.96%	4.60%	16.49%	16.49%