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MARKET MOVERS & SHAKERS

April has been a mixed bag so far. The Dow leads all major U.S. equity indices as it gained a little more than 2% so far this quarter. The S&P 500 is up just over 1%, while the Russell 2000 is more or less flat. Meanwhile, the Nasdaq has fallen 0.5% – though it's still up a blistering 16+% year-to-date. Perhaps it's unsurprising that the Nasdaq has trailed this month. It was bound to slow after its sharp Q1 ascent. Plus, the tech-heavy and more growth-oriented index has often shared a negative correlation with yields – which have been on the rise thus far in April. In fact, the 3-month Treasury Bill has risen from 4.75% to 5.15%, which would mark its greatest monthly increase since last October when it rose 76-bps to 3.99%. It's now looking more likely that any celebration of the demise of inflation was a tad premature. The continued rise of the short end of the yield curve points towards a more prolonged inflationary fight. The same could be said of commodities, which remain recalcitrant in the fight against inflation. So far in the month of April, oil is up 6+%, lumber is up 14+%, and sugar, wheat, cattle, and cotton are all positive month-to-date as well. Gold, an inflationary hedge, is also higher in the month of April. Though the Federal Reserve has remained adamant that it won't be cutting rates this year, the Fed Futures market continues to point towards a 25-bps hike in May, followed by rate cuts beginning as soon as September.

Following last month's shock to the banking system, many have been interpreting the market's recent positive performance as a signal that all is well. While this may certainly be the case, it is worth noting the positive performance in the market has not been widespread. Per Morgan Stanley's Mike Wilson and reported by Bloomberg, "the percentage of stocks outperforming the S&P 500 on a three-month rolling basis is the lowest on record." Similarly, Jim Bianco of Bianco Research recently noted that more than 80% of this year's rally has come from just eight stocks (Meta, Apple, Amazon, Netflix, Google, Microsoft, Nvidia and Tesla). Bianco goes on to point out that the other 492 stocks in the index, while positive, have actually trailed the return of cash YTD. In the same vein, since early March, the S&P 500 has outperformed the S&P 500 Equal Weighted Index by 5+%. As leadership has narrowed and markets have risen this year, valuations have become less compelling. The S&P 500's forward P/E is currently in the 80th percentile – a far cry from cheap.

While a more widespread rally would certainly be indicative of a healthier market, yet, it seems that this narrow leadership and the negative underlying breadth/sentiment is actually well observed. In fact, according to BofA's most recent Global Fund Manager Survey, investors are their most underweight in equities relative to bonds since the Financial Crisis. This sort of bearish positioning has often marked long term bottoms – the previous two instances where there were more overweight bond investors than equity investors: March 2009 and May 2020. In terms of positioning, hedge funds have reportedly become extremely bearish. According to Jones Trading and the CFTC, net shorts on S&P 500 futures have their most bearish reading since November of 2011. However, despite the bearish positioning in futures, the most crowded trade according to the aforementioned BofA survey is still long big tech stocks. It is not uncommon for the data points to be considered contrarian indicators.

TRANSITION UPDATES & NEWS **

With earnings season not yet in full swing, it has been a fairly quiet last few weeks in terms of news for Tandem stocks and Tandem activity. The transition pace, which had accelerated nicely throughout March, has slowed a bit once more. Elsewhere, two Tandem holdings have recently reported earnings. BlackRock reported its quarterly results at the end of last week. The asset manager beat on the bottom line and reported positive long-term net inflows into the company's fixed income ETFs. Johnson & Johnson reported earnings earlier this week. JNJ also beat on the bottom line, while guiding the midpoint of the company's 2023 FY operation earnings and sales guidance higher. In non-earnings-related news, Intercontinental Exchange's attempted acquisition of Black Knight remains in limbo. The FTC asked a federal court to issue a temporary restraining order to prevent ICE from beginning its acquisition of Black Knight.

One piece of portfolio news to touch on this month: we finalized our liquidation of McCormick last week. McCormick was first bought back in July. Recently, the company's earnings power has deteriorated in the face of rising input costs. In June of 2022, analysts estimated that MKC would earn $3.41 in FY 2023. Today, that number has fallen to $2.63. Estimates deteriorated most meaningfully at the start of the year when management issued its 2023 guidance of $2.56-$2.61 – just prior to that guidance, the consensus estimate for 2023 was $2.90. McCormick, which had a long track record of consistent growth, unfortunately is now set to see its profitability contract. The $2.63 that is expected to be earned this year, and even the $2.90 that analysts currently believe the company to be on track to earn in 2024, is well below their 2021 earnings of $3.05. This inconsistent growth also led to a lower dividend growth rate. From 2014 – 2022, McCormick averaged year-over-year dividend growth of 9.1%. This year's dividend growth was disappointingly below that number with just a 5.4% increase. Old Bay is officially off the menu.

***The transition update describes activity taken by Tandem on the transition level, not the composite or firm-wide level. The transition update is applicable to new accounts and new money. New accounts and new money are not automatically invested on the first day. Rather,* *they are transitioned into our strategy over a longer time period that is dependent upon market conditions. This update describes that transition.*

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Ben Carew is a shareholder, Vice President, and Portfolio Manager for Tandem Investment Advisors, Inc. Mr. Carew joined Tandem in 2013. Mr. Carew manages Tandem's trading desk, overseeing day-to-day investment operations, including trading, quantitative and fundamental research, and portfolio management. Mr. Carew also oversees Tandem's internship program. Mr. Carew is a regular member of the CFA Institute and the CFA Society South Carolina. Mr. Carew currently serves as the Vice Chair for College of Charleston's School of Business Investment Program, a student program seeking to provide the opportunity for a select group of students to distinguish themselves academically, professionally, and personally. Mr. Carew is a graduate of the College of Charleston's School of Business, earning a Bachelor of Arts in Economics with a minor in Finance.