

NOTES FROM THE TRADING DESK

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MARKET MOVERS & SHAKERS

U.S. equities rallied once more this past week. The S&P 500 was up 3.04%, and was trailed by the Dow, which gained 2.21%. Meanwhile, the Russell 2000 turned in a disappointing week as it actually fell 1.41%. However, the Nasdaq posted a strong 6.09% gain. If the month ended today, the 11.22% gain on the S&P 500 would mark the best month since January of 1987. Similarly, the month-to-date gain for the Nasdaq would be the Tech heavy index's best gain since the bursting of the Tech Bubble. Consumer Discretionary was the best performing sector last week — thanks in large part to Amazon. The online retailer was up 16.26%. Health Care and Tech were both amongst the leading sectors as well, as biotech, managed care, semis, and software all performed quite well. The financial sector was the worst performing sector, as banks in particular have struggled in the current market environment due to the economic uncertainty and the inherent need to raise reserves to cover any potential loan losses. Much of the week's gain came on Friday as seemingly positive news surrounding Gilead's Remdesivir, a potential treatment for Covid-19, broke Thursday evening. Elsewhere, Gold fell 3% and Crude had another rough week. US Crude Oil futures are trading below \$20 per barrel — their lowest levels since 2002. *The Wall Street Journal* actually wrote an article on Thursday underscoring the collapse in Crude. As the price of Crude has plummeted, storage of the commodity has soared. The result of this influx in supply and collapse of demand is that producers might soon have to actually pay to get rid of their excess supply — in other words, some are now discussing the possibility of Crude trading below zero.

Unfortunately, the words “record breaking” and “unprecedented” are about to become the norm in economic data. According to CNBC, it was not until November 2009 that the U.S. economy began adding jobs once more following the fallout from the Financial Crisis. From November 2009 to February 2020, the US economy added 22.442 million jobs to payroll. In the last four weeks, 22.025 million Americans have filed for unemployment. We gave up more than 10 years of jobs in just four weeks. Some independent surveys are now suggesting that the unemployment rate is above 20% — numbers not seen since the Great Depression. The speed of the recent economic pain cannot be understated and it needs to be reversed soon. According to

a recent U.S. Chamber of Commerce survey, 43% of small businesses say that they are 3 to 6 months away from shuttering for good, 24% say they will close their doors in two months or less, and 11% say they will be forced to permanently close within the next month. Fortunately, according to Pantheon Macroeconomics the Google search trend for “file for unemployment” has peaked and appears to be slowing — hopefully this will be reflected in the underlying data soon, and hopefully we will turn a corner more quickly.

The economic uncertainty is definitely being reflected in the market. Though the VIX has fallen sharply from its highs, volatility still remains elevated. Elsewhere, earnings estimates have dropped drastically and companies are pulling guidance left and right. Next twelve month EPS estimates have fallen 15.3% since February 19th. During that same time frame, the S&P 500's price has fallen 15.1%. Since March 23rd the S&P 500 has rallied 28.5%, while earnings estimates have continued to slide — dropping 11.1% during that same time. This divergence in price and earnings is the largest 20 day divergence since the turn of the century. The good news is that these divergences have historically either happened at or near the bottom in terms of time on the calendar. The S&P 500 put in a bottom in October of 2002. The largest divergences between price and earnings during the bursting of the Tech Bubble was in July 2002 and again the week of the bottom. During the Financial Crisis, the peak divergence occurred for the S&P 500 in November 2008 and again the week of the bottom in March 2009. Similarly, we saw the divergence peak around the market bottom in 2011 and 2018 — and we are seeing an outsized divergence now as well. Analysts have proven time and time again that they are slow to cut estimates on the way down and they are slow to increase estimates on the way back up. Other signs of the bottom either being in, or near, would be the flush in sentiment. The market found a bottom in 2018, 2016, 2015, 2010, 2009, 2002, and 1990 with Bullish Sentiment, as measured by the Investors Intelligence survey data, below 30. The March 20th reading was 30.10 — close enough.

Since the turn of the century, there have been six sizeable selloffs for the S&P 500 — two major, but six nonetheless: the bursting of the Tech Bubble from 2000—2002, the Financial Crisis from 2007—2009, the 2011 U.S. Debt Ceiling Crisis which led a 17.6% drawdown in

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the S&P 500, the Chinese Slowdown and Oil Crash that shaved 14.2% off the S&P 500 during 2015 and 2016, the burst of volatility that led to the 19.8% drop in 2019, and now the Covid-19 pandemic. The first five all shared a common characteristic in terms of sentiment during the recovery. As of Friday's close, 24.06% of the S&P 500 is above its 200-day moving average. The previous five sell offs have not retested their lows once they print two consecutive days with 25% of stocks above their 200-day. This time could be very different, but there are signs that point towards the bottom either being in, or at the very least, being close.

However, that is not to say that we are totally out of the woods yet. Technically, there are certainly some hallmarks of a bottom. Unfortunately, from a fundamental standpoint there may be further deterioration. We have already highlighted the decimation of the workforce — though hopefully the necessary backstops have been put in place to restore order once this is all behind us. Despite some green shoots, the recent rally has not been the healthiest of rallies. The rally has occurred on the backs of the largest names in the S&P 500. The top 5 names in the S&P 500 (Microsoft, Amazon, Apple, Alphabet, and Facebook) now make up more than 21% of the total index — that is the most concentrated the index has been since the mid-1970s. The S&P 500 just recently fell 35.4% peak to trough. It is now down 15.3% after a remarkable 31.1% rally from the lows. However, that recovery has been far from widespread. The S&P 500 Equal Weighted Index is still more than 21% off its highs and the Russell 2000 is down more than 28%. The rally has been strong, but it has been a lot stronger for the largest names. Bottoms usually occur with broad based strength — which is evident in the historical out-performance of the S&P 500 Equal Weighted Index around bottoms.

Ultimately, only time will tell if this is a dead cat bounce or the rally coming out of the bottom. It will likely be dictated by the depth and duration of the coming recession — not the virus. Retail spending, outside of groceries, has fallen off a cliff and manufacturing has ground to a halt. The government is trying to keep large and small companies alike afloat with direct bailouts and their PPP plan. However, for the market to put this firmly in the rearview, economic activity must begin taking place once more. The market is often a leading indicator, and it may be once more. However, the volatility will likely continue until the economy is running smoothly. That may take time, but we will eventually get back there once more.

The past few weeks have been incredibly busy for us at Tandem. Throughout the duration of the fall in the marketplace, we were quite busy buying. However, some names have rallied quite nicely in the portfolio and actually triggered sell signals over the last month. We liquidated eBay last week in our Equity strategy following the hiring of their new CEO from the outside. We also trimmed Abbott Labs (Equity and LCC), Ecolab (LCC and MCC), and Costco (Equity and LCC) for valuation reasons last week. Additionally, we sold a bit more of our position in Dollar Tree (Equity and MCC) as well. Earlier this month we trimmed Dollar General (Equity and LCC) and Tyler Technologies (Equity and MCC). We also trimmed Microsoft from our Equity and Large Cap Core strategy at the end of the first quarter. The buy-side has been rather quiet since the first week of the quarter, where we saw a brief flurry of activity. We added to our positions in Euronet, UMB Financial, and Lab Corp in Mid Cap during the first week of April. Similarly, we added to our position in Signature Bank in both Large Cap and Mid Cap during that first week as well.

***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.*

"It requires a great deal of boldness and a great deal of caution to make a great fortune, and when you have it, it requires ten times as much skill to keep it."

- Ralph Waldo Emerson



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Ben Carew is a shareholder and Portfolio Manager for Tandem Investment Advisors, Inc. Mr. Carew joined Tandem in 2013. He has had numerous responsibilities at Tandem including Research Intern and Performance Analyst. His present duties include quantitative and fundamental research and portfolio management. Mr. Carew is past U.S. Economist for the 3rd College of Charleston Investment Program. He is a graduate of the College of Charleston's School of Business, earning a Bachelor of Arts degree in Economics with a minor in Finance.

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KEY MARKET DATA

	WTD	MTD	QTD	YTD
Dow Jones	2.21%	10.61%	10.61%	-15.05%
S&P 500	3.04%	11.22%	11.22%	-11.03%
Nasdaq	6.09%	12.34%	12.34%	-3.59%
Russell Mid Cap	0.95%	11.13%	11.13%	-19.35%
Russell 2000	-1.41%	6.59%	6.59%	-26.33%

	WTD	MTD	QTD	YTD
Comm. Svcs	4.14%	9.54%	9.54%	-9.33%
Con Disc	7.86%	16.51%	16.51%	-6.31%
Con Staples	4.18%	11.03%	11.03%	-3.84%
Energy	0.21%	16.46%	16.46%	-43.00%
Financials	-4.03%	7.69%	7.69%	-27.13%
Health Care	6.14%	13.65%	13.65%	-1.20%
Industrials	-0.14%	6.87%	6.87%	-22.42%
Info Tech	4.79%	11.07%	11.07%	-2.49%
Materials	-2.13%	11.68%	11.68%	-18.02%
Utilities	-0.49%	9.25%	9.25%	-6.25%
REITs	-2.77%	11.17%	11.17%	-10.34%