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MARKET MOVERS & SHAKERS

U.S. Equities moved lower last week which brought an end to the S&P 500's four-week winning streak. Small cap stocks fared the worst as the Russell 2000 lost nearly 3%. Tech was not much better than that with the Nasdaq sliding 2.6%. The S&P 500 fell 1.2%, while the Dow dropped just 20 bps. Thematically, defensive stocks ruled the week. Staples, discount retailers, and utility stocks all outperformed. Value also outperformed growth for the second straight week, no doubt buoyed by the rise in yields. The 10-year Treasury closed the week just a hair under 3%, up nearly 35 bps over the past week and a half, as the 2-year Treasury continued to hold above 3.2%. The selloff in stocks accelerated on Friday coinciding with a plunge in the price of cryptocurrencies that extended into the weekend. Clearly the correlation between the two asset classes remains strong. Meanwhile, consumers can continue to breathe a sigh of relief as WTI Crude fell to its lowest levels intraweek since late January. While the consumer may be relieved, large multinationals likely are not. The dollar has concerningly begun rallying once more. The Dollar Index has risen more than 3% since August 10th. The strengthening of the greenback has been a headache for multinationals throughout the year.

The market narrative, which honestly now feels a little stale, continues to be dominated by yields and inflation. July's CPI print in early August was celebrated by markets. The 8.5% year-over-year price increase, the same amount that disrupted markets in April, was welcome enough as markets marched higher in response. It is certainly a step in the right direction following June's 9.1% year-over-year increase in prices. The month-over-month deceleration of inflation has changed the markets perception of the September Fed Meeting. Prior to the release of CPI data, the market was betting on a 75 bps hike. Since then, the market is betting that the likely outcome will be that of just a 50 bps hike. Despite the market's pivot, the Fed has indicated they need further evidence of a deceleration in prices before they are inclined to let the foot off the gas. Some market participants believe that peak inflation has occurred here in the United States. That certainly may be the case. It is not the case though abroad. Last week, the United Kingdom's inflation rate grew double digits – marking the largest price increase for any of the G7 countries during this inflationary cycle. Gilts surged on the back of the inflation release, which led to a rise in yields domestically as well.

Regardless of whether inflation has “peaked”, rising prices are likely here to stay for a while longer. The Atlanta Fed measures “sticky” CPI which has continued to accelerate through August. The measure separates items into two categories – sticky and flexible. Flexible goods are made up of things like gas, auto rentals, food, cars, etc. These prices have soared, increasing as much as 20% year-over-year back in March, but are beginning to decelerate. Sticky goods like furniture, transportation, utilities, education, insurance, and rents are much slower moving. The recent rising costs in these goods and services has caused sticky prices to increase at their fastest rate since 1991 as they continue to accelerate higher. As costs have risen, the consumer has continued to spend though. If consumers stop spending, the economy will contract and likely recess. If consumers keep spending, prices will stay elevated. As Bridgewater Associates recently pointed out, the Federal Reserve’s dual mandate (stable prices and maximum employment) is leaving the Fed in a tough spot. They cannot choose one over the other. The Fed cannot curb inflation without hurting the labor market, nor can they currently sustain low unemployment without inflation continuing. So, we are stuck with “too-high inflation and too-low growth.” The stagflation that Bridgewater described is not unfamiliar to Tandem listeners and readers – our very own Billy Little has been discussing the possibility of stagflation for nearly two years now.

TRANSITION UPDATES & NEWS **

Since the end of earnings season, there has been very little news to report. Despite the dearth of news, it has been an active few weeks in Tandem’s three strategies. The recent snapback in valuations has created an environment for Tandem to take a little bit of money back off the table. Since the last Notes from the Trading Desk, we trimmed our positions in NextEra Energy and Essential Utilities. We were also able to pare back our exposure to Waste Connections – the Canadian headquartered waste collector. At the start of last week, we cut back our exposure to Jack Henry. The FinTech company provides payment processing services and other technology solutions to small and medium sized regional banks and credit unions. The company was first added to the portfolio last November. At one point, the stock had rallied nearly 45% off of its 52-week lows. Towards the end of the week, our quantitative process recently signaled an opportune time to trim back on one of our largest positions, FactSet. The Financial Data provider has been a mainstay in all three strategies for more than 5 years now. Finally, we also trimmed our positions in Brown & Brown and Becton, Dickinson & Company.

***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.