Tandem Investment Advisors

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Notes from the Trading Desk
- August 23, 2021
by Benjamin "Ben" G. Carew, CFA

MARKET MOVERS & SHAKERS

U.S. Equities traded lower last week. The Russell 2000 was the worst performing of the major indices, down 2.5%. The Dow fell 1.11%, while the Nasdaq traded 0.73% lower. The S&P 500 fared slightly better, having fallen only 0.59%. The minimal slippage in terms of total price action was not entirely indicative of last week's environment. Despite the muted pullback, the VIX rose more than 20% and the first four days of the week saw consecutive lower lows being made in the S&P 500 – not exactly the most encouraging market backdrop. Further accentuating that point was the continued strength in defensive pockets. Utilities, Healthcare, REITs, Staples were all amongst the best performing sectors. Their more cyclical counterparts, such as Energy and Materials, suffered weekly drawdowns of 7.33% and 3.10%, respectively. Energy was hampered by Crude's continued weakness, which posted its worst week since October 2020. Elsewhere, the Dollar Index maintained its recent strength as it added another 1%.

John ended the most recent edition of Tandem Talk, which can be listened to on our website, by asking the rest of the group what everyone's "one big thing" was. The "one big thing" that I mentioned was China. And, it's a space that I want to continue to highlight and monitor. Through the end of last week, Chinese stocks have been beaten down thanks largely to the regulatory crackdown from the Chinese Communist Party (CCP). The CCP seems perfectly happy to ignore the havoc they are causing in the stock prices of some of China's internet and tech behemoths. Moreover, recent reporting has suggested that Chinese regulators plan to impose stricter regulations on more industries which sent an ever-widening swath of

Chinese stocks tumbling lower. The Hang Seng's drop last week was its worst week since the middle of the COVID market scare in March of 2020. It leaves Hong Kong's major index nearly 20% off its 2021 high and 24% off its all-time high that it has since failed to surpass from January of 2018. Mainland China's CSI 300 is also knocking on the door of bear market territory as its recent slump has it approaching down 20%. The Nasdaq Golden Dragon Index, which measures the performance of stocks traded in the U.S. whose business is conducted primarily in China, is now more than 50% off its recent high. Perhaps negative sentiment is reaching its fever pitch, perhaps not. Regardless of what's to come for Chinese stocks, their recent past has been ugly.

So far, domestic indices have been able to ignore the consistent stream of bad news coming out of China – from closed ports to the aforementioned regulatory issues. U.S. equities have also been able to shake off inflationary pressures (which are hopefully beginning to abate a little) and rising COVID cases on the back of the Delta variant. Our markets continue to climb a wall of worry. The Federal Reserve seems to be the only thing these days that can cause any pain in the equity market – if you can even call it that! The little weakness we have seen of late in the major U.S. indices seems to have spawned from the increased taper talks coming out of the Fed. With Fed Chair Jerome Powell's keynote speech on tap for Friday morning at the Jackson Hole Economic Symposium, it could be quite the catalyst to spark volatility. A misstep from the Fed Chair could very well send markets lower – something we all witnessed Chair Powell do in Q4 of 2018. However, the Chairman seems to have become a little more nuanced recently than his initial bluntness that kept shocking markets when he first took the job. It'd be surprising to see Powell completely deviate from his recent assertion for the need of continued monetary support. If he can quell the notion of the Fed tapering, markets should be pleased. However, the dissent within the halls of the Federal Reserve seems to be growing ever louder as more members of the Fed are calling for tapering this year.

TRANSITION UPDATES & NEWS **

The steady upward march in many stocks has left us with fewer opportunities on the transition level today than we had even just a couple of months ago. As a result, the speed of our transition has slowed down a bit. Accounts that have been with us for 6 months, or so, are almost fully transitioned – barring a few expensive names that we continue to exercise patience in. This is undoubtedly on the longer end of our transition time frame. It makes sense that the transition has slowed with valuations still hovering to the expensive side and volatility muted these past few months. After all, the S&P 500 hasn't seen a 5% pullback in nearly 200 trading days – a streak only rivaled by the dearth of volatility witnessed throughout 2017.

In terms of news, there was about an hour of excitement last week with regard to CBOE. *The Financial Times* reported that CME had offered ¾ of one of its shares for each CBOE share. This rumored offer valued CBOE shares, which were trading around $123, at roughly $150 –

quite a premium! Within an hour of that news crossing the tape, CME refuted the rumors denying any conversations with CBOE. Interestingly, FT did not retract their story. Only time will tell as to whether CBOE is a M&A target. Despite trading back to their pre-announcement levels, all was not lost for CBOE shareholders. The company announced the next day that they were increasing their quarterly dividend by 14.3%. With dividend growth like that, we are happy to continue to have CBOE in our portfolio!

***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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