NOTES FROM THE TRADING DESK

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August 3, 2020

MARKET MOVERS & SHAKERS

It was a good last week in what was a great month for U.S. Equities. For the week, the Dow was close to flat, while the S&P 500 and the Russell 2000 were up 1.7% and 0.9%, respectively. The Nasdaq put the rest to shame as it climbed 3.7%. With 45% of the Russell 1000 having reported quarterly earnings last week, it was certainly encouraging to see the market trade higher. Tech was the obvious outperformer as the sector rallied 5%. Value had a tough week as Energy, Materials, Financials, and Industrials were all down. The ICE US Dollar Index (DXY) was down for the 6th straight week, its worst streak in more two years. Gold was up for its 8th straight week and Crude fell 2.5%.

Futures pointed towards a higher open on Monday morning following the initial reported agreement between Senate Republicans and the Trump administration with regard to a $1 Trillion coronavirus relief package. Stocks rallied throughout the day as growth and momentum led the way higher. The Nasdaq put on an impressive show as it outperformed the S&P 500 by more than 1%. However, the real focus was on the Dollar, as the DXY fell to a two-year low. The weaker dollar helped Gold climb to an all-time high. Stocks rolled over a bit on Tuesday. Tech and momentum were the main laggards as a lack of consensus amongst republicans with regard to a relief bill became apparent. However, U.S. Equities got back on track on Wednesday as they drifted higher into the Federal Reserve's FOMC meeting. Value stocks actually outperformed on Wednesday as refiners and banks led the way higher. Thursday was rather mixed, though Friday witnessed strength from the Nasdaq once more following Apple's blowout numbers and its 10% pop intraday.

One of the most significant trends of late has been the falling dollar. In fact, sentiment around the DXY is at its lowest point since 2008. Furthermore, the DXY just finished its third worst month since 2009. One of the main drivers behind the falling dollar has been the drop in yields, especially real yields. (A real yield is an interest rate that has been adjusted to account for the expected inflation. For example, if a bond is yielding 3% and inflation is expected to be 2%, then the real yield would be 1%. A negative real yield means the owner of the bond will effectively lose purchasing power as a result of holding the bond). The 2-year U.S. Treasury and 5-year U.S. Treasury are both trading at all-time lows, while the 10-year and 30-year are closing in on their all-time lows as well. And, it's not just Treasuries that are seeing a drop in yields as corporate bond yields are also trading at all-time lows. This comes despite the fact that corporate bankruptcies, according to Bloomberg, are being filed at the fastest rate since 2009. The weaker dollar and the drop in yields have helped gold surpass its 2011 highs as the precious metal broke out to all-time highs earlier this week. Per Bloomberg, the weaker dollar has also likely helped keep oil afloat as the correlation between the dollar and oil have reached an 8-year low. Another clear beneficiary of the falling yields has been the high flying FAANG names.

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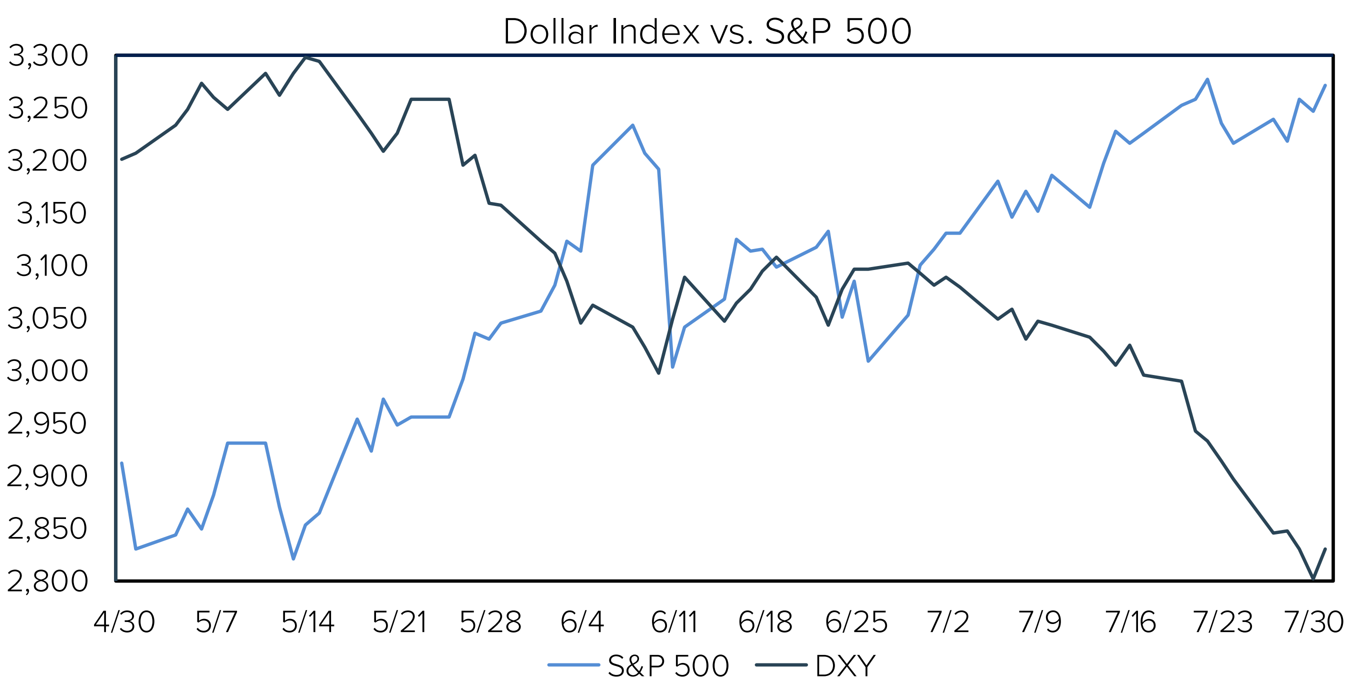

Source: FactSet

FAANG stocks tend to perform well amidst a flattening yield curve as a premium is placed on growth in an expected low growth environment. Should the dollar rebound, as contrarians are beginning to surmise, one would expect some of these recent trends to reverse. It would not be surprising to see a drop in commodities like gold and oil should the dollar strengthen. What's more, the broader market seems to have liked the falling dollar as well (see the chart on the previous page. As the dollar has dropped, stocks have risen).

On the economic front, the big news last week was certainly the GDP print which showed output falling at a 32.9% annual rate — the sharpest drop in GDP since the Great Depression. Most of the drop was driven by a steep decline in personal consumption, specifically Health Care. Food Services/Accommodation and Recreation were two of the largest detractors as well. Those three categories accounted for roughly 60% of the total contraction in the economy. While the decline in GDP was both historic and alarming, it was expected. However, what has been unexpected (and seemingly ignored by the market) has been the two consecutive weeks of higher initial jobless claims. People were supposed to be heading back to work, yet it seems like some of the economic recovery is beginning to falter and reverse. As Federal Reserve Chairman Jerome Powell said following the Wednesday FOMC meeting,

> The pace of the recovery looks like it has slowed since the crisis began, that spike in June. So, some measures of consumer spending based on credit card and debit card data have moved down. Recent labor market indicators point to a slowing in job growth, particularly among smaller businesses. Hotel occupancy rates have flattened out. People aren't going out to restaurants, bars, gas stations, pharmacies and beauty salons as much. Consumer surveys by the way, which had dropped very sharply when the pandemic arrived and then moved back up sharply, they look like they may be softening again now.

Chief Market Strategist of Jones Trading Mike O'Rourke put it even more simply: the probability of a V-shaped recovery is declining and a W is becoming more likely.

TRANSITION UPDATES & NEWS **

It was the busiest week of earnings for the S&P 500 and it was also the busiest week in terms of earnings for Tandem with 19 core holdings reporting. Rather than breaking down all 19 reports here, I will just touch on a few of the outliers. Ecolab was the worst performing stock of the bunch this past week dropping 8.6% intraday following their disappointing numbers. However, the driver behind Ecolab's underperformance was not unexpected. Their highest margin business services restaurants, hotels, etc. with sanitization products (if bars ever open back up, I bet you'll see an Ecolab dishwasher behind the bar). However, as restaurants and hotels got shutdown, their April sales dropped 80% — which makes sense. Restaurants were closed! However, as economies opened back up, their numbers recovered as well. By the end of May, sales were down 50%, and by the end of June, they were down just 30%. However, a real standout was Ecolab's willingness to work with their customers. Rather than forcing customers to pay their leases on dishwashing units, Ecolab allowed them to forgo their current payments in exchange for extending their current contracts. This obviously hurt Ecolab in the short run. However, it is this type of foresight that allows companies to position themselves strategically for the long run! Furthermore, Ecolab showed that once the economy opens back up, things will be running smoothly for them once more. This was evidenced by the fact that the trend in their Chinese business was actually positive by June. As their CEO pointed out on their earnings call, during the Financial Crisis, ECL sales dropped 2%. Their business is not cyclical. Their business is experiencing a global pandemic-driven shut down. It has nothing to do with a recessionary environment, or even consumer spend. Instead it has everything to do with a situation which is totally unique to our current environment.

On the other side of the coin was O'Reilly Automotive. ORLY was a clear beneficiary from the economic shutdown. They reported record same store sales growth of 16.2% and a 57% jump in earnings. Management said they benefitted from the CARES Act and extended unemployment benefits as people were taking their stimulus checks and fixing up their cars. In the past, they had seen similar (though much smaller) jumps around the same time as tax refunds. However, they had never seen a jump in DIY large ticket projects quite like this, but… then again, we have never seen stimulus quite like this.

Finally, on the portfolio front, it was a busy week for us. We finalized the liquidation of C.H. Robinson following their earnings release. We had also trimmed some of our Dominion the week prior. We added to our existing position in CBOE ahead of earnings for both Large Cap and Mid Cap. And, we established an initial position in CBOE for Equity. Similarly, we established an initial position in ADP in Equity following their earnings earlier this week. We also added to our existing ADP position in Large Cap. ADP dropped following their earnings release, which presented the opportunity for us to add to the stock. ADP, one of the world's largest providers of HR management software, was impacted by the steep drop in employment numbers. Rather than focus on the short term and cutting costs by laying people off, ADP has chosen to focus on long term opportunities. At a time when many companies are shedding head count, ADP is actually actively adding to the size of their sales force to better position themselves relative to their rivals moving forward.

***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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KEY MARKET DATA

	WTD	MTD	QTD	YTD
Dow Jones	-0.16%	2.38%	2.38%	-7.39%
S&P 500	1.73%	5.51%	5.51%	1.25%
Nasdaq	3.69%	6.82%	6.82%	19.76%
Russell Mid Cap	1.56%	5.80%	5.80%	-4.72%
Russell 2000	0.88%	2.71%	2.71%	-11.27%

	WTD	MTD	QTD	YTD
Comm. Svcs	1.73%	6.57%	6.57%	5.53%
Con Disc	2.07%	8.98%	8.98%	16.17%
Con Staples	0.86%	6.76%	6.76%	-0.77%
Energy	-4.23%	-5.35%	-5.35%	-40.39%
Financials	-0.94%	3.52%	3.52%	-21.97%
Health Care	0.33%	5.20%	5.20%	3.40%
Industrials	-0.16%	4.28%	4.28%	-11.89%
Info Tech	4.98%	5.56%	5.56%	20.56%
Materials	-1.81%	7.03%	7.03%	-1.58%
Utilities	0.90%	7.72%	7.72%	-5.86%
REITs	4.15%	4.04%	4.04%	-5.87%