Notes from the Trading Desk

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U.S. equities moved lower last week as the S&P 500 posted its worst weekly performance of 2019. Tech was one of the hardest hit sectors, which caused the Nasdaq to fall 3.92%. The S&P 500 fell 3.10%, and the Russell 2000 fell 2.87%. The Dow held up in a relatively better manner than its peers, as it dropped 2.60%. A defensive posture gripped the marketplace once stocks began falling on Wednesday afternoon. REITs and Utilities both actually closed in the green for the week. Healthcare and Staples also outperformed the broader indices. Financials, Tech, and Consumer Discretionary stocks were the worst of the bunch as they fell 3.89%, 4.36%, and 4.57%, respectively. Treasuries sustained a large rally in the back half of the week. The spread between the 10-year treasury and the 3-month treasury plunged further into negative territory. The 10-year closed the week at 1.85%, while the 3-month closed at 2.06%. The move in the 10-year was rather dramatic as it fell from 2.08% on the 26th to its current 1.85% yield. Finally, the dollar — as measured by the ICE US Dollar Index — moved higher for the third straight week.

To say it was a busy week in the marketplace would be a bit of an understatement. The market's initial stumble began on Wednesday following Fed Chair Jerome Powell's press conference. Some investors had been clamoring for a 50 bps cut from the Fed. Instead, the Fed delivered on their telegraphed 25 bps cut. However, the shocker came during the press conference when Powell said that he viewed the cut as a "mid-cycle adjustment". The implication being that we are not entering a full blown easing cycle quite yet, much to the chagrin of President Trump and dovish investors alike. In other words, the current Fed path seems to be more akin to the mid-90s when the Greenspan-led Fed cut in '94, '95, and '98. Powell's initial comments caused many investors to believe that all bets were off for future rate cuts in 2019. The Fed Chair even went so far as to mention the possibility of future rate hikes. Powell's comments ultimately caused the Dow to fall nearly 500 points in the 2 o'clock hour.

During his press conference, Powell justified the rate cut as being a result of the slowdown in global growth, inflation continuing to fall short of their target level, and trade tensions causing a slowdown in domestic manufacturing. In fact, Powell continued to harp upon the potentially detrimental effects that tariffs might have on business confidence and spending. Almost as if on cue, President Trump — who was very critical of the mere 25 bps cut — announced further tariffs on China Thursday afternoon. The proposal was to implement a 10% tariff on an additional $300b of Chinese goods, which as Bloomberg rightly pointed out — leaves essentially all Chinese goods being tariffed. The Dow proceeded to fall 550+ points in an hour and a half. However, retail was hit exceptionally hard as the latest tranche of tariffs is expected to hit consumer oriented goods. XRT — the SPDR S&P Retail ETF — fell 5+% intraday on Thursday following the announcement.

Bloomberg's Elena Popina and Vildana Hajric floated an interesting theory Thursday afternoon following President Trump's tweet. Namely, that the announcement of tariffs and Trump's displeasure with the 25 bps cut were not totally unrelated. Chairman Powell said that trade war returned to a "simmer" in July which in turn caused the Fed to believe that trade tensions were less likely to derail the economy, thus further rate cuts could be unnecessary. President Trump, an ardent supporter of further rate cuts, in turn could press the issue with the Fed by ratcheting up trade tensions with China. In other words, it is a win-win for President Trump. By increasing uncertainty in trade, Trump traded short term pain for a potential longer term win. The uncertainty, arguably, increases the likelihood of further rate cuts — which would please the President. However, the tariffs can be called off, more or less, at any moment by the President merely hitting send on a tweet. How this all plays out is surely uncertain, but the back half of the week caused volatility to rear its ugly head for the first time since May. Keeping an eye on future economic data and Presidential tweets will be necessary going forward if the Fed and trade tensions remain in the markets line of sight.

Upgrades/Downgrades & Dividends

D — Upgraded to outperform from neutral at Credit Suisse, price target increased to $83 from $82 (8/1).

D — Upgraded to outperform from peer perform at Wolfe Research, target increased to $82 from $79 (8/1).

EEFT — Initiated outperform at Wolfe Research with a price target of $200 (7/31).

FISV — Initiated buy at Berenberg with a price target of $121 (7/31).

FISV — Upgraded to buy from hold at Deutsche Bank, target increased to $120 from $100 (7/31).

PYPL— Downgraded to sell from neutral at Guggenheim Securities, price target of $104 (7/29).

RMD — Upgraded to buy from neutral at UBS, price target increased from $122 to $140 (7/28)

RMD — Upgraded to buy from neutral at Goldman Sachs (7/28).

YUM — Initiated neutral at Goldman Sachs with a price target of $115 (7/29).

Earnings Calendar

Date	Time	Ticker
8/6	Pre-Market	EXPD
8/6	Pre-Market	HSIC
8/6	Pre-Market	BDX
8/7	Pre-Market	CVS

Portfolio News & Notes

Earnings season has kept us busy at Tandem. 75% of Tandem's core holdings have reported earnings. For the quarter, Tandem's core holdings are set to grow their earnings by 12.2%, per FactSet data. This comes in well above the 6.2% growth estimated on 3/31 for the quarter. Tandem's core holdings are also set to grow their sales by 12% for the quarter. This serves as a stark contrast to the S&P 500, which is showing sales growth of 4.1% and an earnings decline of −1.13%. Thus, while margin pressure continues to be a concern for the broader index, Tandem's holdings — generally speaking — seem to be maintaining their margins at the very least.

The heightened volatility towards the end of last week also provided us the opportunity to add to a long time holding in our Equity strategy. The selloff in retail caused Dollar Tree to show up at an attractive valuation — which we were able to take advantage of heading into the weekend.

	WTD	MTD	QTD	YTD
Dow Jones	-2.60%	-1.41%	-0.43%	13.54%
S&P 500	-3.10%	-1.62%	-0.33%	16.96%
Nasdaq	-3.92%	-2.10%	-0.03%	20.63%
Russell 2000	-2.87%	-2.60%	-2.10%	13.73%
Comm. Svcs	-3.49%	-1.28%	1.70%	20.34%
Con Disc	-4.57%	-2.20%	-1.32%	19.40%
Con Staples	-1.93%	-0.37%	1.95%	16.69%
Energy	-3.38%	-3.59%	-5.40%	5.14%
Financials	-3.89%	-2.53%	-0.30%	15.57%
Health Care	-1.13%	-0.12%	-1.84%	5.15%
Industrials	-3.45%	-2.62%	-2.04%	17.75%
Info Tech	-4.36%	-2.21%	0.98%	27.36%
Materials	-2.98%	-1.77%	-2.20%	13.40%
Utilities	0.25%	1.06%	0.68%	13.58%
REITs	2.07%	0.99%	2.66%	21.43%