



Tandem Investment Advisors

December 13, 2021 - Tandem Investment Advisors, Inc.

T tandemadvisors.com/notes-from-the-trading-desk/december-12-2021

December 14, 2021

Notes from the Trading Desk -

December 13, 2021

by Benjamin "Ben" G. Carew, CFA

MARKET MOVERS & SHAKERS

U.S. equities had their rally caps on last week as mega cap tech stocks stormed higher. The Dow was up more than 4%, leading all major indices. The S&P 500 posted its best week since early February, bouncing 3.8% before ending the week at a record closing high. The Nasdaq was up 3.6%, which was a bit surprising given that Tech was the best performing sector. However, the Nasdaq's breadth remains a bit tepid – but more on that in a little. Finally, the Russell 2000 brought up the rear, as it gained 2.4%. Apple was up nearly 11% and is now closing in on being a \$3 Trillion company. Similar outperformance was turned in by the likes of Microsoft, Alphabet, Meta (Facebook), Oracle, Adobe, United Health and Broadcom. News on the Omicron front seemed to please risk appetites as initial reports have indicated that Omicron is not only more mild than previous variants, but that a third dose of the Pfizer/BioNTech vaccine can actually neutralize the variant. Elsewhere, crude was up 8.2% throughout the week – its best performance since August.

We received a bit of economic news on Friday, as the CPI print hit a nearly 40-year high. The markets loved it, as they rallied in the pre-market following the inflation read. The 6.8% year-over-year increase in inflation was in-line with market expectations and represents a deceleration on a month-over-month basis. Despite the 39-year record jump in prices, the market by and large seemed relieved that the print was in-line with expectations. All eyes should now be on the Fed for the FOMC meeting on Wednesday. Their response towards inflation will likely guide the market from here. The Fed announced last month that it would begin tapering its bond-buying program, while suggesting that the stimulus would stop by the

end of June. Federal Reserve Chairman Jerome Powell seemed to have suggested that he would support a more accelerated taper during congressional hearings earlier this month, which ultimately sent markets lower at that time. Meanwhile, the market is pricing in a nearly 83% chance of at least one Fed rate hike by July and a ~45% chance of two.

In terms of the stock market, if one were to only look at headline numbers, they would be very encouraged by the broader U.S. equity indices. The S&P 500 set a record closing high last Friday, while the Dow closed just 1.25% below its high on Friday. At the time of writing, the Nasdaq is a little more than 2.5% away from its all-time high, and the Nasdaq 100 is just 1.5% away. At a quick glance, all appears to be well. However, market leadership has gotten very narrow as breadth has broadly deteriorated. According to SocGen, nearly 1/3 of the Nasdaq is down 50% from its highs and roughly 60% are down at least 20%. Despite the Nasdaq closing in on its previous all-time high, only 1/3 of its constituents are above their 200-day moving average. The last time breadth was this bad in the Nasdaq was during the COVID lows and in Q4 of 2018. Those were 30% and 23% drawdowns, respectively. Again, today, the Nasdaq is just a few percent away from its all-time high. These sorts of statistics are commonly found during market selloffs, not near all-time highs.

This need not be bad news, however. In fact, from a contrarian's perspective it could actually be good news. The pessimist would think that with breadth this narrow, any sort of rollover in the market leaders would spell doom. However, there is a lot of room to run for plenty of names out there. Outside the likes of Apple, Microsoft, Nvidia, Alphabet and Meta, performance has been less stellar. This environment could be indicative of a rotational inflection point. Perhaps the other names in the market will begin to move higher. This would be an incredibly positive sign if the rally were to become more broad-based. Again, this sort of poor breadth is usually indicative of market pullbacks, but improvement in these lackluster measures is also the hallmark of recovery rallies.

TRANSITION UPDATES & NEWS **

In terms of news last week, there was not a ton. Intercontinental Exchange is shaking up their management team, but is keeping it entirely inhouse. Sharon Bowen has been announced as the next Chair of NYSE, replacing Stacey Cunningham (who will be joining the board). ICE's COO will be transitioning to the role of Chief Information Officer, while Stuart Williams (previously the President of ICE Futures Europe) will be stepping into the COO role. Elsewhere, Hormel reported their most recent quarterly results. Revenue and earnings both beat expectations and guidance was largely positive as well. Costco shares jumped following their stellar quarterly results. Both their earnings and sales numbers beat the highest estimate on the Street. In terms of dividend, Stryker announced a 10.3% increase to their quarterly dividend, Abbot increased theirs 4.4%, and LabCorp announced a \$2.5b share buyback program and the initiation of a dividend beginning in Q2 of 2022.

***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.*

Share via:

-  [Share on LinkedIn](#)
-  [Email this](#)
-  [Print / PDF](#)

Written By: Benjamin “Ben” G. Carew, CFA

Ben Carew is a shareholder and Portfolio Manager for Tandem Investment Advisors, Inc. Mr. Carew joined Tandem in 2013. His duties include quantitative and fundamental research and portfolio management. Mr. Carew also oversees Tandem’s internship program. 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. 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.

Disclaimer: This writing is for informational purposes only and shall not constitute or be considered investment advice, or an offer to sell, or a solicitation of an offer to buy any product, service, or security. Please consult your financial advisor before making any investment decisions.

Past performance is no guarantee of future results. All past portfolio purchases and sales are available upon request.