



December 18, 2023 - Tandem Investment Advisors, Inc.

T tandemadvisors.com/notes-from-the-trading-desk/december-18-2023

December 20, 2023

Market Movers & Shakers

The rally in stocks persisted throughout the first two weeks of December as interest rates continued to decline across the curve on the back of recent CPI and PPI data and a Federal Reserve policy pivot. The S&P 500, Dow Jones Industrial Average, and Nasdaq Composite logged their seventh straight week of gains, with the Dow hitting a new all-time high for the first time since January 2022. The S&P 500 is now less than 2% away from topping its January 2022 record close. Participation broadened out from the index-dominant Magnificent Seven as the Russell 2000 notched its second-best weekly performance of the year, up 5.55% last week, while the equal-weight S&P 500 outperformed the market-cap weighted index by more than 130 basis points over the same period. Market breadth has been robust, with more than 85% of S&P 500 constituents trading above their 50-day moving averages for the first time since the summer. The 10-year U.S. Treasury yield retreated below 4% for the first time since August, dragging mortgage rates down below 7% to their lowest levels since May.

Bullish market participants point to continued positive momentum, seasonality dynamics, and recent inflows as tilting the path of least resistance for equities higher, though the magnitude of the recent rally has received heightened scrutiny as stocks are looking increasingly stretched by historical standards. Goldman Sachs notes the S&P 500 is nearing its most overbought level, as measured by the Relative Strength Index (RSI), in more than a decade, while 46% of the S&P 500 is trading with an RSI greater than 70 (overbought), the most in over 30 years. Despite these technical indicators flashing overbought signals, US stocks logged their ninth-straight week of inflows marking the longest streak since December 2021. Last week also saw the first outflow from money market funds in eight weeks as investors moved cash from the sidelines into stocks and bonds. Money market funds have seen record inflows this year. According to FactSet, \$1.2 trillion has flowed into money market funds this year, bringing total money market fund assets to just under \$6 trillion.

A deluge of economic data has hit the wires since our last edition of *Notes from the Trading Desk* in November. The Bureau of Labor Statistics' October Job Openings and Labor Turnover Survey (JOLTS) report saw job openings come in at 8.7 million, well below consensus estimates of 9.3 million and down from 9.5 million openings in September's

JOLTS report. The decrease marked the third straight monthly decline in job openings and the lowest reading of openings since March 2021. Despite the weaker-than-expected JOLTS data, the Bureau of Labor Statistics' November nonfarm payrolls report showed the economy added 199,000 jobs in November, topping consensus forecasts of 175,000, causing the unemployment rate to decline to 3.7% from 3.9% and pushing the labor force participation rate up to 62.8%, the highest level since February 2020. December's Michigan Consumer Sentiment Index showed increasingly positive expectations among consumers and a sharp decline in 1-year inflation expectations (thank you lower gas prices!). November's CPI report came in largely in line with consensus estimates. Headline CPI increased 0.1% month-over-month, up 3.1% year-over-year (lowest since March 2021). Core CPI increased 0.3% month-over-month and logged a 4.0% year-over-year increase. Shelter inflation continues to be the largest contributor to the rise in Core CPI, with gains in both rent and owners-equivalent rent. November PPI came in at an annualized rate of 0.9%, below consensus for 1.0% and the lowest reading since June. Both CPI and PPI reports fit with the broader disinflation narrative that has been a key driver of markets of late.

Last, but certainly not least, December's FOMC meeting was likely the most notable event for markets in the past few weeks. The Federal Reserve held rates steady, as expected, at 5.25%-5.50% for the third meeting in a row, provided updated forecasts via the Summary of Economic Projections (SEP), and gave one of its clearest indications yet that the hiking campaign it embarked on to combat inflation is complete. Based on the median estimate, the SEP showed that policymakers are no longer penciling in further interest rate hikes in their projections for the first time since March 2021, but are instead projecting 75 basis points of interest rate cuts in 2024 with the federal funds rate seen dropping to 3.50%-3.75% by the end of 2025. The Fed's "dot plot" in the SEP showed that eight officials forecasted fewer than 75 basis points of easing next year, while five officials forecasted greater than 75 basis points of easing. Fed Chair Jerome Powell indicated that officials are now turning their focus on when to cut rates, which if done too soon could jeopardize inflation's return to the Fed's 2% goal, and if done too late could risk overtightening and push the economy into recession.

– Jordan Watson, CFA

Updates & News*

This December, we added to our position in **Steris, plc** across all three strategies on the composite level. **Steris** is a medical equipment company domiciled in Ireland, specializing in surgical equipment and sterilization products. On their most recent call, management noted that US procedure trends continue to have positive momentum. Supply chain challenges are mostly behind them, and lag times have been slashed. For fiscal year 2024, management reaffirmed their previous 6-7% guide for organic revenue growth.

We added to our **Becton, Dickinson, and Company** position on the composite level. **Becton** is also a medical supplier, specializing in medical devices, instrument systems and reagents. The company also provides consulting and analytical services. **Becton** resides in all three strategies. On their latest business-wide update, management touched on how COVID-only testing will be decreasing substantially, resulting in a headwind of roughly 25 basis points to organic growth. Management reaffirmed their organic revenue guidance for fiscal year 2024, expecting to come in at the midpoint. **Becton** has long been working on their goal of BD 2025, a three pillared strategy to fortify long term growth. The pillars include an innovative agenda, long term revenue growth, and strong fiscal targets.

SEI Investments Company, a financial services company, provides investment and technology solutions to their clients. Their clientele consists of independent advisors, wealth managers, and broker dealers. We trimmed **SEI Investments** this month in all three strategies. **SEI Investments** has been struggling to grow earnings. On their latest call, management noted that total expenses were down year-over-year, as they put more emphasis on bringing private banking back to higher levels of profitability. Third quarter revenues missed estimates and were up 1% year-over-year. Management noted that Q3 results were impacted by a one-time expense related to their voluntary separation program. EPS was in line with analysts' estimates.

Costco Wholesale Corporation reported earnings on December 15th. Management issued a \$15 per share special cash dividend. This is **Costco's** fifth special cash dividend. The special dividend previously occurred in 2012, 2015, 2017, and 2020. The total amount to be paid is approximately \$6.7 billion. Q1 EPS beat estimates, while net sales trailed slightly. Management notes better than anticipated holiday sales and an uptick in discretionary spending. This is leading to a rally in consumer sentiment. Management also noted healthy membership fee growth and rising renewals. A large portion of Costco's profits are materially influenced by membership fees. Their membership format is pivotal to their business model and has a significant effect on their profitability.

– Annie Klopstock

**The transition level activity taken by Tandem is applicable to new accounts and new money, not the composite or firm-wide level. 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. Strategy level activity is applicable to the composite and action is taken at the firm-wide level.*

- [Jordan Watson, CFA](#)

Jordan Watson is an Associate Portfolio Manager for Tandem Investment Advisors, Inc. Mr. Watson joined Tandem in 2019. His duties include conducting quantitative and fundamental research, as well as portfolio management. In addition, Mr. Watson assists in overseeing Tandem's internship program. Mr. Watson is a regular member of the CFA Institute and the CFA Society South Carolina. Mr. Watson is a graduate of the College of Charleston's School of Business, earning a Bachelor of Science in Finance with a minor in Real Estate.

- [Annie Klopstock](#)

Annie Klopstock is an Investment Management Associate for Tandem Investment Advisors, Inc. Ms. Klopstock joined Tandem in 2021. Her duties include conducting quantitative and fundamental research. Before joining Tandem, Ms. Klopstock completed an internship for Stanford Health and consulted for UCSF Department of Abdominal Transplantation. Her work focused on analyzing cost structures. Ms. Klopstock earned a Bachelor of Arts in Quantitative Analysis Economics with a minor in Statistics from San Diego State University.

Disclaimer: Tandem Investment Advisors, Inc. is an SEC registered investment advisor.

This audio/writing is for informational purposes only and shall not constitute or be considered financial, tax or investment advice, or an offer to sell, or a solicitation of an offer to buy any product, service, or security. Tandem Investment Advisors, Inc. does not represent that the securities, products, or services discussed in this writing are suitable for any particular investor. Indices are unmanaged and not available for direct investment. 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.

All performance figures, data points, charts and graphs contained in this report are derived from publicly available sources believed to be reliable. Tandem makes no representation as to the accuracy of these numbers, nor should they be construed as any representation of past or future performance.