# *Notes from the Trading Desk*

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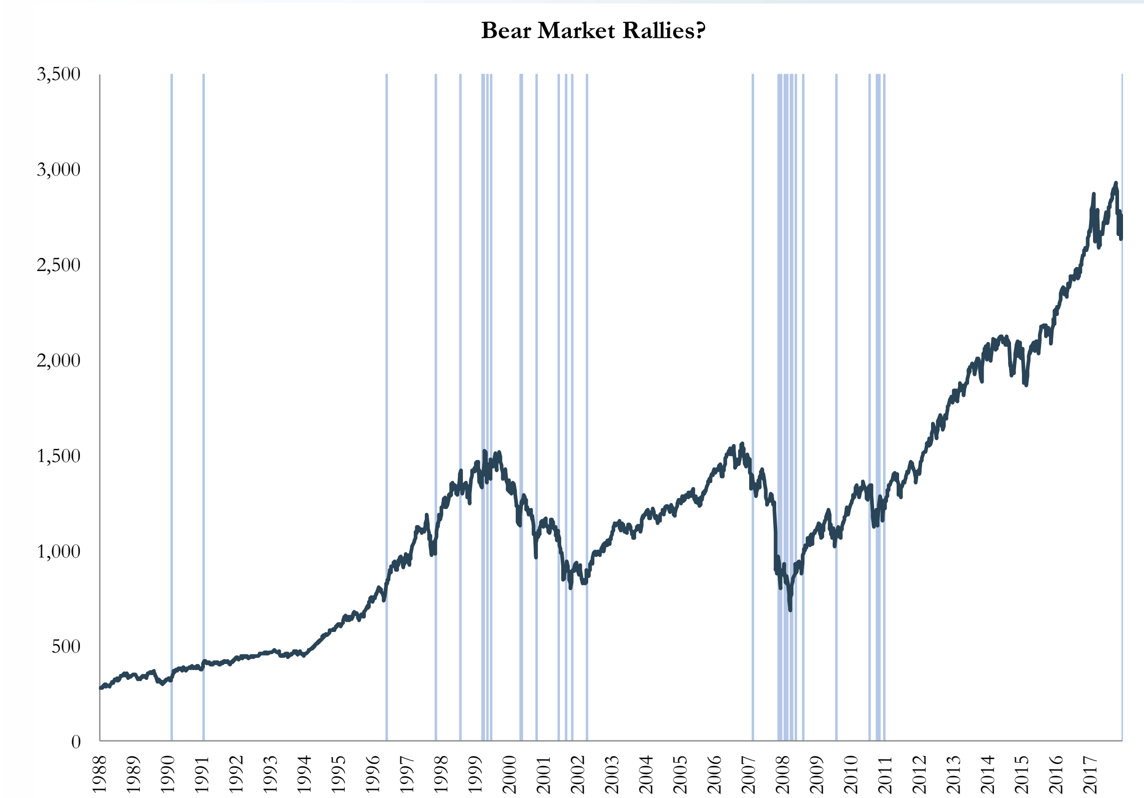
Wow, what a week! The Santa Claus rally might have begun a little early as all major domestic indices soared. The Dow and the Nasdaq were both up more than 5%, while the S&P 500 was up 4.85%. The Russell 2000 rounded out the impressive action, as it climbed 2.99%. The S&P 500's price action was its best weekly gain of the year, and the largest one week gain in 7 years. The market seemingly had a lot to digest as President Trump headed to Buenos Aires for the G20, hoping to reach an agreement with President Xi of China. Fed Chair Jerome Powell took the podium midweek with a hint of dovish tones. Finally, oil actually settled higher on a weekly basis for the first time since early October (a time in which it has dropped more than 30%).

Thanks in large part to the week's impressive rally, we are a little more than 6% away from all-time highs on the S&P 500. However, rallies like last week are not common for bull markets. The 4.85% gain on the S&P 500 was the index's 31st best weekly gain in the last 30 years. However, roughly 2/3 of those big up weeks occurred during notable downtrends, or at market bottoms (see chart below). As one can see, there were a lot of bull traps in both the Tech Bubble and the Financial Crisis. However, one can also see that these large reversals seem to cluster around market bottoms — as we see around the 2002 bottom, the 2009 bottom, and the 2011 bottom. Again, large weekly gains do not appear to be a common occurrence during a healthy bull market. However it is not necessarily emblematic of an oncoming bear market either. Rather, it seems to be more indicative of a trend worth monitoring and a possible inflection point.




On Wednesday, Fed Chair Jerome Powell said that interest rates "remain just below ... neutral for the economy." Simply put, the Federal Reserve gave itself the wiggle room to potentially pause its continued rate hikes. These comments were in stark contrast to his October 3rd statement that markets are a "long way from neutral." His dovish tones were celebrated by the market as the S&P 500 jumped over 1% in roughly ten minutes. The futures market is still placing an 82% probability of a December hike. One would think, given Powell's dovish tones, that the probability of future rate hikes would have been tempered. However, that is not true. The probability of a March hike to 250-275 bps (assuming a December hike) is currently 43%. This is up from the 33% chance the market was placing on a March hike one week ago. The bond market had already moved well before Powell's dovish Wednesday speech. The 10-Year Treasury has been heading lower since early November, and actually broke below 3.0% for the first time since September. The drop off in yields, possibly due to a potential slowdown, has caused the yield curve to flatten even further. 10s minus 2s are now yielding 19.25 bps — the lowest spread of the cycle. The yield curve is getting very, very close to inversion. 5s minus 2s have a spread of just 2.72 bps, by far the lowest spread of the cycle and well below its 30 year average of 59 bps.

*Upgrades/Downgrades & Dividends*

**ABT** — Initiated buy with a target of $83 at UBS (11/28).

**ABT** — Upgraded to buy from neutral at Goldman Sachs, price target increased from $78 to $81 (11/30).

**BDX** — Initiated neutral at UBS with a price target of $260 (11/28).

**CTSH** — Upgraded to buy from neutral at Goldman Sachs, price target increased to $84 from $81 (11/26).

**CVS** — Initiated overweight at Cantor Fitzgerald, price target of $96 (11/26).

**CVS** — Initiated outperform at Evercore ISI with a price target of $89 (11/28).

**CVS** — Reinstated neutral at Goldman Sachs with a price target of $87 (11/29).

**D** — Upgraded to buy from neutral at UBS, price target increased to $84 from $75 (11/29).

**HRL** — Downgraded to hold from buy at Jeffries, target remains $44 (11/27).

**ICE** — Initiated overweight with a price target of $95 at Atlantic Equities (11/28).

**SYK** — Initiated neutral with a target of $180 at UBS (11/28).

**TJX** — Upgraded to buy from hold at Argus Research with a price target of $55 (11/29).

## Earnings Calendar

| Date | Time | Ticker |
|---|---|---|
| 12/4 | Pre-Market | DG |
| 12/5 | Pre-Market | BF.B |

## Portfolio News

In addition to J.M. Smucker's earnings miss and Dollar Tree's earnings beat last week, we had two core holdings make quite a bit of news. On Monday, it was reported that CVS's acquisition of Aetna had received final regulatory approval and was expected to close by Wednesday. This news was enough to send the stock screaming higher as it closed up 3.5% on Monday and another 2.1% on Tuesday. However, on Friday, Reuters reported that the deal may not be waved through after all as Judge Richard Leon of the U.S. District Court for the District of Columbia stated that he might reject the deal, or might even wait to make a decision in the summer. The deal has closed prior to receiving Leon's approval, a custom which CVS said is quite common in the closing of acquisitions.

The other large piece of news was United Technologies decision to break up their 3 distinct lines of business into 3 separate companies. UTX felt like the Rockwell Collins acquisition gave their aerospace business a huge boost into becoming a preeminent aerospace company. With the acquisition finally closing, the company thought it was best for their shareholders to split up the company. The goal of the spin-offs is to maximize each individual company's value, and as management said on their call last week, "each independent company's ability to drive sustained earnings growth through business cycles." I am not sure we could have come up with a better reason internally for a company to breakup.

| | WTD | Nov. | QTD | YTD |
|---|---|---|---|---|
| Dow Jones | 5.2% | 1.7% | -3.5% | 3.3% |
| S&P 500 | 4.8% | 1.8% | -5.3% | 3.2% |
| Nasdaq | 5.6% | 0.3% | -8.9% | 6.2% |
| Russell 2000 | 3.0% | 1.4% | -9.6% | -0.1% |
| | | | | |
| Comm. Svcs | 5.5% | -0.7% | -6.7% | -9.8% |
| Con Disc | 6.4% | 2.6% | -9.0% | 8.7% |
| Con Staples | 2.9% | 1.7% | 3.9% | -1.9% |
| Energy | 3.5% | -2.2% | -13.3% | -8.8% |
| Financials | 3.8% | 2.6% | -2.4% | -3.7% |
| Health Care | 5.9% | 6.8% | -0.4% | 14.7% |
| Industrials | 4.1% | 3.5% | -7.8% | -4.7% |
| Info Tech | 6.1% | -2.1% | -10.0% | 7.6% |
| Materials | 2.4% | 3.8% | -6.1% | -10.0% |
| Utilities | 2.7% | 3.1% | 5.0% | 5.0% |
| REITs | 2.8% | 5.2% | 3.6% | 2.5% |