NOTES FROM THE TRADING DESK

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MARKET MOVERS & SHAKERS

The good news rolled on for U.S. Equities. The Nasdaq led the major indices higher as it closed up 2.1%. The Russell 2000 was not too far behind, as it closed 2% higher for the week as well. The S&P 500 and the Dow brought up the rear, climbing 1.7% and 1.0%, respectively. Energy was the best performing sector for the fourth consecutive week. Healthcare was the second-best performing sector, followed closely by Tech. Utilities and Consumer Discretionary stocks were the two worst performing sectors and actually closed lower last week. Utilities have had continued underperformance since the 10-year Treasury bottomed in early August. Speaking of the 10-year, the Note is currently knocking on the door of 1% — a level it hasn't breached since the market's crash in March. The recent rise in yields has been largely attributed to the renewed stimulus talks. Elsewhere, the U.S. Dollar Index, coming off its worst month since July, has fallen to its lowest levels since early 2018. The recent swan dive in the Dollar Index is likely a result of the Fed's insistence for loose monetary policy coupled with a potentially recovering global economy on the back of promising vaccine news. Those bearish on the dollar likely welcomed the nomination of Janet Yellen to head up the Treasury department. Yellen was a noted dove during her reign as Federal Reserve Chairwoman, and has been an advocate of "lower for longer" with regards to interest rates since her departure from the Fed.

The S&P 500 has now closed higher 4 of the past 5 weeks, soaring 13.2% during that time frame. The action in small caps has been even more impressive as the Russell 2000 has jumped more than 23% over the past 5 weeks. This recent run higher has been the third best 5-week stretch for the Russell 2000 ever. In April 2009, the Russell 2000 ran 33% higher off of its March lows. Similarly, this past May saw the second best 5-week stretch as the Russell 2000 climbed 26%. Both of those instances were coming off of major market bottoms — I don't think anyone is calling October a generational low. So, what is different this time and what is causing the huge rally?

First, it's clear markets have been pricing in the positive impacts that COVID-19 vaccines will ultimately have on the global economy. The re-opening trade, due to the potential increase in consumer demand, has clearly been in the driver seat since early November. Some of the best performing names within the S&P 500 over the past month include the likes of Occidental (OXY), Carnival (CCL), Apache (APA), Devon Energy (DVN), and Norwegian Cruise Line (NCLH) — all of which are up more than 60% over the past month. Even the airlines are getting in on the cyclical trade action. American and United are both up close to 50% over the past month, while Delta is up nearly 40%.

Second, the euphoria surrounding stocks is clear for all to see. As Goldman Sachs recently pointed out, the median S&P 500 stock's short interest is at its lowest level dating back to at least 2004. Similarly, Investors Intelligence Sentiment Data shows that market participants are the most bullish they have been since January of 2018. To put this level of bullish sentiment into perspective, it is the third highest Bullish print for more than 30 years. Further underscoring the extreme sentiment, CBOE's Equity Put/Call Ratio recently reached its lowest level since the bursting of the Tech Bubble. If all that does not convince you that sentiment is extreme, Citi's Panic/Euphoria Model is currently at levels only rivaled by the Tech Bubble.

Finally, it seems that retail is quickly becoming all in. As SentimenTrader recently noted, the number of small traders (e.g. retail traders) buying call option contracts as a percentage of Total Opening Options Volume is at record levels — far outpacing the levels seen even during the Tech Bubble.

TRANSITION UPDATES & NEWS **

As volatility has gotten sucked out of the market over the past month, stocks have rallied handily. With it, many of the opportunities that we were seeing prior to the election on the transition level have dried up precipitously. The speed of the transition, as a result, has slowed down markedly. However, we have continued to add to some of our more attractive names on the transition level. News has seemingly been slow of late as well. Costco traded a bit lower last week on their November comps, which beat estimates. Similarly, Dollar General reported their quarterly results, beat estimates, but ultimately sold off as management elected to forgo providing formal 2021 guidance.

***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	1.03%	1.96%	8.77%	5.89%
S&P 500	1.67%	2.14%	9.99%	14.50%
Nasdaq	2.12%	2.18%	11.61%	38.91%
Russell Mid Cap	1.99%	2.66%	17.34%	13.11%
Russell 2000	2.00%	3.99%	25.52%	13.42%

	WTD	MTD	QTD	YTD
Comm. Svcs	1.84%	2.64%	13.05%	21.66%
Con Disc	-0.42%	0.26%	5.55%	29.25%
Con Staples	0.89%	0.96%	5.13%	7.10%
Energy	4.47%	10.39%	33.17%	-33.63%
Financials	1.81%	3.81%	19.93%	-6.13%
Health Care	2.84%	2.55%	6.32%	10.16%
Industrials	0.43%	1.44%	15.56%	9.36%
Info Tech	2.78%	2.11%	7.76%	37.41%
Materials	0.04%	0.96%	12.42%	16.55%
Utilities	-2.20%	-0.74%	4.47%	-3.96%
REITs	1.21%	2.06%	4.66%	-4.25%