Notes from the Trading Desk

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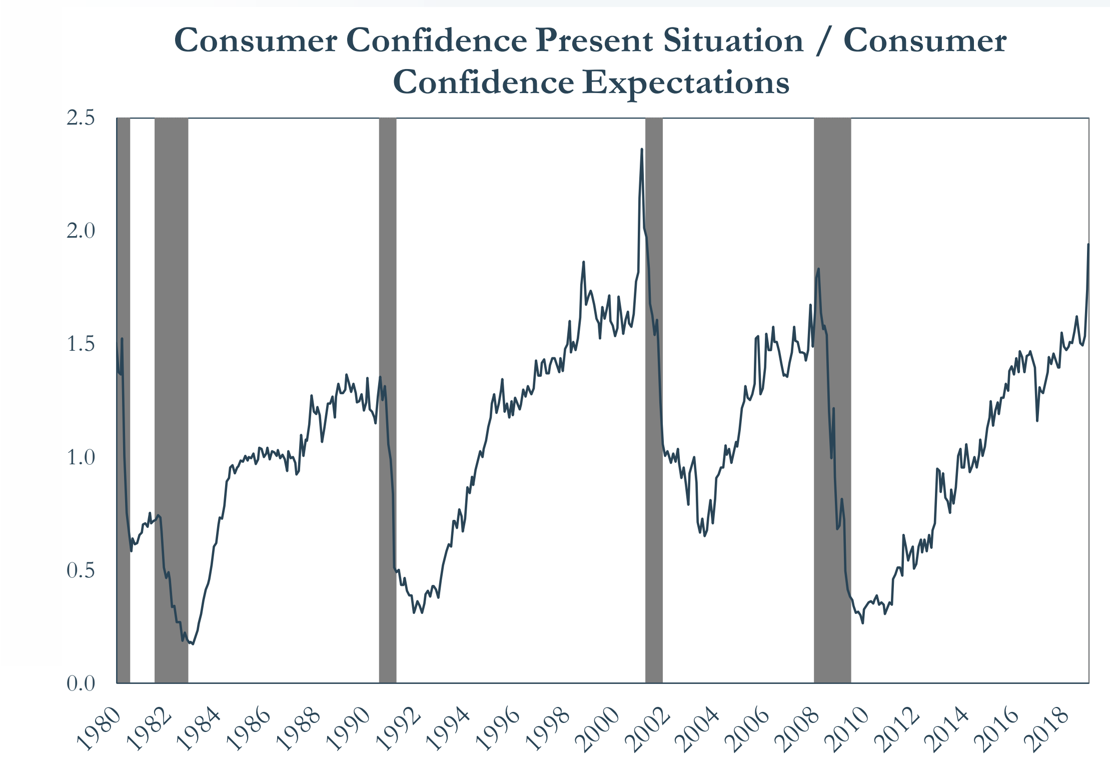
Domestic indices finished the week marginally higher. The S&P 500 was up 5 bps, while the Dow, Russell 2000, and Nasdaq were up 17 bps, 29 bps and 47 bps, respectively. However, the week was with a distinctly defensive undertone as Utilities, Consumer Staples, and REITs all outperformed. Energy and Materials were the laggards as Crude lost 4.6%. Despite the largely defensive posture in the market, large cap tech and semis rallied in kind. Treasuries continued their recent rally, as yields fell across the board. For those keeping score, there are parts of the yield curve that remain inverted. The 1-year treasury remains inverted with both its 2 and 3-year counterparts. Though, the more popularly quoted 10-to-2 spread remains in positive territory.

As of this writing, 57.7% of the S&P 500 has reported their quarterly numbers. According to FactSet, 65 companies have issued EPS guidance for Q1, and 53 of those 65 have issued negative guidance. Per Standard & Poor's, Q1 estimates have fallen nearly 4% from their 9/28 peak, while year-end estimates have fallen from $176.49 to $167.64, or 2.4%. Operating Margins for Q4 are also currently estimated to be 11.14%, versus the 12.13% seen in Q3, Historically speaking, peak margins have often signaled the end of a market cycle.

Elsewhere in the economy, the Consumer Confidence Index's Expectations have floundered. The Expectations Index has fallen from 115.1 in October to 87.3. The 24.2% drop is the largest 4-month decline in 6-years. While expectations have fallen out of bed, the Present Situation Index has remained stable. Chief Economist and Strategist at Gluskin Sheff & Associates, David Rosenberg, recently pointed out, that stability in the present situation with coinciding declines in the expectations index has often occurred near the end of market cycles (see chart below, the grey bars mark recessions).

Cue Stevie Nick's Edge of Seventeen, "Just like the white winged dove sings a song, sounds like she's singing." In the face of a slowing economy, Fed Chair Jerome Powell has begun singing a dovish song. Powell signaled in his January presser that the case for higher rates has not only weakened, but that balance sheet normalization may be completed sooner than originally expected. His January comments were in sharp contrast to his December statements that were critiqued for being much too hawkish. One month ago, the market was placing a 0% probability of a 2019 rate cut. Now, the market is placing a higher probability of a future rate cut than that of another rate hike. This seems reasonable given the economic outlook. The Fed's pause in hiking rates and the market's perception of even a rate cut this year are being lauded by the market as reasons to keep this party rocking! However, Fed pauses are typically not indicative of healthy markets. In fact, the Fed Funds Rate and the S&P 500 have shared a significantly positive correlation over the last 20 years. Greenspan paused in June of 2000, however, the market had already peaked. Bernanke paused in the summer of 2006 — though we all know what transpired a year later. On the flipside, Greenspan did successfully pause in 1995, which allowed the equity markets to roar for a few more years. Let's hope Powell's touch is more like early Greenspan, and not late Greenspan.



Upgrades/Downgrades & Dividends

CTSH — Upgraded to outperform from market perform at BMO Capital Markets, price target increased from $80 to $88 (2/6).

FISV — Initiated buy at Buckingham with a price target of $100 (2/7).

ICE — Increased their dividend 14.6% to $0.275 per share, payable 3/29 (2/7).

ORLY — Downgraded to perform from outperform at Oppenheimer, target is $360 (2/8).

PYPL — Downgraded to neutral from buy at Guggenheim Securities (2/6).

RSG — Initiated Sector weight at KeyBanc (2/4).

WCN — Initiated overweight at KeyBanc with a price target of $94 (2/4).

Earnings Calendar

Date	Time	Ticker
2/13	Post-Market	WCN
2/19	Pre-Market	EXPD
2/19	Pre-Market	ECL
2/19	Post-Market	VRSJ
2/20	Pre-Market	HSIC
2/20	Pre-Market	CVS
2/20	Post-Market	TYL
2/21	Pre-Market	HRL

Portfolio News

Nearly 66% of Tandem's core holdings have reported their quarterly numbers. Reported EPS growth for the quarter, according to FactSet, has come in strongly at 14.53%, which is in line with the S&P 500's growth of 14.56%. However, Tandem's holdings have grown their sales by 11.89%, while the S&P 500's sales growth has only been 7.93%. As we mentioned in a previous *Notes*, some of this discrepancy in sales growth is attributed to the more domestic makeup of Tandem's core holdings revenue. For companies within the S&P 500, those that have a majority of their sales derived in the United States are outperforming in terms of revenue and earnings growth relative to their more internationally diverse peers.

On a company specific level, Ecolab announced that they are spinning off their upstream energy business. Their upstream component has historically received 80% of its revenue from oil field production. The spinoff will allow Ecolab's Spinco to focus more on the oil and gas market, while Ecolab will be able to continue to focus on their core markets of hygiene, food safety and industrial water. Elsewhere last week, Henry Schein completed its spinoff of Covetrus (CVET). Henry Schein merged its Animal Health and Vets First Choice into a new company.

	WTD	MTD	QTD	YTD
Dow Jones	0.17%	0.43%	7.63%	7.63%
S&P 500	0.05%	0.14%	8.02%	8.02%
Nasdaq	0.47%	0.23%	9.99%	9.99%
Russell 2000	0.29%	0.47%	11.70%	11.70%
Comm. Svcs	-0.33%	-0.67%	9.33%	9.33%
Con Disc	-0.31%	-2.08%	7.93%	7.93%
Con Staples	1.12%	0.85%	5.89%	5.89%
Energy	-3.25%	-1.48%	9.38%	9.38%
Financials	-1.52%	-1.02%	7.48%	7.48%
Health Care	-0.93%	-0.71%	3.92%	3.92%
Industrials	1.52%	1.73%	13.28%	13.28%
Info Tech	1.76%	2.38%	9.42%	9.42%
Materials	-1.55%	-1.10%	4.32%	4.32%
Utilities	2.00%	1.70%	5.12%	5.12%
REITs	1.40%	0.70%	11.42%	11.42%