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Market Movers & Shakers

The path of least resistance continues to be higher for U.S. equities. Major U.S. indices logged their fourth consecutive week of gains as mega-cap technology stocks fueled the move higher. Shares of Facebook's parent company, Meta, gained more than 20% in a single trading session following a blockbuster earnings report. The move in Meta shares added $204.5 billion to the company's market cap, the largest one-day gain in market value for any U.S. company in history. The S&P 500 and Dow Jones Industrial Average set new all-time highs last week while the small-cap Russell 2000 logged its fifth decline in the past six weeks. A notable theme of 2023 was the underperformance of the equal-weight S&P 500 versus the market-cap weighted index – this underperformance has continued into 2024. According to FactSet, the Invesco S&P 500 Equal Weight ETF (RSP) has underperformed the SPDR S&P 500 ETF (SPY) by 379 basis points year-to-date. Recent weakness in the shares of regional banks has further exacerbated this underperformance. New York Community Bancorp, which acquired deposits and loans from failed Signature Bank last March, reported weaker than expected earnings and slashed its dividend as the bank increased reserves and estimates for loan-losses related to commercial real estate, specifically office real estate. The news sent NYCB shares down 42%, dragged down the SPDR S&P 500 Regional Banking ETF (KRE) by 5.85%, and even sparked a rally in U.S. Treasuries. Despite the outsized move lower in NYCB and regional bank shares, volatility remained relatively low with the VIX staying below 15. Gold had its best weekly performance since early December, closing up 1.8% last week. The US Dollar Index was stronger across the board, up 0.5% over the same period. WTI Crude Oil slumped 7.3% during the week, settling down near $72/barrel after trading up toward the $80 level in the week prior.

It was a busy week on the headline front. The Federal Reserve held interest rates steady at the January FOMC meeting as was widely anticipated. Market participants were keenly focused on signaling surrounding when the Fed will begin cutting rates. The most notable moment from the meeting came during Fed Chair Powell's press conference when he stated that he doesn't see the Federal Reserve reaching the level of confidence that inflation is sustainably moving toward the 2% target needed to cut rates by March. Elsewhere, the U.S. Treasury department released its quarterly refunding statement in which it said it would offer $121 billion in Treasury securities this quarter, up from $112 billion in the fourth quarter of

2023. In the statement, the Treasury announced that it does not expect further increases in auction sizes for at least the next several quarters. Markets cheered the news as U.S. Treasury prices rose following the announcement, pushing yields lower and sending stocks higher. The Bureau of Labor Statistics' January nonfarm payrolls report was released on Friday and showcased the continued strength of the U.S. labor market. Nonfarm payrolls increased by 353,000 compared to consensus estimates of 177,000, marking the largest monthly increase in payrolls since January 2023. The report also included upward revisions of November and December's job gains by 9,000 and 117,000 respectively. The unemployment rate remained unchanged at 3.7% while economists had estimated a slight tick higher to 3.8%. Average hourly earnings increased 0.6% month-over-month, the highest since March of 2022. The hotter than expected print prompted a selloff in Treasuries as the market repriced a shallower path of rate cuts this year. While the initial reaction to the print was negative, market participants note that Powell stressed that policymakers were not looking for a slide in employment as part of their rate-cut calculus.

– Jordan Watson, CFA

Updates & News*

Once again, we are in the heart of earnings season. Various Tandem names have had the opportunity to report.

Visa Inc. reported in late January. Management noted that US payment volume was up 4% in January, marking deceleration from December's 5% growth. Net Revenues were up 9% and GAAP EPS were up 20% for Q1 2024. Cross border travel accounted for most business growth, followed by processed transactions. Earlier in the month, **Visa** announced the acquisition of Pismo. Pismo is a next-gen technology platform for card issuing, core banking, digital wallets, and seller management. Management noted to expect upper mid to high single digit net revenue growth for Q2 2024, and low double-digit growth for full year 2024.

Mastercard Incorporated also reported earnings. Q4 net revenue grew 11%. This is due to continued growth in their payment network and value-added services and solutions. Payment network net revenue increased 7% due to volume growth and domestic/cross border transactions. Value added services and solutions grew 17% from providing cyber and intelligence solutions. Net income was up 15% while operating income grew 13%. EPS increased 18% to $3.18. For full year guidance, management noted that they are carefully monitoring the macro landscape and geopolitical events. They expect net revenues to grow at the high end of a low double-digit rate, excluding acquisitions. For Q1 guidance, management expects net revenue growth at the low end of a low double-digit rate.

NextEra Energy, Inc., the world's largest utility company, expects to see growth of 6-8% annually off their 2024 adjusted EPS range through 2026. The 2024 range is expected to be $3.23-$3.43. This is due to strong operational and financial performance of Florida Power and Light and NextEra Energy Resources. For fiscal year 2023, **NextEra Energy's** adjusted EPS grew roughly 9.3%. The CAGR in operating cash flow is expected to be at or above the adjusted EPS growth rate.

CBOE Global Markets, Inc., a derivatives and exchange network, reported earnings February 2nd. Management noted strong adjusted earnings and Q4 record net revenues. Net revenues grew 9% year-over-year for Q4. There was an 18% organic increase in Derivatives Markets due to a 24% increase in index options and 20% growth in total options rate per contract. Data and Access Solutions saw 7% net revenue growth due to transaction capabilities and comprehensive data solutions. Management noted an 11% decrease in cash and spot markets due to foreign exchange headwinds and lower exchange US cash equity transaction revenues. Q4 adjusted EPS was up 14% year over year. Management expects 2024 guidance of organic net revenue to be in a range of 5-7%, compared to 10% growth in 2023. Expect to see a greater focus on CBOE VIX and new online retail platforms for increased global trading power.

Church & Dwight Co., Inc., beat the street on their Q4 revenue numbers. **Church & Dwight** reported $1.53 billion versus estimates of $1.51 billion. Management noted a 5.3% increase in organic sales, exceeding the 4% outlook. This was the result of positive price and product mix and 1.3% higher volume. In terms of Q1 guidance, management expects organic sales growth of roughly 4%. For full year guidance, management expects EPS of $3.42, in line with analyst expectations. Full-year organic sales growth is expected to be 4-5%. Management noted that they expect an increase in manufacturing costs due to capacity events, third parties increasing costs, and moderate commodity inflation.

In terms of composite activity, Tandem purchased **Brown Forman Corporation** in all three strategies. **Brown Forman** produces alcoholic beverages. Some of their most popular brands include Jack Daniels, Woodford Reserve, and Old Forester. Besides whiskey, **Brown Forman** produces wine, tequila, rum, gin, and premixed beverages. Coming out of COVID, the brand faced some supply chain challenges specific to sourcing glass bottles. In their last earnings call, management noted that their glass supply has significantly improved, allowing them to rebuild distributor inventories. This has helped to renormalize their organic results. In addition, the UK tariff removal on American whiskeys has been a tailwind of favorable price/mix.

– 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.

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