

NOTES FROM THE TRADING DESK

TANDEM INVESTMENT ADVISORS | BEN CAREW, CFA

February 8, 2021

MARKET MOVERS & SHAKERS

U.S. equity indices had their rally caps on last week. Stocks surged higher as potential stimulus measures came increasingly into focus. The last week of January marked the worst week for stocks since late October. With a bit of *déjà vu*, this past week was the best week for stocks since early November. The Russell 2000 jumped 7.7%, followed closely by the tech-heavy Nasdaq, which added 6%. The S&P 500 was up 4.7%, and the Dow brought up the rear as it gained 3.9%. Cyclical stocks were the name of the game last week. WTI Crude's 9% weekly gain set the pace for the Energy sector, which was up 8.3%. Communication Services was the second-best performing sector, led by Alphabet which gained more than 14% on the back of earnings. The traditionally defensive sectors such as Utilities, Staples, and Healthcare were the largest laggards. Elsewhere, weakness in Treasuries continued. The 30-year Treasury yield is knocking on 2% for the first time in nearly 12 months. Similarly, the 10-year's 1.17% yield is its highest since March. Finally, the ICE US Dollar Index continued its year-to-date rally. The Index has gained nearly 2% over the past month. In the past, we have written about it extensively, but a stronger dollar and higher yields tend to be less favorable for the mega cap growth names that have been market leaders for the past few years.

The most recent jobs report was released last Friday. The employment rate fell to 6.3%, but only 49,000 jobs were added in January. Perhaps most importantly, the participation rate, which measures the percentage of people actively seeking work as a percentage of the working population (ages 16-65) remains severely depressed. The rate has continued to tick lower as some Americans have seemingly exited the job market all together. The dismal 61.4% participation rate is one of the lowest since the mid-70s. The inauspicious jobs report though was seemingly heralded by markets. Underscoring the stimulus-addicted nature of today's stock market, the gloomy jobs outlook was celebrated as it would surely cement the need for further fiscal and monetary aid. Equities are once more in the twilight zone where good news is bad news and bad news is good news. Bad news will lead to continued stimulus from both the Federal Reserve and the Federal Government, whereas dread-

ed good news could undermine the stock market's need for continued support. What is ironic is that we have witnessed the effects of immense monetary support over the past decade. The Federal Reserve and other global Central Banks launched unrivaled monetary policies following the financial crisis. Global economies were rewarded with some of the worst economic recoveries in modern economic history. If at first you don't succeed, try, try again.

But, we digress. Back to Market Movers, I will avoid discussing the WallStreetBets stocks as plenty of ink has already been spilled on that topic. However, in the middle of the short squeeze, markets began selling off. The CBOE Volatility Index (also known as the VIX, which is often described as Wall Street's fear gauge) had nearly doubled as it surged from 21.3 on January 21st to 37.2 by January 27th. Since then, the VIX has completely collapsed. In the 7 trading sessions since the 27th, it has fallen 44%. Only the fallout from Volmageddon in February 2018 had a steeper 7-day drawdown. Large collapses in volatility have historically led to markets that drift higher in the short term. If 2020 taught us anything though, it's that historically unprecedented events take place more often than we would like to admit.

TRANSITION UPDATES & NEWS **

The previous week's burst of volatility provided an opportunity for Tandem on the transition level. As a result, activity over the past two weeks has picked up considerably relative to most of January and December. Earnings season will also often provide opportunities as individual stocks tend to move a bit more around their earnings release.

On the composite level, last week was a busy one. We trimmed some PayPal in our Equity strategy for valuation purposes. Similarly, we pared back some of the position in Tyler Technologies in both Mid Cap and Equity. Finally, we added to our position in CBOE Global Markets in Equity — CBOE was already a full position in both Large Cap Core and Mid Cap Core.

***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.*



BEN CAREW, CFA

Ben Carew is a shareholder and Portfolio Manager for Tandem Investment Advisors, Inc. Mr. Carew joined Tandem in 2013. His duties include quantitative and fundamental research and portfolio management. Mr. Carew also oversees Tandem's internship program. Mr. Carew is a graduate of the College of Charleston's School of Business, earning a Bachelor of Arts in Economics with a minor in Finance.



KEY MARKET DATA

	WTD	MTD	QTD	YTD
Dow Jones	3.89%	3.89%	1.77%	1.77%
S&P 500	4.65%	4.65%	3.48%	3.48%
Nasdaq	6.01%	6.01%	7.51%	7.51%
Russell Mid Cap	5.56%	5.56%	5.24%	5.24%
Russell 2000	7.70%	7.70%	13.09%	13.09%

DISCLAIMER

This writing is for informational purposes only. The information contained in this writing should not be construed as financial or investment advice on any subject matter. Tandem Investment Advisors, Inc. does not represent that the securities, products, or services discussed on, or accessible through, this site are suitable for any particular investor. You acknowledge that your requests for information are unsolicited, and the provision of any information through this site shall not constitute or be considered investment advice, or an offer to sell, or a solicitation of an offer to buy any product, service, or security.

Past performance is no guarantee of future results. Indices are unmanaged and not available for direct investment. They are shown or referred to for illustrative purposes only and do not represent the performance of any specific investment. No data in this writing should be construed in any way as performance of any Tandem investment product. For complete performance information and disclosures, please contact John Carew at jcarew@tandemadvisors.com.

From time to time Tandem may discuss select purchases and/or sales within this report. All past portfolio purchases and sales are available upon request. Any portfolio transaction discussed here does not constitute advice or a recommendation. Please consult your financial advisor before making any investment decisions.

	WTD	MTD	QTD	YTD
Comm. Svcs	7.25%	7.25%	5.64%	5.64%
Con Disc	5.99%	5.99%	6.40%	6.40%
Con Staples	2.53%	2.53%	-2.93%	-2.93%
Energy	8.29%	8.29%	12.22%	12.22%
Financials	6.59%	6.59%	4.54%	4.54%
Health Care	0.50%	0.50%	1.79%	1.79%
Industrials	4.88%	4.88%	0.33%	0.33%
Info Tech	4.88%	4.88%	3.87%	3.87%
Materials	3.87%	3.87%	1.40%	1.40%
Utilities	2.26%	2.26%	1.28%	1.28%
REITs	2.96%	2.96%	3.54%	3.54%