



January 22, 2024 - Tandem Investment Advisors, Inc.

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January 24, 2024

Market Movers & Shakers

512 trading days later, and at last, the S&P 500 has set a fresh record closing high for the first time since January 2022. The S&P 500 closed at 4,839.81 on January 19th, surpassing the prior record close of 4,796.56 set on January 3rd, 2022, per FactSet data. The recent record close ended the sixth-longest streak in history and the longest stretch of consecutive trading days without a new closing high for the benchmark index since the 1,375 trading-day streak that lasted from October 2007 to March 2013, according to Dow Jones Market Data. Information Technology, Communication Services, and Health Care have led the market higher year-to-date, while Energy, Materials, and Utilities have been the biggest laggards to start 2024. And while the calendar flipped, investor sentiment and optimism around AI certainly did not. The VanEck Semiconductor ETF (SMH) is up more than 6% through the first three weeks of 2024, with its largest component, NVIDIA, up more than 19% during the same period. Market leadership has narrowed again as the Magnificent Seven stocks continue to lead the market higher, while small caps have experienced a reversal of fortune after a strong finish to 2023. The Russell 2000 climbed more than 20% during the last two months of 2023 — that surge of momentum has cooled. The small cap index has struggled so far year-to-date, down more than 4%, and is now down for four consecutive weeks in a row. Treasuries weakened across the curve with the 10-year U.S. Treasury yield pushing back well above the 4% level, most recently yielding 4.11%. The US Dollar Index has started the year off on strong footing, up ~2% with gains across most major currencies. Oil prices have moderated year-to-date despite escalating geopolitical tensions in the Middle East and Red Sea. WTI Crude Oil has traded within a narrow range between \$70-75/barrel for most of the year, while Natural Gas futures have slumped more recently as unseasonably warm weather is forecasted to constrain demand. Volatility remains subdued relative to recent history, with the CBOE Volatility Index (VIX) rounding out the week under 14 as we barrel towards the thick of fourth-quarter earnings season.

The big story for markets so far this year has been the continued repricing of rate cut expectations for 2024. Odds of a March rate cut now sit slightly below 50% compared to the more than 90% probability the market was forecasting in late 2023. The diminishing expectations of rate cuts has been influenced by stronger than anticipated economic data along with some pushback from Federal Reserve officials. December's retail sales report

came in stronger than forecasted and highlighted the resiliency of the consumer despite pressures from higher interest rates and inflation. Consumer sentiment data improved sequentially in January, hitting the highest level in more than 2 ½ years fueled by increasing optimism regarding the downward path of inflation and household income gains. Market participants are now pricing in roughly 140 basis points of easing this year, down from a recent peak near 175 basis points. Expectations are still notably higher than the Federal Open Market Committee's (FOMC) consensus forecast for three quarter-point rate cuts, based on the latest Summary of Economic Projections (SEP) data. Federal Reserve Governor Christopher Waller acknowledged last week that interest rate cuts are likely to come this year, though to some extent chilled the market's red-hot expectations of the number of rate cuts to come, stating "I see no reason to move as quickly or cut as rapidly as in the past." And while the main focus related to Fed policy easing continues to center around the timing of interest rate cuts, more and more commentary surrounding dialing back the pace of QT, or quantitative tightening, has been making the rounds of late. As we discussed in the November 27th, 2023 edition of *Notes from the Trading Desk*, the Federal Reserve "continues to shrink its balance sheet by \$95 billion a month, allowing \$60 billion in Treasuries and \$35 billion in mortgage-backed securities (MBS) to "roll off" without being replaced". According to Nick Timiraos at the Wall Street Journal, "Fed officials are to start deliberations on slowing, though not ending, quantitative tightening as soon as their policy meeting this month". That meeting takes place on January 30-31, with the "Fed Minutes" set to be released three weeks later in mid-February. In the midst of evolving economic narratives and shifting expectations of Fed Policy, the upcoming meeting has the potential to provide markets with crucial insights into the trajectory of policy moving forward.

– Jordan Watson, CFA

Updates & News*

Tandem has been very active on the composite front. So far in the month of January, we trimmed four names at the strategy level. We pared back exposure in **Amphenol Corporation** and **Costco Wholesale Corporation** after the new year for valuation purposes. **Amphenol** was sold in Large Cap Core while **Costco** was sold in Large Cap Core and Equity. **Amphenol** is a global leader in broadband communications products. They provide high technology interconnect, sensor, and antenna solutions. The rush for 5G has helped **Amphenol**, as the company manufactures fiber optics. **Amphenol** has three business segments: Harsh Environment Solutions, Communications Solutions, and Interconnect & Sensor Systems. Communications Solutions accounts for 45% of their net sales as of their annual report for 2022. Interconnect & Sensor Systems accounted for 30% of net sales and Harsh Environment Solutions accounted for 25%. **Costco** issued a special cash dividend of \$15 per share that was paid out on January 12th. Their Q1 revenue was up 6.2% year-over-year and they saw a 6.1% increase in net sales, driven by consumer demand for value-priced staples.

We also trimmed **Expeditors International of Washington, Inc.** and **SEI Investments Company** at the strategy level. **Expeditors** was trimmed in all three strategies and **SEI** was trimmed in Large Cap Core and Mid Cap Core. **Expeditors** was trimmed for valuations purposes, while **SEI** is having difficulty growing. **Expeditors** is a service-based logistics company that offers supply chain solutions. Their revenue segments are split into three: ocean freight & services, airfreight services, and customs brokerage & other services. SEI delivers technology and investment solutions. They are uniquely positioned in the wealth management industry to help with processing, operations, and management.

In other news, **Ansys** is set to be acquired by Synopsys for \$35 billion. **Ansys** shareholders will receive \$197 in cash and 0.345 shares of Synopsys stock per share of **Ansys**. Synopsys is attracted to **Ansys**' simulation and analysis capabilities. The two companies have complimentary businesses and are a hot spot for synergies. This transaction is expected to close in the first half of 2025. **Ansys** is found in our Equity and Mid Cap Core strategies.

– 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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