NOTES FROM THE TRADING DESK

TANDEM INVESTMENT ADVISORS | BEN CAREW, CFA

July 13, 2020

MARKET MOVERS & SHAKERS

U.S. Equities finished higher last week on the back of an impressive rally in Tech. While the Dow and S&P 500 gained 1.0% and 1.8%, respectively, the Nasdaq was up 4.0%! The rally included the likes of Tesla (up 27.8%), Netflix (up 15.1%), and Nvidia (up 9.0%). Amazon was up 10.7%, and Apple and Facebook were up 5.4% and 5.0%. However, it was not only growth names that participated in the rally. Banks got in on the action too heading into next week's earnings. Citi, Morgan Stanley, and Goldman Sachs all rallied more than 4%. Interestingly, despite the aforementioned big week for the Nasdaq, Tech was not the best performing sector. The Consumer Discretionary sector took that title. However, this outperformance within discretionary stocks was bolstered by Amazon, as evidenced by the fact that more than half of the sector was actually down last week. The week's worst performing sector was Energy as the cyclical segment fell 4.6%. Treasuries were stronger as yields flattened across the curve. The 10-year Treasury is now at its lowest level in more than a month and a half.

Returns Since 3/23/2020

		Style		
		Value	Core	Growth
Size	Large	32.9% (IVE)	43.4% (IVV)	50.9% (IVW)
	Mid	42.3% (IJJ)	46.6% (IJH)	50.3% (IJK)
	Small	33.9% (IJS)	37.9% (IJR)	41.9% (IJT)

Source: FactSet

The week began on a high note Monday as all of the major U.S. indices rallied. News was rather muted, though there certainly was positive news in the form of the U.S. ISM June non-manufacturing index. The economic indicator posted its biggest one month gain. Specifically, this means that the nonmanufacturing sector of the U.S. economy actually expanded month over month. This is not particularly surprising as the economy's march towards normalcy certainly picked up speed in June, compared to May, as more pockets of the country re-opened. However, stocks slid on Tuesday as the S&P 500 broke its 5-day winning streak. The major indices bounced on Wednesday, only to sell off once more on Thursday. While the Dow, S&P 500, and Russell 2000 all fell in Thursday's trading action, there was strength to be found in the FAANG names, as well as the Nasdaq. The tech-heavy index outperformed the S&P 500 by nearly 100 bps. Friday was a much stronger day as all four major indices posted gains once more, and showed strength into the weekend as they closed near their session highs. Many of the more beat up and cyclical names were among Friday's best performers as banks, freight, oil, and staples were all some of the best performers.

The recent rally has seemingly been driven entirely by Tech. As a result, sentiment within Tech is reaching extremes relative to other segments of the U.S. equity market. The ratio between the Nasdaq and the S&P 500 is reaching levels not seen since the Tech Bubble. Runaway valuations within the Nasdaq are nearing Tech Bubble levels as well. The Nasdaq 100 is now trading at more than 30x forward earnings, its highest level since 2002, and more than 4.5x sales, a valuation not seen since 2001. Perhaps the most extreme example of valuation is Nikola. The EV semi-truck manufacturer, with no sales, has a $20 billion market cap. Tech, and more specifically growth, has been red hot since the market bottomed in March posting impressive outperformance relative to value (see style-box returns below). According to Morningstar, the outperformance by growth is at its largest margin since 1999. While the tech-heavy Nasdaq is overvalued relative to its historical valuation, other pockets of the market are actually undervalued as they have not participated in the huge run within growth names.

With earnings season ramping up the next few weeks, there is potential for some additional volatility within the marketplace. According to FactSet, the S&P 500's net income is expected to decline nearly 45% this quarter. This is well below the estimated 11% decline for Q2 back at the end of March. However, the sharp decline in earnings expectations has begun to level off the past few weeks (see chart on page 2). Some pundits have

Continued on Page 2

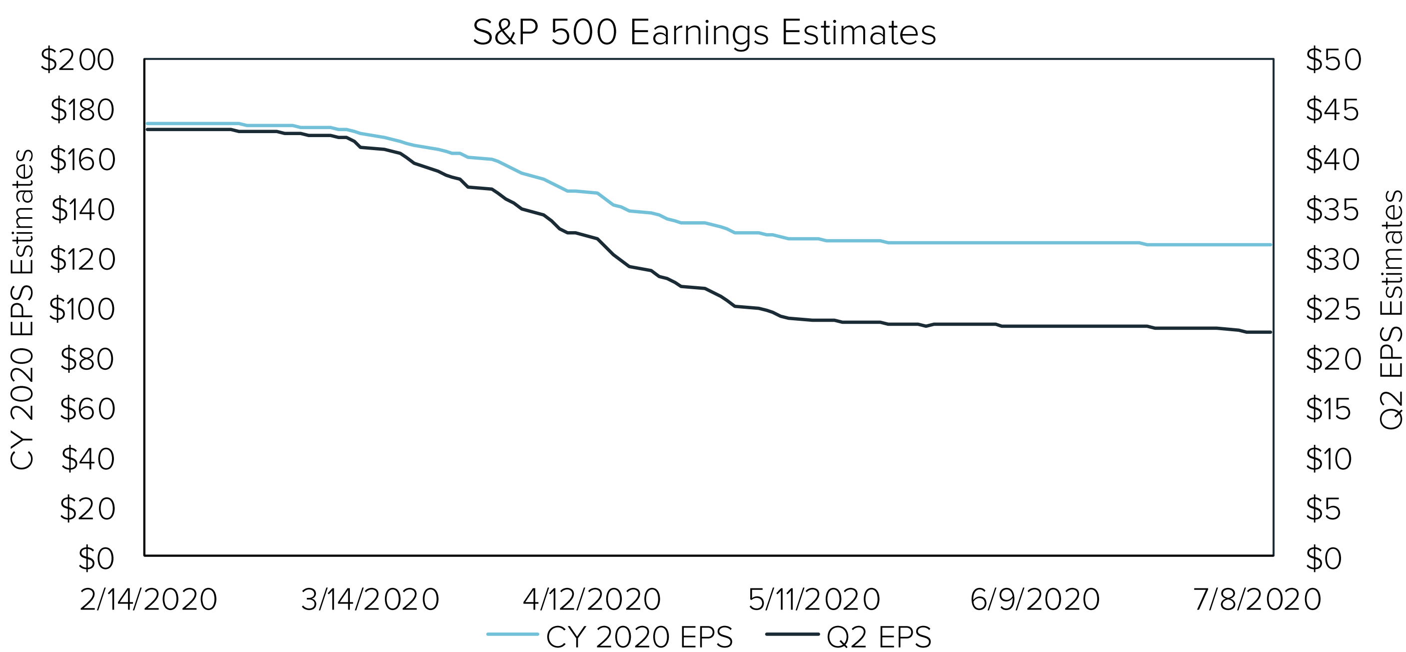
begun speculating that perhaps estimates came down too far — potentially setting up a positively surprising earnings season. So far, the market has even rewarded a few companies that have preannounced positive results. Though, as *The Wall Street Journal* pointed out last week, analysts are essentially flying blind at this point as more than 40% of all companies within the S&P 500 have withdrawn their guidance. Citigroup's Economic Surprise Index also supports the notion of more good news. The Index, which measures whether economic data is beating consensus estimates, is currently at all-time highs, meaning economists' expectations have been beaten at the most impressive clip ever measured by Citi.

TRANSITION UPDATES & NEWS **

Wednesday's burst of volatility gave us opportunity to add to some names on the transition level in the middle of the week. Names like Signature Bank, J.M Smucker, Euronet Worldwide, and UMB Financial — all of which are attractively valued in our quantitative model — were able to be added to in newer accounts. Walgreens, which fell after reporting disappointing earnings, was also added to on the transition level. The impact from COVID-19 caught analysts and investors off guard as there were greater than expected costs associated with the virus. Walgreens announced the expansion of their successful trial with VillageMD. The two announced that Walgreens will be the first national pharmacy chain to offer full-service doctor's offices co-located at its stores. They will open 500-700 full-service offices in 30 markets around the U.S. over the next five years. Walgreens will own approximately 30% of VillageMD at the end of the investment.

In terms of headlines, the week began with a bang. Dominion agreed to sell their gas transmission and storage assets to Warren Buffet's Berkshire Hathaway. The transaction, valued at $9.7 billion, is expected to close during Q4. Dominion announced that they will use some of those proceeds to buy back $3 billion in Dominion shares. As a result of the sale, their earnings were guided lower. Elsewhere, Microsoft is rumored to be considering buying the gaming division of Warner Bros. CNBC reported that the deal could go for as much as $4 billion.

***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.*



Source: FactSet

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.

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.

KEY MARKET DATA

	WTD	MTD	QTD	YTD
Dow Jones	0.96%	1.02%	1.02%	-8.63%
S&P 500	1.76%	2.73%	2.73%	-1.42%
Nasdaq	4.01%	5.55%	5.55%	18.33%
Russell Mid Cap	0.29%	0.90%	0.90%	-9.14%
Russell 2000	-0.64%	-1.30%	-1.30%	-14.73%

	WTD	MTD	QTD	YTD
Comm. Svcs	4.69%	6.96%	6.96%	5.92%
Con Disc	4.83%	7.09%	7.09%	14.16%
Con Staples	2.47%	2.99%	2.99%	-4.27%
Energy	-4.63%	-5.96%	-5.96%	-40.78%
Financials	2.15%	1.16%	1.16%	-23.74%
Health Care	-0.88%	0.53%	0.53%	-1.20%
Industrials	-1.39%	-1.09%	-1.09%	-16.42%
Info Tech	2.70%	3.33%	3.33%	18.01%
Materials	0.77%	2.83%	2.83%	-5.44%
Utilities	-0.18%	2.34%	2.34%	-10.57%
REITs	-1.74%	0.49%	0.49%	-9.09%