

# NOTES FROM THE TRADING DESK

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## MARKET MOVERS & SHAKERS

The Dow, S&P 500, and Russell 2000 all rallied last week. However, the rotation out of growth was the big theme. Large Cap Growth, which we discussed at length last week, was a significant underperformer. The Nasdaq 100 fell 1.8%, trailing the S&P 500 by more than 3%. That sort of relative underperformance during a strong week for the S&P 500 is quite uncommon, having only occurred 10 times in the last 30 years. Six of the ten were between 2000 and 2002 following the bursting of the Tech bubble. Prior to last week, the most recent example was during a period of heightened volatility in late 2011. Despite the underperformance of the Nasdaq, it was actually Consumer Discretionary that was the worst performing sector, though it was followed closely by Tech. Industrials, Materials, Health Care, and Utilities all rallied more than 4% last week. Action within the treasury market was fairly muted while Gold and Crude Oil were up 0.5% and 0.1%, respectively.

Trading started sloppily on Monday with markets closing near their intraday lows. The day began on a promising note as markets rallied into the early afternoon before promptly reversing course around 2 o'clock following the shutdown of many California businesses. However, the underperformance of the large cap growth and FAANG names began in earnest on Monday as the Nasdaq slid 2.1%. The Nasdaq's underperformance continued on Tuesday's turnaround. The S&P 500 was up 1.3% in Tuesday's trading session and the Dow was up 2.1% — meanwhile the Nasdaq was only up 0.9%. Wednesday was much of the same. The S&P 500 and the Dow both rallied 0.9%, while the Nasdaq was up 0.6%. However, the real winner on Wednesday was certainly small cap stocks. The Russell 2000 rallied 3.5%. Tech trailed again on Thursday as markets inched lower. Finally, markets were slower on Friday in a thinly traded session that saw the S&P 500 and the Nasdaq both rise 0.28%. The SPDR S&P 500 ETF Trust (SPY) traded only 64% of its 30-day average volume.

The dichotomy between Large Cap Growth and the rest of the market was on full display last week. However, divisions within the market are more rampant than just tech vs. the rest of the market. According to *The Wall Street Journal*, the put/call ratio for U.S. equities hit its lowest levels since the peak of the Tech bubble. The put/call ratio measures the use of put options (often used to protect against declines) relative to that of call options (often used to place bullish bets on stocks to rise). A low put/call ratio, as we have seen over the last few trading

sessions, can be indicative of an overly optimistic market and an overall lack of defense. However, surveyed investor sentiment (such as the AAll bulls minus bears) is still very much bearish. The bifurcation continues even within the economy. On the one hand, advanced retail sales data (excluding Food Services) has clearly made a v-shaped recovery (see chart on the bottom of the next page). Even when including Food Services, the retail rebound is remarkable. Yet, just last week we had some of the largest banks report and all four of the major U.S. banks nearly doubled their provisions for loan losses. In other words, they set aside additional money with the expectations that loans will go bad. Furthermore, Bank CEOs warned that the worst is yet to come. Jamie Dimon, JPMorgan's CEO, said on their most recent earnings call, "This is not a normal recession. The recessionary part of this you're going to see down the road."

## TRANSITION UPDATES & NEWS \*\*

Earnings season is officially underway. Signature Bank, Check Point Software, Microsoft, and NextEra Energy are all set to report this coming week. Amongst Tandem's holdings, Abbott Labs, Johnson & Johnson, and BlackRock all reported earnings. Abbott reported a very solid quarter as their earnings numbers came in well above analysts' recent expectations. However, they were still below where analysts thought they would be pre-COVID. Management also reinstated full-year guidance, which was also above analysts' expectations. Abbott was optimistic moving forward and seemed to believe that barring a shutdown of the economy once more, the worst is behind them. They even considered, and supposedly accounted for, the possibility of a shutdown within their updated guidance. Looking at their results, it would appear the most of that decline came from medical devices. Devices, which are highly dependent upon elective surgeries, saw major declines as hospitals across the world halted elective procedures. However, devices came back strongly towards the end of the quarter and reached 90% of pre-COVID levels by the end of June. Management said that this is a significant recovery compared to where they started the quarter. Their Diagnostics division actually benefitted on a net basis from COVID. Their core diagnostics business saw a decline, but like devices reached 90% of their pre-COVID levels by the end of June. However, their diagnostics business greatly benefitted from COVID testing. Analysts seemed to think that this was a "one-time" bump coming from

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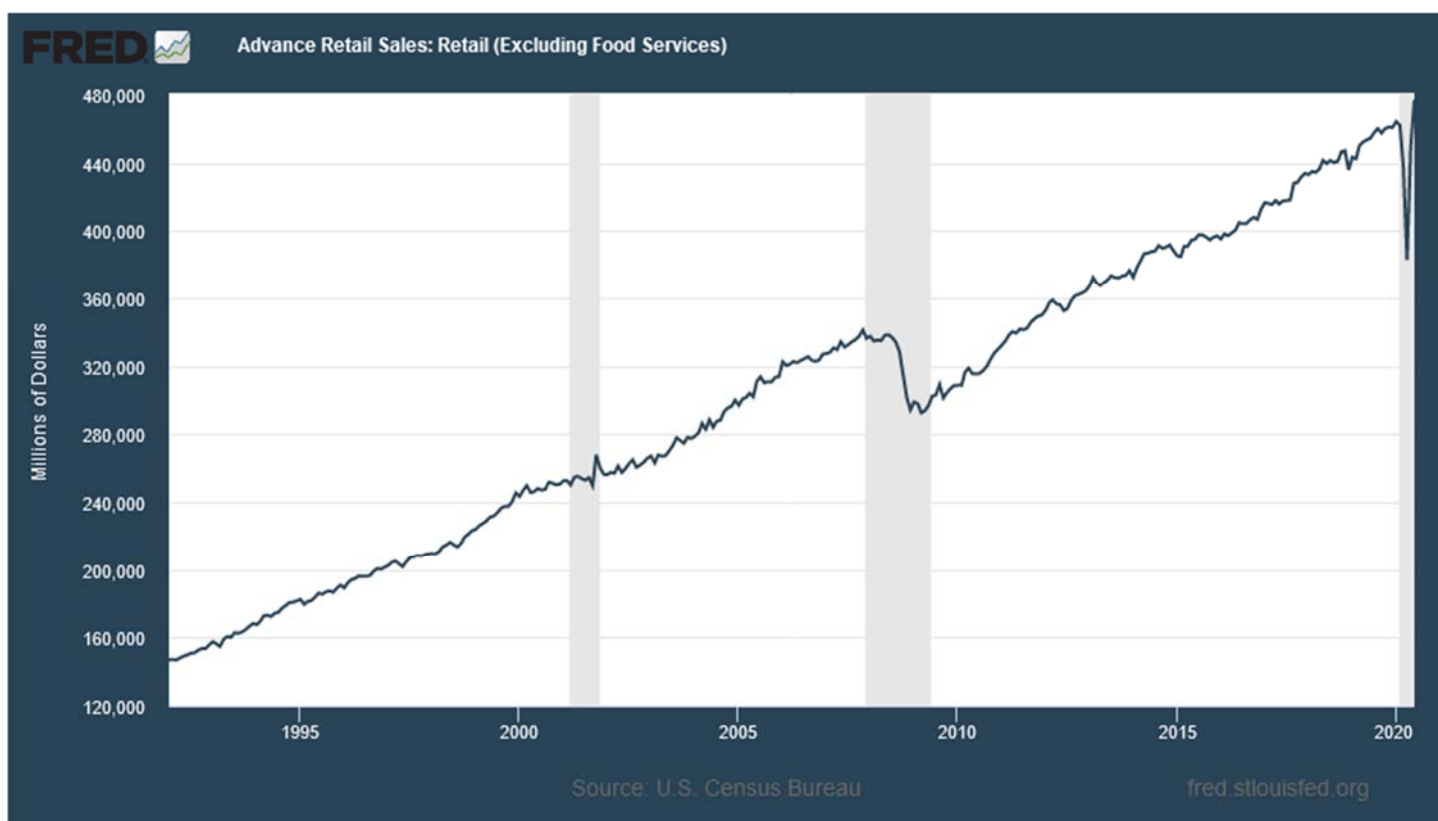
testing. However, management made an interesting point. Until we have a vaccine, testing will continue to be very important – which will benefit their COVID tests. Additionally, they also have antibody/antigen tests, and they expect to see a ramp in antibody testing as a vaccine is developed. So, while analysts were thinking of this as a short-term boost to business, management thought they could easily benefit for another “12 months, 18 months, 24 months”.

Johnson & Johnson echoed a similar sentiment to that of Abbott. JNJ reported a year over year sales decline of 11% and earnings decline of 35%. However, on the bright side they did raise the lower end of their full year guidance. Much of JNJ’s struggles were seen in devices and internationally. The devices segment saw sales decline 35% on a year over year basis. Meanwhile, their pharma business actually grew, while Consumer Health slid 7%. The weakness within Consumer Health was driven by softness within skin care, women’s health, and baby care, yet, some of this weakness was offset by oral care and OTC. People simply bought a lot of Tylenol and Listerine. In terms of recovery, some of the trends discussed by ABT were also discussed by JNJ. For example, China’s Medical Device segment returned to growth in the second quarter. They also witnessed a strong rebound from April into June. Across all of their medical devices, April was about 50% below their beginning of the year expectations. However, June was just 25% below their beginning of the year expectations. A positive for both companies is that they both rebounded strongly as economies opened up once more. According to JNJ, doctor office visits were down nearly 70% in April, but were just down

10 to 15% by the end of June. Moving forward, due to the ambiguity within elective procedures there is still a lack of clarity within devices. The halting of procedures as some economies shut back down will undoubtedly impact their results. However, both companies seemed confident that the worst is in the rearview. JNJ went so far as to say that a potential second wave would not have nearly the same impact as the first wave because the world is much better equipped to combat the virus given the increase in testing capacity.

BlackRock reported their results on Friday, popping 3.7% into the close. Their business grew as a result of net inflows into their fixed income and cash management products. They also saw record flows into active equity management. Their EPS of \$7.85 was well above the consensus estimate of \$6.99. Finally, BlackRock also used the opportunity from PNC selling their stake in BLK to purchase \$1.1 billion in shares back from PNC. They bought these shares at an average price of \$415. They also refinanced some of their debt coming due in 2021 to increase their liquidity going forward. They had \$750 million coming due in May 2021. They rolled this debt over in the form of a 10-year note with a 1.9% coupon. It is their lowest coupon, and according to management is the lowest coupon ever from a financial issuer.

*\*\*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.*





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## KEY MARKET DATA

	WTD	MTD	QTD	YTD
Dow Jones	2.29%	3.33%	3.33%	-6.54%
S&P 500	1.25%	4.01%	4.01%	-0.19%
Nasdaq	-1.08%	4.42%	4.42%	17.06%
Russell Mid Cap	3.03%	3.95%	3.95%	-6.38%
Russell 2000	3.56%	2.22%	2.22%	-11.70%

	WTD	MTD	QTD	YTD
Comm. Svcs	-0.93%	5.97%	5.97%	4.94%
Con Disc	-1.62%	5.35%	5.35%	12.31%
Con Staples	1.95%	5.00%	5.00%	-2.41%
Energy	2.94%	-3.20%	-3.20%	-39.04%
Financials	2.03%	3.21%	3.21%	-22.20%
Health Care	5.09%	5.64%	5.64%	3.83%
Industrials	5.80%	4.65%	4.65%	-11.57%
Info Tech	-1.16%	2.12%	2.12%	16.63%
Materials	5.44%	8.42%	8.42%	-0.29%
Utilities	4.23%	6.66%	6.66%	-6.79%
REITs	-0.01%	0.47%	0.47%	-9.10%