# June 12, 2023 - Tandem Investment Advisors, Inc.

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June 13, 2023

## MARKET MOVERS & SHAKERS

The recent outperformance of large cap tech has finally taken a bit of a breather over the last two weeks. For the first time since mid-April, the Russell 2000 has outperformed the Nasdaq. The Nasdaq, which stumbled 1.29% in Tuesday's session, clawed its way back in the second half of the week leading to a small 14 bps gain. The slight gain marks the index's 7th straight weekly gain – it's best run since late 2019. Usually, this sort of performance has led to a slight cooling down over the next month or so. Since the turn of the century, the Nasdaq has advanced at least seven straight weeks 14 separate times. The average performance over the ensuing month has been -1.06% and has been negative more than half of the time. The Russell 2000, meanwhile, gained nearly 2% last week. The S&P 500 notched its 4th straight weekly gain, posting a 39 bps increase while the Dow gained 34 bps. Elsewhere, yields were marginally weaker as they rose ever so slightly. Despite this, the dollar actually continued its June weakness. Gold was up marginally, while silver had a great week, up nearly 3%. This coming week will be an important one from a macro standpoint. CPI comes out on the 13th, and we have an FOMC meeting on the 14th. Barring some sort of seismic shock between now and then, it's unlikely that the Fed will hike. The market certainly isn't pricing in a hike for this meeting, and outside of the banking crises in 2008 and earlier this year, the Fed has generally met the market's expectation immediately preceding the next FOMC meeting. However, the central banks of Canada and Australia both surprised markets with interest rate hikes last week.

Of note over the last week, the S&P 500 has officially gained 20% from its lows made last year, which has led to the heralding of a new bull market from some. However, the history of a 20% gain marking the end of a bear market has been somewhat mixed. The S&P 500 had three 20% rallies that were followed with declines during the bursting of the Tech Bubble before it finally took off higher in 2003. At one point during the Financial Crisis, the S&P 500 gained more than 27% before dropping a further 29%. Eventually, a 20% rally has always marked the start of a bull market – just not every 20% rally. And perhaps that's where we stand right now. As the market has rallied, sentiment has remained quite low, earnings have remained resilient, and volatility has remained depressed – that all bodes well for hopeful bulls. The flipside, which we have discussed at length over the past few months, is that this "bull market" has been quite narrow in leadership. It's been a tale of two markets. It's been the best of times for those invested in mega cap growth and AI-oriented names, while it has been significantly less rewarding for those investing elsewhere. In the month of May, Bloomberg reported that more stocks in the S&P 500 made fresh 52-week lows than 52-week highs – that's more akin to a bear than a bull.

Just as market internals are a bit of mixed bag, so is the macro landscape. Initial claims, which measure unemployment insurance being claimed under state programs, are accelerating. We also saw an uptick in the unemployment rate in the month of May after hitting a cycle low in April. For those working, average weekly hours continue to fall as well. The unemployment rate is still below 4%, so the labor market is still strong. However, there are weaknesses present that could spell trouble should they continue to accelerate. Meanwhile, inflation continues to decelerate – which is great news! However, CPI was still up 5% last month. That's hardly a win for the consumer – especially when Food is still seeing a 7.6% increase year-over-year and Shelter is up 8.1%. ISM Manufacturing PMI, which measures manufacturing activity in the economy, has been contracting since November. New Orders are down, as are backlogs. Inventories have been dropping as well. We haven't seen a contraction this long in the manufacturing sector since the Financial Crisis. Thankfully, we are much more of a service-oriented economy today. The Non-Manufacturing Index from ISM shows the service sector just barely expanding. However, the non-manufacturing portion of the economy has been decelerating since January.

The question of bull or bear doesn't depend upon some magical 20% threshold. Long-term trends will be dictated by the underlying growth of the economy. Today, the economic outlook appears to be at an inflection point. There are cracks that are appearing. But those cracks are appearing in a very strong foundation of historically low unemployment and a surprisingly resilient earnings picture. Should those cracks grow larger, it would be unsurprising to see further volatility in the marketplace. Should the backdrop remain resilient, then it would be unsurprising to see dampened volatility and a healthy market.

– Ben Carew, CFA

## TRANSITION UPDATES & NEWS **

Since we last wrote, Tandem has kept busy transitioning new accounts and deposits into a variety of names. We purchased names in the Health Care, Financial, and Consumer Staples sectors (to name a few). All three of these sectors have provided us with an opportunity to continue our transition process. Less angst in the regional banking space has alleviated some pressure felt in the financial sector. This has made for less volatility in the overall market. The VIX, a signal for the level of fear in the market, has dropped significantly in the past weeks. It is currently at its lowest levels in over a year. Less volatility may feel good to investors, but it usually creates fewer opportunities as well.

Many of our companies have reported since our last communication. For May, **CBOE** reported that index options volume was up 27% year-over-year, and volume on Equities on-exchange was down 25.3% year-over-year.

**Dollar General** (DG) tumbled after they reported earnings. Management cited a macroeconomic environment that is more challenging than previously anticipated. This impacts consumer spending levels and behaviors. Management revised their guidance lower on the top and bottom line. EPS is now expected to fall within a range of down 8% to flat. This decline is expected to be most notable in Q2, as DG is comping against their strongest quarterly gross margin performance from 2022. Management expects Q4 to be their strongest quarter in comparable sales and EPS growth. DG remains confident in its business and long-term growth prospects, although more challenging macroeconomic headwinds must be handled. For now, we are still transitioning into it. Dollar General is sort of more in '*a wait and see'* mode at the strategy level. The dust needs to settle a bit. It is in danger of violating our fundamental criteria of consistent growth – if a stock does violate that, then we would be forced to liquidate the stock. So, we are monitoring the position for now. Those were some pretty massive cuts to future growth expectations. If the growth slows enough and it no longer meets our fundamental criteria of consistent earnings, sales, and cash flow growth, then we would of course sell the position!

**JM Smucker (SJM)** reported Q1 Earnings on June 7th. SJM grew EPS in Q1 ~20% year-over-year and grew their comparable net sales as well. This is due to lapping the lapsing of the impact of the JIF Peanut Butter recall and continued business momentum. Management noted that ongoing inflation, supply chain challenges, and the macroeconomic environment continue to impact financial results.

On the Composite level, Tandem bought **Hormel** (HRL) in all three strategies. Hormel produces meat and food products, such as the world renown SPAM. The stock reported on June 1st. Management noted that volume declines across the turkey supply chain were due to Avian Influenza. HRL expects a rebound in sales and earnings growth in the back half of the year.

Lastly, Lawmakers are proposing a new bill that would give merchants the power to process **Visa** and **Mastercard** credit cards over different networks. This would lower the fees that merchants would pay the credit companies.

– Annie Klopstock

***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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Ben Carew is a shareholder, Vice President, and Portfolio Manager for Tandem Investment Advisors, Inc. Mr. Carew joined Tandem in 2013. Mr. Carew manages Tandem's trading desk, overseeing day-to-day investment operations, including trading, quantitative and fundamental research, and portfolio management. Mr. Carew also oversees Tandem's internship program. Mr. Carew is a regular member of the CFA Institute and the CFA Society South Carolina. Mr. Carew currently serves as the Vice Chair for College of Charleston's School of Business Investment Program, a student program seeking to provide the opportunity for a select group of students to distinguish themselves academically, professionally, and personally. 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.