June 13, 2022 - Tandem Investment Advisors, Inc.

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MARKET MOVERS & SHAKERS

June started slowly as the market found respite in a summer calm. In fact, for the first week the S&P traded in a fairly tight 100-point range. That changed on a dime though as stocks took another leg lower last week. The S&P 500 dropped more than 5% — its worst week since early January. Meanwhile the Nasdaq, Dow, and Russell 2000 fell 4.6%, 5.6%, and 4.4%, respectively. The weekly losses were exacerbated following a hot CPI print on Friday. Inflation data reaccelerated to a cycle high while coming in worse than consensus estimates. Fuel and food inflation continues to drub the consumer, which was reflected in Friday's University of Michigan Consumer Sentiment Survey. The survey came in way below expectations. Sentiment has only been this awful during the depths of the Financial Crisis in 2008 and 2009, the U.S. Debt downgrade in 2011, the recession of the early 80s, and amid the stagflationary backdrop of 1975. Not exactly inspiring comparisons. This has clearly seeped into risk assets as investor sentiment remains deeply negative. For the first time since 2001 the S&P 500 has closed in the red 9 out of 10 weeks. For just the second time since the turn of the century, more than 95% of the volume on the S&P 500 has been to the downside for three consecutive days. Despite the destitute sentiment within stocks, the most jaw dropping move may have been in fixed income. On Friday, the 2-year Treasury yield rose more than 20 bps before climbing a further 31 during this past Monday's session. The bond market has been absolutely stunned.

One of the most punishing facets of this market over the past 7-8 months has been the reversal of the long-time correlation between stocks and bonds. For the past few decades, the two asset classes have shared a negative correlation. Painful periods for equity investors have been greeted with a positive environment for bond investors. In 2008, stocks, real estate and emerging markets all got steamrolled. Bonds were up. In 2002, stocks were down, but bonds were a source of resiliency. The 60/40 allocation model, or different variations of it, has been a terrific vessel to navigate the rocky investing landscape of the past two decades – now which features four bear markets. Unfortunately, this correlation has flipped. What was once a negative correlation has become positive. For much of the year, as stocks have fallen, so have bonds. This has been painful for investors far and wide as there has been nowhere to hide. Year-to-date, the S&P 500 had fallen 21% through Monday's close. TLT, a bond ETF consisting of long dated Treasuries, had fallen more than 25% over that same time frame. Last week, according to Philip Grant of Grant's Interest Rate Observer, LQD (the iShares iBoxx $ Investment Grade Corporate Bond ETF) saw outflows equivalent to nearly 10% of its assets under management. Nearly half of which left on Friday.

Clearly, markets are lurching into panic territory. So, what does that mean for investors and for readers of Tandem commentary? It means remain calm. Stay disciplined and stick to your plan. The name of the game is to buy low and sell high. Unless you have a crystal ball (and please call me if you do, I would like to invest with it) then it is an impossible task to try to time the market. Anyone who claims to be able to consistently time the market is either a liar, or you should book a trip to Vegas with that person because they have been given the gift of good luck! You cannot perfectly time the market. You can, however, put money to work when valuations become reasonable. A well-disciplined investor should begin dipping a toe into the pool when valuations begin skewing back towards the cheaper end of the spectrum. For some stocks, this has already taken place. Others still have a way to fall. And clients, or followers, of Tandem will notice that we have been active putting money to work in select names throughout the market's various downdrafts over the past 7-8 months. That is because our discipline and our process has begun telling us, that within some names, the balance between risk and reward is beginning to skew towards reward and further away from risk. This time last year, our model was telling us the opposite and cash was naturally rising in our strategies. This appeared foolish to some, selling into a rising market. However, our model began suggesting that the scale was tipping towards risk, not reward and that it would be more prudent to trim back in some names then to add to them.

During calmer times, it is safe to follow a trend. During more emotional periods, like the euphoric melt up of a bull market or in the midst of today's market meltdown, it can be prudent to go against the grain — to buy when others are panic selling or to sell when others are greedily buying. That does not mean that one will be instantly rewarded. Panic selling can be met by further panic selling causing further pain in indices. Buying low carries the distinct possibility of putting money to work and watching stocks continue to fall. Similarly, throughout the back half of 2020 and through the first 8-9 months of 2021, cash was rising in our strategies while markets were setting record high after record high. Yet, thanks to hindsight we can see now that was the prudent thing to do. Similarly, when valuations are low, it becomes prudent to be a buyer at those prices.

TRANSITION UPDATES & NEWS **

During the lull that began June, transitions slowed as opportunity had dried up a bit. The pace of the transition picked up rapidly last Friday and into Monday as opportunities were found left and right! Transitions are still occurring more rapidly then normal, but then this is hardly a normal market environment. Opportunities have also been found on the firm-wide level. These past few days, we have been able to add two new names to our Large Cap Core portfolio. One, which is new to Tandem altogether, makes and manufactures things like antennas, cables, and other materials for sensors. The second name has been in Tandem's other strategies for years now; but began recently paying and growing their dividend with the last few. This company provides data analytics for insurers. We've also been able to add to two existing positions within our Equity strategy, Intuitive Surgical and ANSYS. In both Large Cap and Mid Cap, we added to our position in Hormel and SEI Investments. In Mid Cap exclusively, we have been able to add to our existing positions in Akamai and Lab Corp.

***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 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.