Tandem Investment Advisors

Notes from the Trading Desk - June 21, 2021

tandemadvisors.com/notes-from-the-trading-desk/june-20-2021

June 22, 2021

Notes from the Trading Desk
- June 21, 2021
by Benjamin “Ben” G. Carew, CFA

MARKET MOVERS & SHAKERS

Complacency in the marketplace ultimately led to a move lower last week in the major US indices. However, most of that move came during a sloppy session on Friday. Coming into Friday, the S&P 500 had traded in a 1.5% range over its last 10 sessions. That’s the tightest 10-day trading range the S&P 500 has recorded since January of 2020. Couple that with unusually low volume over the past few weeks and it almost seemed inevitable that markets were going to make a break one way or the other. Friday’s little selloff was actually quite orderly until the last 15 minutes when the S&P 500 shed 20 points. The last minute of trading saw a 10-point selloff in and of itself. The Nasdaq fared slightly better as the recent decline in yields has overlapped with the outperformance of growth names relative to their value peers. On the other side of the coin, the BKX (a bank index that tracks the 24 leading banks) posted its worst week since last June as it retreated nearly 8%. The sharp move in banks coincided with the substantial flattening of the yield curve. In fact, the spread between the 30-year U.S. Treasury and the 2-year U.S. Treasury had its quickest two day drop since March of last year. Elsewhere, gold had its worst week since March 2020.

A lot of the market action last week can be chalked up to the Federal Reserve. The June FOMC meeting was a bit more hawkish (if you can even call it that) than the market anticipated. The FOMC dot plot, which projects individual member’s forecast for the Fed Funds Rate, indicated two hikes by the end of 2023. This hawkish change signaled that the Fed is perhaps more willing to fight inflation than they had previously suggested. Despite the hawkish release, Federal Reserve Chairman Jerome Powell continued to reiterate that there will be no tapering from the Fed until “substantial further progress” is made with regards to their mandated goals like maximum employment. Powell did muddy the waters some with his comment with regards to tapering, “you can think of this meeting that we had as the talking about talking about meeting if you like.” Powell’s vague statement can be interpreted as the Fed opening the door for tapering talks at any future meetings. The change to a slightly more hawkish Fed was cemented on Friday morning when the President of the St. Louis Fed, James Bullard, appeared on CNBC. During his interview, Bullard stated that the first rate increase could actually come as soon as next year. Most of the changes we are discussing here are just slight market tweaks. Bullard’s comments that supposedly sent markets into a tizzy was discussing a single 25 bps rate hike by the end of 2022. Again, the Fed’s more hawkish stance suggested two rate hikes by the end of 2023. These are minimal shifts. What is perhaps more damning from both Bullard’s interview and the Summary of Economic Projections, which contains the dot plot from the FOMC, is the fact that not only do members of the Fed not seem to be on the same page, but they seem to be collectively behind the 8-ball with their grasp on inflation. A pillar of paramount importance for the Federal Reserve is their credibility. The lack of agreement across the FOMC’s projection with regards to where rates will be in the next 30 months begins calling some of that credibility into question. Indeed, Bullard’s suggestion on Friday that the inflationary pressures currently present in the economy were “more intense than we were expecting,” really drives home that lack of credibility. Inflation has been the topic du jour for months now. For the Fed to be caught off guard by the intensity of inflation seemingly suggests that they have been asleep at the wheel or possess an astounding lack of perceptibility when it comes to market forces and potential headwinds.

While the Federal Reserve seemed to be the final straw for markets last week, the setup had been slowly building for some time. The reflation trade that took markets by storm for much of last year and the start of 2021 has lost the wind in its sails. Yields have been steadily declining since the end of March. Meanwhile, many of the commodities that we have highlighted in *Notes* for much of the year have completely reversed since mid-May. Lumber has fallen nearly 50% since its May peak. Copper is down 16% over a similar time frame. Other commodities like lean hogs, corn and soybeans have all fallen double digits over the last month. Some of the weakness in commodities can be attributed to the stronger dollar. Dollar-denominated commodities will become more expensive for holders of other currencies when the dollar strengthens. The ICE US Dollar Index was up 1.84% last week, which marked the largest rally for the greenback since last September.

TRANSITION UPDATES & NEWS **

The transition activity within new accounts and new money continued to mosey along at a tepid pace for much of June. Friday certainly changed that. On Friday we were able to purchase names like BlackRock and J.M. Smucker on the brief pullback. We also continued purchasing Fiserv, FactSet and Brown-Forman for accounts that did not have full positions in those names.

In terms of news, it has been a relatively quiet period without much to note – with one exception. ResMed, a maker of CPAP masks and machines to help combat sleep apnea, is a Tandem stock that has been a real beneficiary of a competitor's misstep. Koninklijke Philips (a rival of ResMed) recently announced a recall for millions of their sleep apnea and ventilator machines due to the possible degradation of foam in their mask that could become toxic and/or cancerous. The Phillips recall led to a quick surge in ResMed's stock price.

**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.

Share via:

- Share on LinkedIn
- Email this
- Print / PDF

Written By: Benjamin "Ben" G. 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. 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.

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.