June 27, 2022 - Tandem Investment Advisors, Inc.

June 29, 2022

MARKET MOVERS & SHAKERS

Violent swings within the stock market have become familiar and ordinary. After Notes was last published, the S&P 500 experienced its worst week since March of 2020 before following it up with one of its finest post-COVID rallies. The recent rally has coincided with a drop in yields. The 10-year U.S. Treasury topped out around 3.5% in the middle of June and has since retreated nearly 40 basis points. The decline in yields has sent the Nasdaq up nearly 10% since its June 16th bottom. The recent reprieve has been to a different tune than what we have all grown accustomed to over the last 7-8 months. This year has been marred by soaring commodities and rising yields as consumers and investors have been gripped firmly by inflation. It seems though, that inflation has taken a backseat as recessionary fears have risen. Doctor Copper, long known for its ability to predict inflection points in the economy, has fallen more than 20% from peak to trough this month. WTI Crude has fallen more than 10%. The price of corn, which has more than doubled since the summer of 2020, has dropped nearly 20% intramonth. Similar declines have occurred in Nickel, Aluminum, Natural Gas, and Wheat. The question facing investors is this: are commodities and yields falling because inflation is peaking, because the market is anticipating a recession, or some factor of the two?

The latter, not the former, of those first two forces is the topic du jour. Recession is on the tip of everyone’s tongue and at the forefront of everyone’s mind. Former New York Fed governor, Bill Dudley, recently wrote an op-ed for Bloomberg Opinion in which he stated that a recession is inevitable within the next 12 to 18 months. Dudley’s former cohort at the NY Fed now predicts that there is an 80% chance of recession. Rather alarmingly, the NY Fed predicts negative GDP growth in both 2022 and 2023. That is a far cry from the soft landing that Chairman Jerome Powell was hoping to engineer. Now, economic models can be, and often are, wrong. Afterall, wasn’t it the Federal Reserve who initially suggested that inflation was only going to be transitory – just a little hiccup in prices? With that being said, there are signals warning of an impending slow down. According to FactSet, June’s flash Markit PMI, which measures manufacturing activity in the economy, saw new orders contract for the first time since July 2020, while services (which drive a much larger portion of the US economy) saw their largest decline in more than two years. We’ve already discussed the signal out of commodities – their precipitous declines could be interpreted as a predictor of a future decline in economic growth.

In early May, Tandem's Billy Little stated in his monthly ***Observations*** that equities were in a bear market. In hindsight, this bear market likely started sometime in November. Volatility came into center view as it left the shadows while inflation expectations shot higher. The Nasdaq, which has seemingly borne the brunt of the market's valuation contraction, set its last all-time high on November 19th – it has since fallen nearly 34% peak to trough. When discussing bear markets, it's worth reiterating that the recovery that began in March of 2020 was unusual. Market rallies are a grueling reality of bear markets. During the financial crisis, the S&P 500 rallied nearly 8%, 12%, 7%, 19%, and 24% before finally finding a bottom on March 6, 2009. Those rallies came in the middle of a total 50+% decline. Since the start of the year, the S&P 500 has rallied 6%, 11%, 7%, and 7% during its slide lower. The rapid rise and decline of major indices during bear market rallies and selloffs take advantage of highly emotional investors. Overly emotional and pessimistic investors view each selloff as confirmation of impending doom that ought to be avoided all together or to be sold short, while exceedingly emotional bulls believe that each rally indicates that the bottom is in and they must rush to buy every last share they can. Both are faulty views. Bear market rallies are the perfect opportunity to trim positions that need to be trimmed while contrasting bear market selloffs create opportunity to buy stocks at prices not previously seen (or not seen in a number of years). In essence, bear markets create an opportunity for nimble and disciplined managers or investors to actively buy low and sell high.

TRANSITION UPDATES & NEWS **

Heightened purchase activity continued over the past two weeks as opportunities to transition accounts remained bountiful. So long as our model continues to signal attractive entry points, it is unlikely to change on the transition level. Our model has continued to find chances at the strategy level as well. Since we last wrote here, Tandem's Large Cap Core strategy has added three new names and added to two other existing positions. One of the new names is an industrial aggregator of companies with consistent and strong cash flow. Their subsidiaries provide engineered products and solutions in niche markets. The second company is a consumer staples company that manufactures and markets household, personal care, and specialty products. This company was also added to our Mid Cap Core portfolio. Last, but certainly not least, the third new addition to the Large Cap Core portfolio is an electronic payment processing company. We also had the chance to add to our positions in Stryker and Amphenol in Large Cap Core, while increasing our stake in ANSYS in the Mid Cap Core portfolio.

On the news front, shares in Factset Research System popped following a solid Q3 print that beat analyst expectations. Meanwhile, Accenture guided revenues down following the disposition of their business in Russia. The consulting company also guided the midpoint of their EPS guidance down as well while leaving the lower end of the range intact. In non-earnings news, Reuters reported that it is Nike's intention to also leave Russia, something that has been quite common the last few months.

***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.