

NOTES FROM THE TRADING DESK

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MARKET MOVERS & SHAKERS

Equities rallied modestly on Monday and Tuesday as the Nasdaq posted its 7th and 8th straight consecutive gains. However, the streak was inevitably broken when the Nasdaq, Dow, and S&P 500 all fell more than 2% on Wednesday. There was no obvious catalyst for the selloff, though there was a lot of chatter focused on the continued acceleration of the coronavirus throughout the South and the West. Another possible cause for Wednesday's selloff could have been the Trump Administration's consideration of new tariffs on goods from the EU. Since the coronavirus and trade garnered the most media attention, I would be remiss to not point out that Crude also slid 5.8%. Thursday was better as stocks were able to bounce back with all of the major indices gaining more than 1%. However, equities were weaker on Friday as they closed near their lows for the week. COVID-19 continued to monopolize the headlines as the market remained hyper focused on the surge of cases in Florida, Texas, and Arizona — to name a few. The Federal Reserve also announced that bank dividends would be capped in Q3 and that their share buybacks would be suspended following their annual stress test results. Stocks ultimately fell for the week, with the S&P 500 losing 2.86% — pushing it back into the red for the month of June. As stocks slid, the VIX spiked, closing up nearly 8% Friday as Wall Street's fear gauge closed around 35 — up 47% from its June lows. Yields fell as Treasuries rallied into the weekend, though the weakness in Junk bonds that has persisted throughout the month of June continued into the end of the week as well. Elsewhere, Gold rallied once more as the precious metal is currently retesting its level of resistance at \$1,800. Should it break through, it would seem likely to make a run up to \$1,900. Finally, Crude gave up some of last week's big gain as it fell nearly 4% for the week.

With regard to the S&P 500, Crude Oil seems to be the tail wagging the dog. In fact, the 20-day correlation between WTI and the S&P 500 is at its highest point since 2012. So, while many financial pundits remain focused on the spread of the coronavirus, it would seem that Crude may be a better guide for the market. Now, to avoid over simplifying, the two are inextricably linked together. Crude is one measure of global economic demand. As the virus continues to take its toll on the American people and the American economy, there will undoubtedly be concerns surrounding demand. How-

ever, while Crude has faltered of late, Copper has continued its rally. Copper, an important industrial metal, is often regarded as a gauge for global demand. The rally, should it be sustained, could be viewed one of two ways. First, it could signal an increase in demand for manufacturing around the world — a positive thing, to be sure. Second, it could actually be signaling the potential threat of inflation. Copper, while an important economic bellwether, is also a terrific hedge for inflation. Many investors look to gold as a hedge for inflation. However, according to Bloomberg, during periods of rising inflation, copper has historically outperformed gold by three times. Elsewhere, Sugar is poised to close its best quarter in 4 years, Cotton is having its best quarter since 2013, and Lumber is having its best quarter ever. Input costs are rising, which will surely add to manufacturer's expenses. However, the million-dollar question is whether or not companies will be able to pass these costs along to the consumer, creating an inflationary environment. In the event companies are unable to pass these costs along to the consumer, then companies' margins could potentially take a significant hit.

Up to this point, we have only discussed the rising input costs. However, as Bloomberg rightly pointed out this past weekend, "With governments paying wages, handing out loans and mailing out checks, there's now an unprecedented amount of new cash in the financial system. Put simply, there's more money available to potentially chase fewer goods, a textbook definition for why prices rise." At the end of the day, what will ultimately matter is the consumer's propensity to spend. Bloomberg is right to point out there is an unprecedented amount of cash in the system. However that does not mean that consumers will actually spend that cash. If input costs rise, and consumers do not spend, then economic growth will ultimately be low. This period of low economic output with high inflation is known as stagflation and it can be devastating for economies — as last seen here in the 1970s.

It is often said that stocks are a good inflationary hedge. The theory being that as input costs rise, companies pass them along to the consumer which leads to higher sales as well as higher expenses, leaving earnings flat. Through this lens, stocks are thought to rise during periods of inflation because they would be a better way to protect purchasing power, yet theory and actuality appear to be at odds. The United States has

Continued on Page 2

not had persistent inflation since the 1970s — a decade in which the S&P 500 was just marginally higher. As Warren Buffet wisely pointed out in a 1977 Forbes Op-Ed, “The arithmetic makes it plain that inflation is a far more devastating tax than anything that has been enacted by our legislatures. The inflation tax has a fantastic ability to simply consume capital.” The S&P 500 grew some 17% through the 1970s. However, during that same ten year period, the cost of goods as measured by the Consumer Price Index more than doubled. The inflation-adjusted rate of return for the S&P 500 during the 1970s was -42.5% .

As COVID-19 has wreaked havoc on the U.S. economy, the Federal Reserve has done nearly everything within its power to backstop the financial system and economy. In short, the Federal Reserve, perhaps unknowingly, is conducting an enormous experiment that should quell a debate raging amongst economists. On one side of the debate, the Monetarists argue that money supply directly controls inflation. As money supply rises, so does inflation. The other side of the debate features the Modern Monetary Theorists; who would argue that government debt and money supply are unlikely to lead to higher inflation. Well, the debate should be settled in short order. As illustrated in the chart below, M2 (a measure of money supply) has absolutely exploded higher over the past few months.

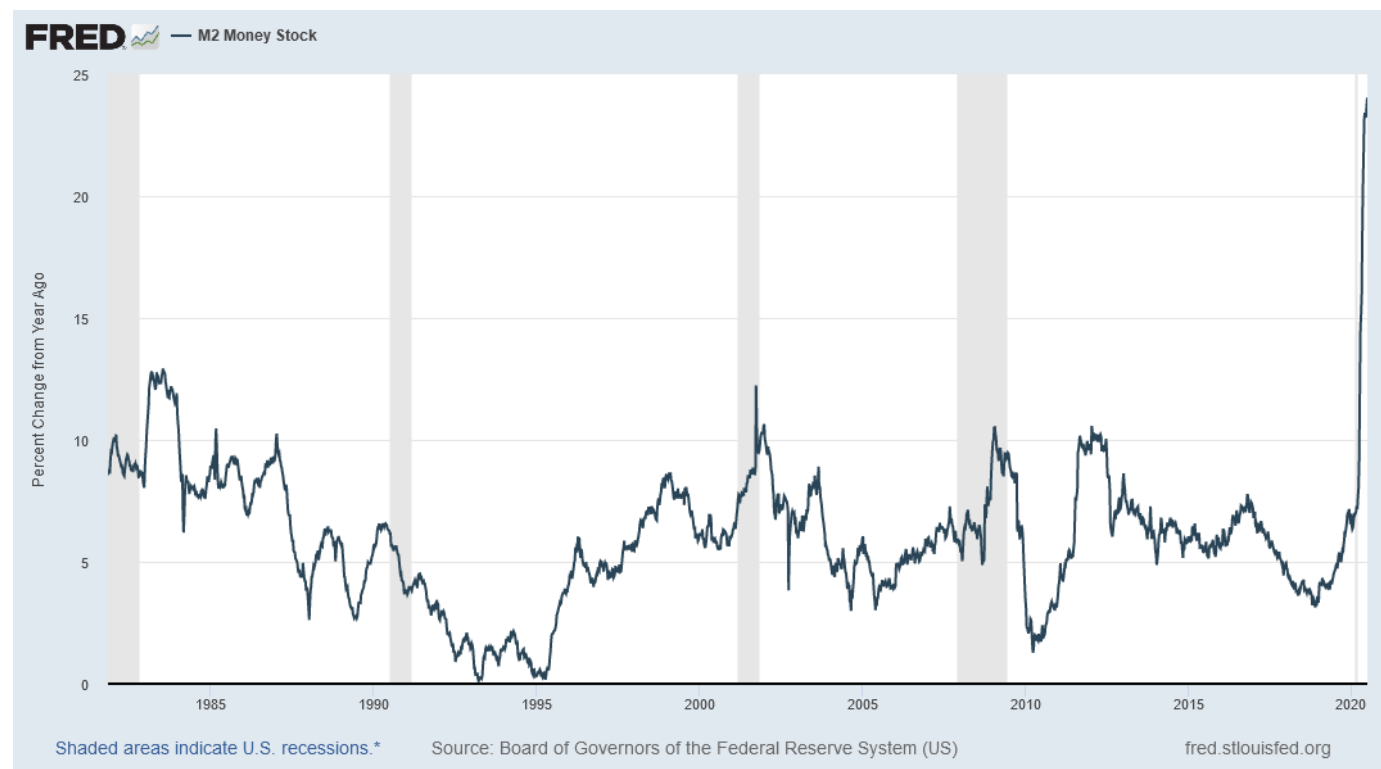
TRANSITION UPDATES & NEWS **

With earnings season now entirely behind us, it would not have been surprising to have seen a slow week. However, the market selloffs presented opportunity for

us to add to some names at the strategy level as well as the transition level. Two weeks ago we rounded out our position in Comcast in both Equity and Large Cap Core having taken the stock up to 3% in both strategies. Then on Tuesday and Wednesday we added to our position in Essential Utilities in Large Cap and Mid Cap and bought the stock for the first time in Equity. We also added to Euronet Worldwide in Equity. Additionally, we rounded out our position in J.M. Smucker in both Equity and Large Cap. Finally, we added to NV5 Global in Mid Cap and liquidated Ross Stores in Mid Cap as well. It was certainly a busy week for composite activity. Last week’s selloff provided us plenty of opportunity to add to names on the transition level.

In terms of news, the last two companies to report earnings for us this quarter reported pleasantly positive news. Accenture beat on both the top and bottom line and raised the bottom end of their earnings guidance. They also raised their full-year free cash and operating cash flow guidance. The stock traded nearly 8% higher following the news. FactSet also posted a good quarter. Although their revenue fell short of expectations, they beat their earnings estimates handily and raised guidance in turn. The work from home environment has clearly been beneficial to their bottom line and the stock popped nearly 12%.

***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	-3.31%	-1.45%	14.14%	-12.34%
S&P 500	-2.86%	-1.16%	16.42%	-6.86%
Nasdaq	-1.90%	2.82%	26.72%	8.74%
Russell Mid Cap	-3.32%	-1.37%	20.43%	-12.59%
Russell 2000	-2.81%	-1.09%	19.57%	-17.36%

	WTD	MTD	QTD	YTD
Comm. Svcs	-5.22%	-3.83%	15.71%	-4.22%
Con Disc	-1.90%	1.77%	28.61%	3.42%
Con Staples	-3.35%	-3.32%	4.53%	-9.47%
Energy	-6.45%	-4.90%	24.13%	-39.25%
Financials	-5.25%	-3.01%	8.62%	-26.51%
Health Care	-2.79%	-5.07%	10.11%	-4.28%
Industrials	-4.02%	-1.89%	12.08%	-18.64%
Info Tech	-0.45%	3.91%	26.25%	10.83%
Materials	-2.46%	-1.47%	21.20%	-11.04%
Utilities	-2.89%	-7.12%	-0.43%	-14.56%
REITs	-3.88%	-2.25%	8.62%	-12.40%