NOTES FROM THE TRADING DESK

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MARKET MOVERS & SHAKERS

U.S. Equities soared last week. The Dow climbed 6.81% as Boeing posted a monstrous 40.85% gain for the week. The S&P 500 gained nearly 5%, while the Nasdaq was up close to 3.50%. Small Caps led the way though, as the Russell 2000 was up 8.1%. Energy (up 15.4%) was the best performing sector, trailed by Financials and Materials, which printed double digit gains respectively. Defensive corners were amongst the largest laggards once more, as Health Care gained only 23 bps. Consumer Staples were up 1.9% and Utilities were up 2.4%. Interestingly, the largest move last week came on Friday. Markets were poised to open green regardless, but they were pushed even higher on the back of much stronger than expected unemployment data. Economists were estimating that the unemployment rate would grow to 19.0%. However, the unemployment rate fell to 13.3% (full disclosure: the BLS admits that this number is closer to 16%, but they are unsure how to account for workers that are technically still employed but unable to return to work. This discrepancy would also result in last month's 14.7% unemployment rate being closer to 20%.) Gold and Treasuries both sold off steeply, especially into the weekend on Friday. Elsewhere, WTI was up 11.4% — its 5th double digit gain in the past 6 weeks, an unmatched feat according to FactSet.

The key driver this past week seemed to be improvements in economic conditions. We have already mentioned the jobs data exceeding expectations, but high-frequency data such as air travel, trucking, Apple's Mobility, and a few others all point towards a recovering economy. These various indicators, although encouraging, still find us in a rather deep hole; albeit less deep than we once were! The 13.3% unemployment rate that was such great news is still the second highest unemployment rate that we have seen in over 70 years — only surpassed by the previous month! Each day, we gain a little more economic clarity. However, as evidenced by the aforementioned massive job estimate misfire, market and economic forecasts must be viewed with little confidence.

As Peter Bernstein once said, "Forecasts create the mirage that the future is knowable." Arguably, the future has never been less knowable than now. With the future so uncertain, how is one able to navigate this environment? Hopefully, it can be done by choosing to only focus on that which can be known. We know that over the course of the pandemic some 42 million Americans have filed for unemployment. We know that Chapter 11 bankruptcy filings were up 48% on a year-over-year basis in May. So how is Wall Street so deaf to Main Street? For starters, all of these knowns are firmly in the rearview. They have already happened. Second, the S&P 500 is not the economy. The S&P 500 is made up of large cap companies that have been effectively backstopped by the Federal Reserve. Thanks to the Fed, these large cap companies have liquidity that is not available to the Mom & Pop stores that support so much of this country. We also know that the Fed will basically stop at nothing to support this market. Prior to assuming the role of chairman, Jerome Powell put it simply in a 2012 FOMC Meeting, "Investors really do understand now that we will be there to prevent serious losses." So, returning to Bernstein, forecasts really do create the illusion of certainty, yet forecasts have been rendered useless in this current environment. Above all, what is known that the Federal Reserve has backed up the Brink's truck to this market.

The Fed's ample supply of liquidity, however, does not mean that markets will go up in a straight line forever — something they have done consistently over the last few weeks. Sentiment is becoming excessively bullish, which often leads to the market faltering. Some markets are already stumbling. Bonds, which by and large have been sliding since mid-May, continued their rotation on Friday. This quick ascent in rates could be a result of better growth prospects, higher inflation expectations, or it could merely be a rotation into riskier assets. As the yield curve has steepened, Banks have been a huge beneficiary. The XLF (an ETF that tracks the Financial Sector) is up nearly 31% since May 14th, nearly doubling the S&P 500 during that same time frame. The recent move in rates has also caused the Nasdaq to lag. The growthier names that make up the Tech-heavy index tend not to trade quite as well during periods of increased growth expectations. One reason for this could be that the premium placed on growth becomes less meaningful should more companies begin growing once more!

What a difference one year makes. On June 5th, 2019 the S&P 500 closed at 2,826.15. The unemployment rate was at 3.5%. One year later, the market has jumped more than 12% and unemployment has increased to 13.3%. One of the key differences (besides the obviously devastating pandemic, civil unrest, and

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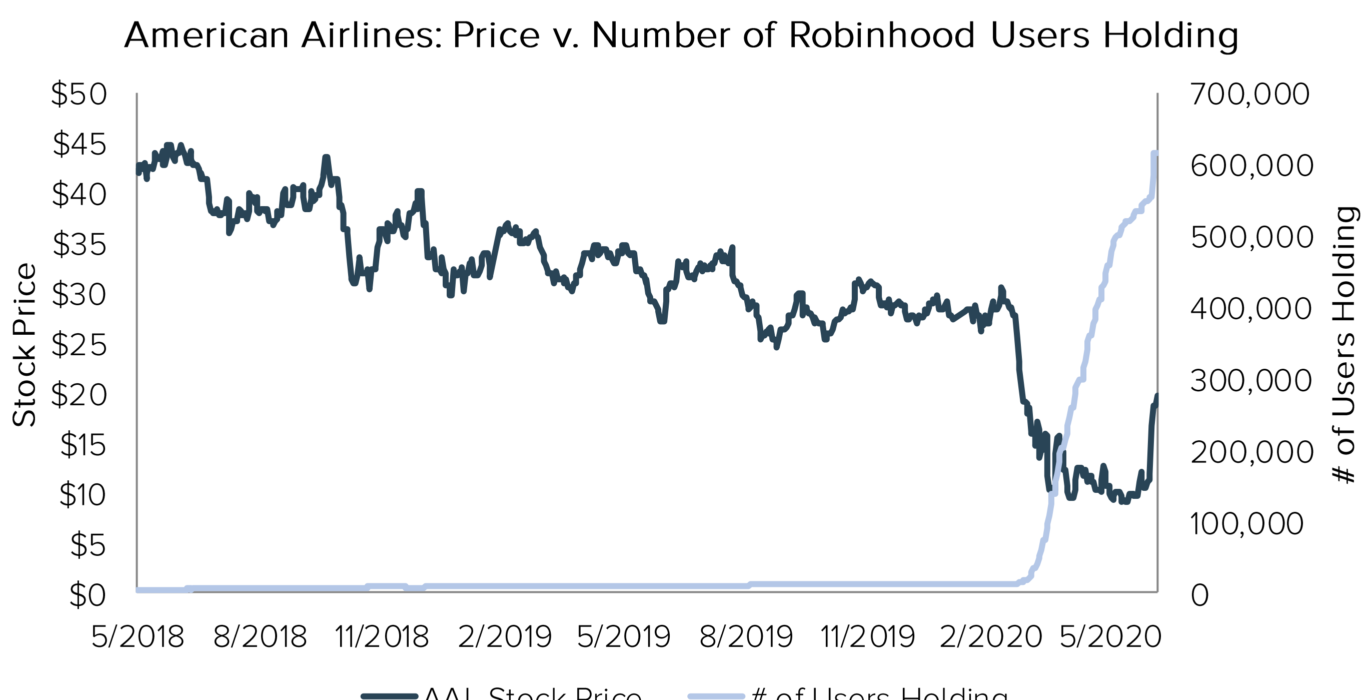
potential earnings recession) we have already touched on — the Federal Reserve. Another key difference is the retail investor's participation in the rally off the March lows. The bull market from 2009 to early 2020 was often said to be "the most hated bull market". However, the race to $0 commission for online brokerages, and an increase in time for many newly acclimated work-from-home individuals (and perhaps the lack of sports and gambling) have led to a surge in trading activity. According to *The Wall Street Journal*, TD Ameritrade had less than 1,000,000 daily average client trades in October of last year. By the end of March, this number had nearly tripled to 3,000,000. TD opened a record 608,000 new accounts in Q1 — two thirds of which were opened in March. E*Trade and Charles Schwab both set records of their own in terms of new accounts opened in Q1 as well. History doesn't often repeat itself, but it does often rhyme. This is eerily reminiscent of the late 90s when investors poured into Tech stocks. This time, it seems to be a combination of tech stocks, industrial stocks, and cult favorites like Tesla. Look no further than Boeing, according to Robintrack (a website that tracks Robinhood users) the number of users holding Boeing has increased eightfold since mid-February. The number of users holding American Airlines has increased 50x (see chart below, the light blue line marks the number of users holding AAL while the dark blue line marks their price.). Hertz, which filed for bankruptcy, saw its share price surge more than 350% since last Wednesday. According to *Business Insider*, Hertz is up more than 825% since it said it will not be able to meet its debt obligations. However, the number of users on Robinhood that hold the stock has more than doubled over that same time period!

TRANSITION UPDATES & NEWS **

It was another slow week on the transition level. However, we did take the time to add to a few familiar names. We were able to buy Becton, Dickinson & Co for newer accounts. BDX has sold off from its recent highs as the company announced their intention to issue more stock to pay down some of its debt — a seemingly responsible approach that the market viewed less favorably. We also had the opportunity to purchase some J.M. Smucker after its earnings call last week. Finally, we were able to take a position in AbbVie for the accounts that did not own the stock yet.

It was also a slow week in terms of news, with little to note. One of the largest pieces of news was the Trump Administration's announcement of the five final candidates for the COVID-19 vaccine. Johnson & Johnson, being among the chosen, will be able to receive additional government funding, assistance in trials, and manufacturing. Elsewhere, Costco jumped nicely on its reported May Comps.

***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.*



Source: Robintrack

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KEY MARKET DATA

	WTD	MTD	QTD	YTD
Dow Jones	6.81%	6.81%	23.70%	-5.00%
S&P 500	4.91%	4.91%	23.58%	-1.14%
Nasdaq	3.42%	3.42%	27.45%	9.38%
Russell Mid Cap	7.01%	7.01%	30.66%	-5.16%
Russell 2000	8.11%	8.11%	30.70%	-9.67%

	WTD	MTD	QTD	YTD
Comm. Svcs	2.38%	2.38%	23.18%	1.96%
Con Disc	4.75%	4.75%	32.38%	6.45%
Con Staples	1.89%	1.89%	10.16%	-4.59%
Energy	15.41%	15.41%	50.64%	-26.28%
Financials	12.16%	12.16%	25.61%	-15.01%
Health Care	0.23%	0.23%	16.26%	1.07%
Industrials	10.52%	10.52%	26.25%	-8.36%
Info Tech	3.65%	3.65%	25.94%	10.55%
Materials	7.65%	7.65%	32.41%	-2.81%
Utilities	2.36%	2.36%	9.72%	-5.84%
REITs	6.73%	6.73%	18.61%	-4.35%