March 14, 2022 - Tandem Investment Advisors, Inc.

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MARKET MOVERS & SHAKERS

Markets have been busy so far in the month of March. The Dow has dropped 2.8% through Friday's close, while the Russell 2000 and the S&P 500 are down 3.3% and 3.9%, respectively. The Nasdaq has fallen the most, down 6.6% since the end of February. The underperformance of the Nasdaq is not surprising given the rise in yields that has also occurred for much of this month. The 10-year fell to 1.7% towards the end of February before getting as high as 2.1% at the time of writing. Generally, the Nasdaq is strongly correlated with yields – as yields fall, the Nasdaq will perform well, when yields surge its unsurprising to see the Nasdaq underperform. Elsewhere, many commodities have been red hot this month. Crude Oil is up more than 8% in March – and that comes after a nearly $30 fall from its intramonth high of ~$130/bbl. Other metals like copper, silver, and iron are rising. However, nothing has moved quite like nickel – though that story is more akin to GameStop and AMC than rising inflationary concerns. For those unfamiliar with the issues in the nickel market, I suggest heading over to The Wall Street Journal. Journalist Joe Wallace wrote an interesting article last week outlining the issue and discussing the canceling of executed trades by the LME – an unheard of and surprising move. Lastly, corn, soybeans, and wheat are all at multi-year highs.

This week should be an important test for financial markets. The FOMC is meeting this week and they are expected to raise interest rates 25 bps. With inflation now consistently printing year over year changes north of 7% (three straight months of that), coupled with 6 straight months of accelerating price changes, it seems that the FOMC is probably a little late in terms of trying to stave off inflation. They cannot prevent something that is already here. Unfortunately, their tools also seem less well-equipped. The rising, or cutting, of interest rates is meant to influence demand. In the early 1980s, Paul Volcker was able to break the back of inflation by raising the federal funds rate to 20%. This ultimately led to a recession in the early 1980s, but it broke the vicious inflationary cycle of the 70s. Today's issues, unlike the early 1980s, are not as much demand-based as they are supply-based. Since COVID started, Crude Oil has traded in a rough range between -$40/bbl and $130/bbl. At a quick glance that would make sense. As COVID forced economies to shut down, demand dried up causing an imbalance between supply and demand. As demand falls, and supply stays constant, the price will fall – as we all learned in Econ 101. As economies were re-opened, it would be easy to assume that demand surged back to normal levels. Again, according to Econ 101, as demand surges, keeping supply constant, one would expect the price of oil to surge as well.

Except demand hasn't surged. Sure, it has come back online from its COVID lows, but it has far from exceeded previous levels. In fact, according to CNBC, oil demand isn't expected to exceed its 2019 levels until the third quarter of 2022. Weekly seat capacity for airlines is also still well below its 2019 levels. So, what gives? It's clearly not just a story about demand coming online – it's a supply side story as well. Sure, some of the economic issues are demand-based. The intensity of demand coming out of COVID has led to backlogs at ports, full hotel rooms and packed restaurants. Why did used car prices soar though? Partially due to a supply imbalance in the production of cars. GM has had to close their plants multiple times due to chip shortages. This leads to a drop in the supply side. Even homebuilding has been caught in the crosshairs as supply-chain issues have led to a dearth of garage doors – which means unfinished homes and again, a supply-side imbalance. Nearly all aspects of the economy have been impacted by issues within the supply chain. There was hope that this was beginning to let up and that the light was at the end of the tunnel. Over the weekend, it was announced that due to COVID surges in Shenzhen, the city would be re-entering a lockdown. This lockdown is forcing Foxconn, supplier to Apple, to close its doors for now. Surely this will impact the supply of Apple goods. Shenzhen is also one of the world's largest container ship ports. Last summer, the closing of the port disrupted the global supply chain for months. Fortunately, the port has not closed yet. Unfortunately, these issues and risks have not gone away.

TRANSITION UPDATES & NEWS **

Volatility has continued to generate opportunities within our portfolio. Last week, we were able to add to our positions in Visa (LCC and Equity), PayPal (Equity), and BlackRock (LCC and Equity) at the strategy level. Later in the week, we were able to finish our liquidation of Euronet in our Equity and Mid Cap strategies. On the transition level, we were able to continue to add to attractively valued names like CBOE, Comcast, Expeditors, MarketAxess, and T. Rowe Price to name just a few. Volatility can cause markets to be jumpy. However, this jumpiness can also create opportunities for investors that have cash ready to be deployed.

On the news front, Brown & Brown started the week off by trading lower following their announced acquisition of Global Risk Partners' insurance operations. To fund the deal, BRO will raise ~$2b through bond issuance. S&P and Moody's both affirmed Brown & Brown's investment grade status but revised the outlook from positive to stable. Finally, a slight change in the c-suite for CBOE. David Howson, currently EVP and President for Europe and Asia-Pacific, is being promoted to President effective May 12th.

***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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