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MARKET MOVERS & SHAKERS

The major U.S. equity indices moved lower once more last week – though they regained roughly half of their losses in Friday’s session to cap the volatile week. The S&P 500 has now dropped for six straight weeks, its longest losing streak since 2011. The pain was felt across the board as Consumer Staples was the only sector to move higher. Gold fell 4%, silver fell 5.5%, and there was absolute carnage in the crypto market. The move lower was one of a more traditional risk-off decline as bonds actually rallied for once this year. It was just the Bloomberg US Aggregate Bond Index’s third green week of the year as yields retreated from recent highs. The 10-year, which got as high as 3.21% on the 9th closed the week just above 2.9%.

On the economic front, inflation clearly remains front of mind. Core CPI came in hotter than expected last week, albeit at a slower rate than the previous month’s print. On the one hand, the deceleration from one month to the next is certainly a step in the right direction. On the other hand, the food and shelter components are at multi-decade highs – surpassing anything we’ve seen so far in this economic cycle. The persistence of higher prices at the pump, higher grocery bills and rising rents are beginning to take a toll on the consumer. The University of Michigan Consumer Sentiment Index came in below economic forecasts – highlighting a consumer backdrop that is increasingly pessimistic and wrought with inflationary fears. Unrelenting inflation is leaving the consumer with its lowest future expectations in nearly a decade. Powell was also on the tape towards the end of the week as he reiterated his case for 50 bps rate hikes the next few meetings. He didn’t provide the most inspiring of messages though as he also said that it would be “quite challenging” to engineer a soft landing. Despite Powell’s bluntness in terms of it being “quite challenging” to basically avoid a recession, Wall Street analysts seem unperturbed. Morgan Stanley, Goldman Sachs, and JPMorgan all echoed one another with their base-cases avoiding recession.

Tandem’s Billy Little spent time discussing the importance of interest rates as they pertain to valuations in his most recent [Observations](#). And I highly recommend reading his explanation of the impact that rates have on valuations. Rather than rehash Billy’s article from earlier this month, I’d rather discuss rates in a slightly different light. One of the most important trends since this new market regime began in the second half of 2021 is undoubtedly yields – specifically, real yields. Real yields are the returns expected on a bond once inflation has

been accounted for. In other words, if a bond is yielding 3% and inflation expectations are for 2%, then the real yield would be 1%. If real yields are rising for the wrong reason, they have the tendency to tighten financial conditions and/or dampen risk appetites. It's clear that risk is being reevaluated across asset classes. Credit spreads are widening as investors' desire for less creditworthy debt has been muted. High growth names that were trading at premium (and I think that is a kind way of describing the asinine nature of some valuations that were seen in the back half of 2020 and the first half of 2021) have been getting skewered in favor of traditionally defensive pockets like REITs, Utilities, and Consumer Staples. And Cryptos have imploded. I suggest anyone curious head over to *The Wall Street Journal* where they published "Why Did Cryptocurrencies TerraUSD and Luna Unravel?". It's a great primer on what happened last week in cryptos where billions of dollars in wealth evaporated. As for the second part of the impact of real yields, we are also seeing financial conditions tighten. In fact, the Chicago Fed's National Financial Conditions Index found itself in positive territory for the first time since the start of the Pandemic (a positive reading on the Financial Conditions Index means that financial conditions are tighter than average). Positive readings are generally not indicative of strong economies. Part of the reason that real yields lead to tighter conditions is that the cost of borrowing rises for indebted companies. It's also not uncommon to see dollar strengthening in the face of rising real yields either – another trend that makes it more difficult for multinational firms.

TRANSITION UPDATES & NEWS **

The persistently volatile backdrop continues to provide ample opportunity for us on the transition level and the firm-wide strategy level. In terms of transition activity, the more interesting story is likely what are we not buying in new accounts rather than what we are buying. On that front, there are only a few companies that we have not been buying – mostly some of the staples in the portfolio. In addition, there are still some stocks in the portfolio that we are more inclined to sell than to buy. All in all, accounts that have been with Tandem for roughly one month on an unrestricted basis (and without new deposits) are ~3/4 of the way through their transition.

We've been quite active on the strategy level as well. Tandem's Equity strategy saw two new names added to the portfolio last Monday. One of the companies is a Health Tech company that is known for its robotic surgical system that is used in minimally invasive surgeries. The other new Equity name is a tech company which builds engineering simulation software to help gauge the behavior of product designs in the real world. We also had the opportunity to add to more familiar names across Large Cap and Mid Cap like long-time holdings Brown & Brown, ResMed, and Waste Connections. In Mid Cap we were able to add to the cybersecurity firm Qualys and the discount retailer Five Below – both newer additions to the portfolio. We were also able to continue to accumulate another name that was added to Mid Cap for the first time earlier this month. This new addition provides cybersecurity and content

delivery over the internet. Large Cap Core saw an addition to our Visa position. Lastly, we also continued to accumulate a newly incepted position in the portfolio. The company is a leading provider of technology and investment solutions to the financial services industry.

***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.

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