NOTES FROM THE TRADING DESK

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MARKET MOVERS & SHAKERS

U.S. Equities were mostly lower last week. The S&P 500 fell 0.21%, the Dow slipped 0.22%, and the Nasdaq fell 0.34%. Small cap stocks went against the grain once more as the Russell 2000 gained 2.22%. The week started off strong, although Thursday and Friday's losses caused the major indices to give up their gains. There was some rotation out of the mega-cap names that had led the markets higher. In fact, while the S&P 500 was down last week — the equal-weighted index was actually up 1.26%. Energy was the best performing sector (up 2.94%) as Crude popped more than 16%. Other cyclical pockets of the market performed well too. Materials gained 1.90%, Financials +1.33% and Industrials +1.16%. Defensive sectors had a tough week as Utilities dropped 4.28%, Health Care -2.61%, and Consumer Staples –1.95%. Elsewhere, gold fell 2% while Treasuries were largely mixed.

On the economic front, the Q1 GDP number showed a drop of 4.8%, which was slightly worse than the 4.0% consensus estimate. The Q1 drop was the worst print since the fourth quarter in 2008. Nearly half of the decline in GDP (2.25%) can be attributed to a drop in health care. Amid a global health care crisis, it seems counter-intuitive but health care is actually leading the way into the recession. Initial jobless claims came in above expectations once more. More than 30,000,000 Americans have now filed for unemployment over the last 6 weeks — roughly 18% of the American workforce, according to FactSet. The official unemployment rate will be released this Friday, and the number is expected to be the highest since the 1930s. The two-month slide in Consumer Confidence is the largest two-month drop since 1967. However, all is not doom and gloom on the economic front as Consumer Expectations actually rose month over month. The Fed's April FOMC meeting came and went with little news. They kept rates in the 0.00% to 0.25% range — though the Fed announced later in the week that they were lowering the eligibility criteria for the Main Street Lending Program. The easing of criteria ought to make it much easier for distressed borrowers to tap the Fed's liquidity.

By and large, the Federal Reserve seems to have done a remarkable job shoring up liquidity concerns in the fixed income market. The TYVIX, a volatility measure for the 10-year U.S. Treasury, is back at January levels. The volatility gauge has fallen nearly 83% from its March highs. Similarly, the large swings in the fixed income market that we witnessed throughout March also have been minimized. In fact, throughout April, the 10-year Treasury traded in its narrowest range since late last summer. The soothing of the fixed income market is arguably most apparent in Boeing's recent debt offering. The $25b bond offering, which offers an array of maturities dating out to 2060, will be one of the largest-ever corporate bond offerings, according to *The Wall Street Journal*. Boeing, which was downgraded on Wednesday by S&P Global to BBB- (just one notch above a Junk bond rating), has had little problem with the offering as David Faber of CNBC reported that buyers indicated as much as $75 billion in demand.

Again, the Fed has done a remarkable job stymying any liquidity concerns. However, as *The Wall Street Journal* reporter Greg Ip asked in a Thursday article — "is this a liquidity crisis or a solvency crisis?" We witnessed a liquidity crisis throughout the Financial Crisis as distressed firms could not access capital. The Fed can solve this issue by turning on the printing presses and lending unlimited amounts of money, as Fed Chair Jerome Powell has hinted. But, as Ip points out, a solvency crisis occurs because companies need more revenue — a problem the Fed cannot just print away. The Fed's $600B Main Street Lending Program differs from Congress's loans in that the Congressional loans in certain circumstances need not be repaid. The Fed's loans, on the other hand, are intended to be repaid. Last week we touched on the expected bankruptcy filings of Neiman Marcus and J.C. Penney. Well, we can add J. Crew to the growing list of retailers that are expected to go belly up. Unfortunately, bankruptcies are not just limited to retail though as bankruptcies throughout the oil space are beginning to rise as well. Whiting Petroleum and Diamond Offshore Drilling have both filed for bankruptcy. According to a recent CNN Business article, Fitch Ratings "is warning that more than $43 billion of high-yield bonds and leveraged loans in the energy sector will default in 2020…nearly five times the sector's average level of defaults over the previous dozen years." Companies will need to produce revenues once more to prevent a full-blown solvency crisis.

Earnings season is now past its halfway point for the S&P 500 as 55% of companies have reported through

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Friday's close. According to FactSet, earnings are expected to drop 13.7% in Q1 — the worst quarter since the Financial Crisis. Not to be outdone, Q2 estimates currently call for a further 17.8% drop in earnings. The drop, while troubling, was expected. One cannot generate earnings successfully with the country shut down. However, the dispersion in earnings and price is rather remarkable. The answer, arguably, is that markets are forward looking — perhaps they are pricing in a V-shaped recovery. In February, analysts estimated that 2020 earnings for the S&P 500 would be $174.73 and that 2021 earnings would be $194.54 — 11.3% growth in EPS in 2021. More recently. estimates have fallen dramatically (see the chart below), as price has more recently risen quite quickly. 2021 Estimates have fallen 10.6% since March 23rd, while 2020 estimates have fallen 20.0%. Yet, over this same period the S&P 500 has risen 26.5%. Not only is the market becoming more expensive by the day, but the V-shaped recovery is now pricing in 26.9% EPS growth year-over-year in 2021.

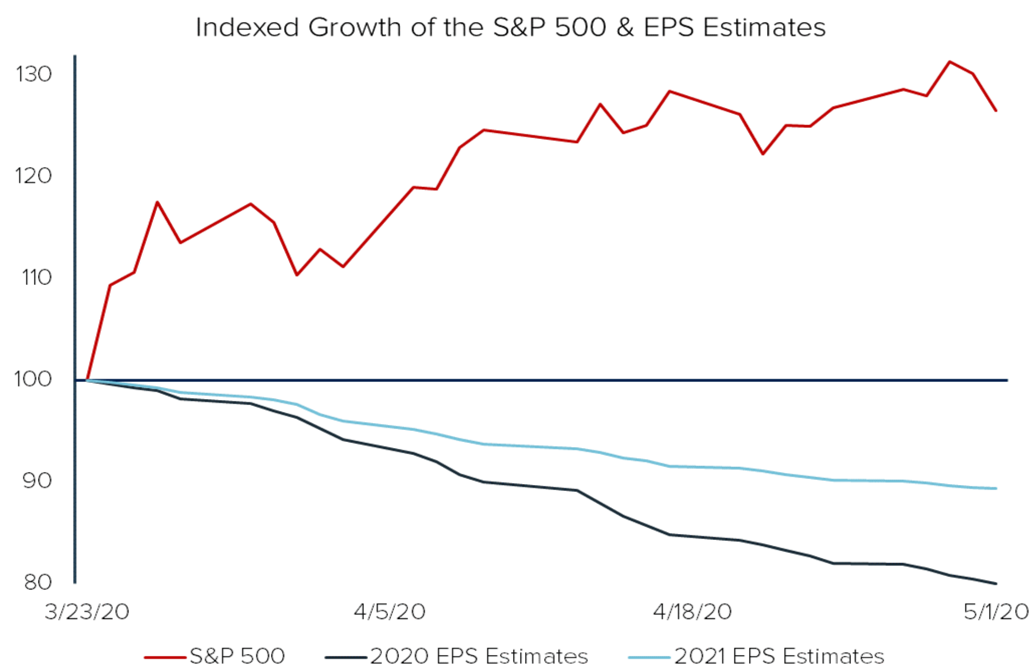
TRANSITION UPDATES & NEWS **

The volatility that picked up in the back half of the week gave us the opportunity to be more aggressive than we have been of late. The Friday selloff allowed us to take many initial positions in some newer accounts while adding to some names that we have been recently buying as well. Should the volatility continue, it would not be surprising to continue to add to names on the transition level.

Earnings season picked up steam for us last week as 18 Tandem holdings reported earnings. It was a mixed week of earnings, and some names actually surprised to the upside. Check Point Software began the week for us on a high note as the work-from-home model continues to drive an uptick in business for CHKP's network security solutions. Brown & Brown beat on the bottom line, though they also announced that some of their recently acquired businesses are not doing as well in the COVID-19 economy. Notable misses included T. Rowe Price, C.H. Robinson, and UMB Financial. T. Rowe's adversity was expected given the sharp equity selloff in Q1.

In other developments, the slowdown in restaurants and hospitality-related businesses has not been kind to Ecolab, though management assured investors on their call that the business is in good shape. They were also optimistic given future growth opportunities in sanitization. Some of the health care names reported mixed earnings as well. ResMed capitalized on ventilator demand, tripled production of ventilators and as a result reported solid growth on both the top and bottom lines. Stryker, on the other hand, has seen a significant negative impact from the decline in elective surgeries. AbbVie beat on the top line, having actually benefitted some from COVID-19. They also reaffirmed their full year guidance despite guiding Q2 earnings lower.

***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	-0.22%	-2.55%	8.24%	-16.87%
S&P 500	-0.21%	-2.81%	9.52%	-12.38%
Nasdaq	-0.34%	-3.20%	11.75%	-4.10%
Russell Mid Cap	0.79%	-3.23%	10.58%	-19.74%
Russell 2000	2.22%	-3.83%	9.31%	-24.45%

	WTD	MTD	QTD	YTD
Comm. Svcs	2.04%	-1.56%	11.73%	-7.51%
Con Disc	-1.12%	-4.61%	14.95%	-7.56%
Con Staples	-1.95%	-1.18%	5.39%	-8.73%
Energy	2.94%	-6.00%	21.88%	-40.35%
Financials	1.33%	-3.32%	5.71%	-28.47%
Health Care	-2.61%	-2.08%	10.17%	-4.23%
Industrials	1.16%	-2.98%	5.43%	-23.47%
Info Tech	0.21%	-2.92%	10.42%	-3.07%
Materials	1.90%	-2.17%	12.79%	-17.20%
Utilities	-4.28%	-2.45%	0.65%	-13.63%
REITs	-0.63%	-3.15%	5.80%	-14.67%