



Tandem Investment Advisors

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Notes from the Trading Desk -

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by Benjamin "Ben" G. Carew, CFA

MARKET MOVERS & SHAKERS

It was mostly a mixed bag this week for U.S. equities. The Dow Jones and Russell 2000 were down 75 bps and 86 bps, respectively. The S&P 500 was also lower, but just marginally so, as it finished the week down 14 bps. The Nasdaq, the sole winner, gained 40 bps. Yields remained firmly in the driver seat. The yield curve flattened as the long end of the curve fell. This helped lead to the outperformance of Tech and Utilities, while Financials suffered. Volume picked up a bit on Friday but was otherwise fairly light all week. This trend will likely continue some more into the holiday-shortened trading week. Oil suffered a bit, down 3.1%, likely as a result of the threat of COVID-weakened demand out of Europe following news of Austria's fourth national lockdown and Germany considering a similar route.

Despite the muted trading week, breadth was weak. Declines outpaced advances 2.4 to 1 on the NYSE. The Nasdaq, which was up for the week, told a similar story as it had declines outpace advances 2.3 to 1. Meanwhile, the New Lows Index for the NYSE is at a three-month high. In short, market leadership has narrowed noticeably. Apple, Microsoft, Amazon, Tesla, and Meta Platforms make up 27% of the S&P 500 and 57% of the Nasdaq 100. The Nasdaq 100 might as well be the Nasdaq 5. Despite the narrowed leadership (a less desirable market trait), investor sentiment seems to be ramping up, while consumer sentiment is diving lower. According to Grant's Interest Rate Observer and Jason Goepfert of SentimentTrader, margin debt (which is at a record high) exceeds brokerage house cash available for withdrawal by \$500b – the largest amount on record. Grant's went on to point out that the most recent BofA Global Fund Manager Survey showed the largest overweight

position in U.S. equities in over eight years. Not only are investors exceedingly bullish, but they are using leverage excessively as well. It's not exactly difficult to find other pockets of excess at the moment – look no further than Rivian, the \$110+ Billion company has generated \$0 in sales. Despite the ever-present animal spirits in stocks, the University of Michigan's Index of Consumer Sentiment is nearly at a 10-year low as inflation fears continue to plague the consumer. There is a clear disconnect between the average investor and the inflation-worried consumer.

Speaking of inflation, it remains the topic du jour, as do interest rates. The October CPI number was the largest year over year gain in prices in 30 years. The debate is not if inflation is here (of that much, we are certain), but rather if it is here to stay. Either way, pressure is mounting on the Fed (where future leadership has recently been uncertain). The market is now pricing in a nearly 75% chance that the Fed hikes by their July meeting. There is even now a 6.5% chance that they hike three times. This may seem minute, but the market placed a 0% chance of three rate hikes just one month ago. Meanwhile the 10-year U.S. Treasury yield has been chopping between 1.5% and 1.7% over the past month and a half. Yet, real yields have plunged ever lower, nearing their August lows. The 10-year inflation indexed U.S. Treasury, which offers a yield inclusive of inflation expectations, started the quarter at -0.82%. It closed around -1.11% last Friday. Since the COVID lows in March of 2020, the direction of real yields has been highly correlated with market leadership. In a period of declining real yields, the Nasdaq 100 has tended to outperform the S&P 500. During the intermittent rises in real yields, over the past two years, the Nasdaq 100 has tended to underperform its peer. The ECB actually recently commented on the direction of real yields within their own markets, stating that “signs of exuberance are increasingly visible in some financial market segments, as real yields fall and the search for yield continues.”

TRANSITION UPDATES & NEWS **

Another new name was added to Tandem's three strategies last week. The newly owned financial stock, MarketAxess (MKTX), is an operator of an electronic bond trading platform. They specialize in the electronic trading of U.S. investment-grade bonds and U.S. high-yield bonds. Like some of the exchange operators we own, the direction of the market is less important to MarketAxess than volume. The company is still led by their founder, Richard McVey.

News flow was rather light last week. However, there were a few items worth reporting on. First, Brown Forman announced a 5% increase in their quarterly dividend – a growth rate that is back in-line with their pre-COVID growth metrics. They also announced a \$1 special dividend with a December 9th record date, payable on December 29th. Secondly, Ecolab announced a substantial price increase in their industrial segment divisions. The average price increase for their industrial segment programs will be around 15%.

***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. His duties include quantitative and fundamental research and portfolio management. Mr. Carew also oversees Tandem’s internship program. 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. 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.

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