



November 27, 2023 - Tandem Investment Advisors, Inc.

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November 28, 2023

Market Movers & Shakers

The past weeks have seen a continuation of the market's positive momentum, with the S&P 500 and Nasdaq Composite recording their fourth consecutive week of gains. Over the last month, the S&P 500 has advanced 10.20%, while the Dow Jones Industrial Average and Nasdaq Composite have posted gains of 7.95% and 13.14%, respectively. Notably, small-cap stocks, which have trailed large-cap stocks by a historic margin this year, saw a significant boost in November. The Russell 2000 surged more than 5% in a single trading session on November 14th following a better-than-expected October inflation report. Bonds across the credit quality spectrum have rallied in tandem with stocks in November, with the iShares High Yield Corporate Bond ETF (HYG) and the iShares 20+ Year Treasury Bond ETF (TLT) gaining 3.52% and 5.98% respectively over the past month. Oil prices eked out their first week of gains in over a month with West Texas Intermediate (WTI) crude closing above \$75/barrel as geopolitical tensions eased. Volatility remains dampened, with the VIX making fresh multi-year lows and closing below 12.50 for the first time since January 2020. The ICE US Dollar index continued its slide, while gold rallied back above \$2000/ounce.

Recent weeks have witnessed an outsized easing of financial conditions, fostering a surge in investor risk appetite. One of the most notable market events of the month was the aforementioned October consumer price index (CPI) report. Headline inflation was flat in October on a month-over-month basis and increased 3.2% year-over-year. The cooler than expected 3.2% increase in prices follows a 3.7% print in September, a sign that inflation continues to trend in the right direction. Excluding the highly volatile food and energy components, core CPI increased 0.2% month-over-month and 4.0% year-over-year—the lowest annual increase in core CPI in two years, though still well above the Federal Reserve's 2% target. Shelter prices, the largest component of core inflation, remained elevated and increased 6.7% year-over-year. Rent, car insurance, and medical care indexes increased in October, while indexes for lodging away from home, used cars, and airline fares declined. Gasoline prices fell by 5% over the month, providing some welcome relief at the pump for consumers just in time for the holidays. Markets surged following the CPI report as expectations of interest rate cuts were pulled forward. Current probabilities, according to the CME Group's FedWatch tool, show market participants overwhelmingly believe the Federal Reserve is done raising interest rates and will reverse course as early as March of next year.

While the Fed is likely done raising rates, it continues to shrink its balance sheet by \$95 billion a month, allowing \$60 billion in Treasuries and \$35 billion in mortgage-backed securities (MBS) to “roll off” without being replaced. The Fed’s balance sheet has shrunk by over \$1 trillion since its peak at over \$8.5 trillion last year. The balance sheet reduction, also referred to as quantitative tightening or QT, removes one of the largest buyers of Treasuries from the market at a time when the U.S. ramps up debt issuance to finance surging budget deficits.

– Jordan Watson, CFA

Updates & News*

Though earnings season has come and gone, there are still a few Tandem names that are due to report in the coming days.

Henry Schein, Inc., a supplier of dental and medical devices, reported earnings on November 13th. **Henry Schein** resides in Tandem’s Equity and Mid Cap Core strategies. Management touched on a cyber incident in mid-October. 85-90% of the customer orders that occurred surrounding the cyber incident were processed. Management was able to seamlessly implement their business continuity plan. Last month, **Henry Schein** closed on their acquisition of Shield Healthcare. Shield Healthcare is a medical device company that distributes equipment to patients’ homes. They cater to Medicaid families and caregivers. Financial terms of the deal were not disclosed, but the transaction is expected to remain neutral to 2023 non-GAAP EPS. The addition of Shield Healthcare will help **Henry Schein** build their presence in the medical devices business and expose them to in-home glucose monitoring. Shield Healthcare should pair nicely with their 2021 acquisition of Prism Medical Products LLC.

Fiserv, Inc., a global leader in payments and fintech, reported strong Q3 growth across all their sectors (Financial, Insurance, and CheckFree). **Fiserv** resides in Tandem’s Equity and Mid Cap Core strategies. Q3 adjusted EPS came in higher than analysts’ expectations. Q3 adjusted revenue beat and was up ~220 basis points from last year. Management expects their 2023 adjusted EPS growth to be 15-16%. **Fiserv** updated their 2023 organic revenue growth to 11%, up from their previous range of 9-11%. **Fiserv’s** expenses declined in Q3 because of better margins and a lower tax rate. Management expects organic revenue growth of 11-13% for 2024. Adjusted 2024 EPS are expected to be up 13-17% year-over-year. For the scope of 2025-2026, **Fiserv** expects organic revenue growth of 9-12%, with adjusted EPS growth of 14-18%.

Brown-Forman Corporation made headlines this month with the decision to sell Sonoma-Cutrer Vineyards to Duckhorn for \$400 million. **Brown-Forman** will receive 21.5% of Duckhorn’s stock and \$50 million in cash. Duckhorn resides in Napa, California and owns 10

wineries on the West Coast. **Brown-Forman** noted that the deal will help bolster their chardonnay exposure, an area where they want to grow their presence.

There had been lots of banter around OpenAI and whether **Microsoft Corporation** would onboard Sam Altman and Greg Brockman following their ousting by the OpenAI Board. Altman was OpenAI's CEO and Brockman was President and Co-Founder. Following the news of Altman's departure, **Microsoft** offered to let Altman and Brockman lead a new advanced AI research team. But things happen fast in Silicon Valley, as Altman is now to remain at OpenAI. Nevertheless, **Microsoft** is still looking to further their investments in artificial intelligence. **Microsoft** is set to invest \$500 million in cloud computing and AI infrastructure in Quebec. This investment is predicted to expand their cloud computing capabilities by 240% over the next few years.

Accenture, a company providing strategic digital and technology solutions, is set to acquire Solnet. Solnet is an IT services provider with technology consulting experience for the New Zealand government and private organizations across multiple industries. More than 100 of Solnet's cloud technologists will be added to **Accenture's** cloud first organization in New Zealand. This acquisition will expand **Accenture's** local cloud and infrastructure engineering abilities.

Mastercard, a global technology payments company, announced that its joint venture entity has been approved by the People's Bank of China and the National Administration of Financial Regulation to begin bankcard clearing activity in China.

A handful of Tandem's companies also announced quarterly dividend increases. **Hormel Foods Corporation** increased their quarterly dividend by ~3%. **Hormel** produces meat and food products. You will commonly see their items, such as SPAM and Skippy Peanut Butter, in the grocery aisles. **Nike, Inc.** increased their quarterly dividend by ~9%. **Brown-Forman**, as mentioned above, increased their quarterly dividend by ~6%.

– Annie Klopstock

**The transition level activity taken by Tandem is applicable to new accounts and new money, not the composite or firm-wide level. 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. Strategy level activity is applicable to the composite and action is taken at the firm-wide level.*

- [Jordan Watson, CFA](#)

Jordan Watson is an Associate Portfolio Manager for Tandem Investment Advisors, Inc. Mr. Watson joined Tandem in 2019. His duties include conducting quantitative and fundamental research, as well as portfolio management. In addition, Mr. Watson assists in overseeing Tandem's internship program. Mr. Watson is a regular member of the CFA Institute and the CFA Society South Carolina. Mr. Watson is a graduate of the College of Charleston's School of Business, earning a Bachelor of Science in Finance with a minor in Real Estate.

- [Annie Klopstock](#)

Annie Klopstock is an Investment Management Associate for Tandem Investment Advisors, Inc. Ms. Klopstock joined Tandem in 2021. Her duties include conducting quantitative and fundamental research. Before joining Tandem, Ms. Klopstock completed an internship for Stanford Health and consulted for UCSF Department of Abdominal Transplantation. Her work focused on analyzing cost structures. Ms. Klopstock earned a Bachelor of Arts in Quantitative Analysis Economics with a minor in Statistics from San Diego State University.

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