November 28, 2022 - Tandem Investment Advisors, Inc.

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November 29, 2022

MARKET MOVERS & SHAKERS

This time of the year is often marked by reflection and thankfulness. Personally, I find myself thankful for having food on the table while surrounded by loved ones. It’s a wonderful thing, sitting around a table with those that we care for. Thankfully, the inevitable discussions around cryptocurrencies that have marked the past few Thanksgivings have fallen by the wayside. I always am thankful whenever Alabama beats Auburn – sorry to any Auburn faithful that I may offend. Regardless, Thanksgiving through the end of the year is normally a joyous time. And thankfully, the market so far has seemed to get the memo. After an 8% return in October, the S&P has continued to march higher. The broader index was up more than 4.1% on a total return basis through the end of last week in the month of November. The S&P 500 so far has gained more than 12.5% this quarter. If the quarter ended today, it would be the best quarter since Q2 of 2020. In fact, the only other quarters besting this current quarter in the past 20 years would be Q2 of 2003, quarters 2 and 3 of 2009, Q1 of 2019, and the aforementioned 2nd quarter in 2020. Each of those instances marked the start of a new bull market. That’s not to say that this should mark the start of a new bull market – maybe it will, maybe it won’t; only time will tell. But this quarter, so far, is certainly in good company.

So why has the market become a bit more joyous these last few weeks and if we are giving thanks, what ought we be thankful for in this marketplace? As we have mentioned time and time again across our various commentaries, yields and the dollar remain firmly in the driver seat – even for equities. Thankfully, the 10-year topped out in mid-October, which has allowed equities to catch their breath a bit. Inflation expectations have been retreating for some time as well. Perhaps even more important than yields has been the dollar. The inverse correlation between the Dollar Index and broader equity rallies has remained quite strong throughout the past 12 months. The Dollar Index set its most recent high at the end of Q3. It has been in retreat mode ever since – a relief that has been welcomed by the market. In fact, this quarter’s drop so far would be the largest quarterly decline in the Dollar Index since Q2 of 2009. The ever-revolving door that is the market’s love-hate relationship with the Federal Reserve is currently one of love and thanks. The expectation for the Fed to ease the speed of their rate hikes has so far been welcomed by the broader market.

With so much to currently be thankful for, what could cause this festive time of the year to sour? Well, a few things could splash cold water on the recent rally. First and foremost, yields and the dollar could reverse course. Significant dollar strengthening or a rise in yields has been met time and time again this year with weakness in the broader equity indices. There's no reason to think that this relationship has been broken yet. Second, we do have a Federal Reserve meeting in December which will give the Fed the chance to correct the markets perception of the Fed's future rate path should Jay Powell and company decide the market needs correcting. Lastly, although earnings season is now behind us, a continued decline in earnings expectations could also spell trouble for stocks. Estimates for next year have already begun cooling. At the end of September, FactSet estimates pointed towards Q1 2023 EPS growth of 6% for the S&P 500. Today, those estimates are for 1.5% growth. If estimates continue to decline, it makes sense for stocks to reflect those changes. Regardless the market seems to be at a bit of an inflection point. Either this rally is the real deal, and we are seeing the birth of a new bull market, or this is just another fierce bear market rally that is cruelly giving a false sense of joy to investors.

TRANSITION UPDATES & NEWS **

Continued stability in the stock market has slowed down the number of opportunities on the transition level quite noticeably. In fact, as the market has bounced ~15% off of its lows, the average Tandem stock is more than 25% off of its 52 week lows. Coinciding with the slowdown in transition activity, the recovery in equities has led to some heightened valuations in a few names. As such, we've actually had the opportunity to trim a couple of positions at the strategy level. BlackRock, T. Rowe Price, and ADP were all trimmed in early-to-mid November in Large Cap Core. Equity saw a reduction in BlackRock, T. Rowe Price, and O'Reilly. Mid Cap also had sales in O'Reilly and T. Rowe, as well as in NV5 and ExlService. Not all activity was selling though. We had the opportunity to add to our positions in Tyler Technologies and Qualys in Mid Cap and Equity. The recent snapback rally has also led to heightened selling in transition accounts that have been opened with non-Tandem holdings.

The end of earnings season coupled with the holiday shortened trading week has led to a dearth of news. The most noteworthy news story was the Politico report that the FTC is likely to file an antitrust lawsuit to block Microsoft's purchase of Activision Blizzard, though Microsoft's share price was relatively unfazed by the news. JM Smucker, one of the few companies to report earnings last week, had a beat and a raise.

***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, Vice President, 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.