



October 2, 2023 - Tandem Investment Advisors, Inc.

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Market Movers & Shakers

Markets saw continued weakness in the last two weeks of September as long-term yields surged higher. Major U.S. averages closed lower during the period, with the Dow Jones Industrial Average falling 3.31%, the Nasdaq down 3.56%, and the S&P 500 slumping 3.64%. All 11 sectors of the S&P 500 closed lower during the period. Yield sensitive sectors, such as Real Estate, Telecommunications, and Utilities, were among the worst performers given the rise in longer dated yields. Energy was the relative outperformer as WTI Crude Oil rose to 52-week highs near \$95/barrel. The Dollar Index further extended its recent run, with the US Dollar making gains on most major currency crosses. In our last edition of Notes, we touched on 10-year U.S. Treasury yields retesting cycle highs of 4.35% — since mid-September, the 10-year U.S. Treasury yield has broken out from these levels to the upside, closing out the period with a yield of 4.58%. 10-year U.S. Treasury yields are now at the highest levels since October 2007.

Investors are pointing to several factors behind the recent move higher in longer-dated Treasuries. One of the most notable factors is the expectation of a “higher-for-longer” Federal Reserve with regard to interest rate policy. At its most recent meeting in September, the FOMC held the Fed Funds rate steady at a range of 5.25% to 5.50%. The Federal Reserve also signaled that rates may remain elevated for longer than previously forecasted. While the pace of inflation has certainly slowed since U.S. CPI notched a 9.1% year-over-year increase last June, base effects and rising energy prices may upend the Federal Reserve’s timeline in bringing inflation down to their 2% target. Increased Treasury supply as the United States Treasury looks to refill its coffers post-debt ceiling increase, coinciding with decreased Treasury demand as several of the largest purchasers of U.S. Treasuries are seemingly backing away from the table at the same time (Federal Reserve, China, Saudi Arabia), is also putting upward pressure on yields. Favorable inflation developments in the Eurozone and Japan last week provided some short-term stabilization in rates. However, the path of least resistance still appears to be higher.

Heading into the end of the year, market participants are paying close attention to historical seasonality trends. The month of September has been, on average, the worst month for stocks going back more than a century, characterized by heightened volatility and market

corrections. As we transition into October, November, and December, seasonality trends turn in favor of stocks. The last three months of the year have historically been among the strongest, offering a potential respite from recent market weakness. In fact, these months have shown positive returns for stocks as measured by the Dow Jones Industrial Average 65%, 70%, and 65% of the time, respectively. Should seasonal trends play out this year, investors may find themselves in a more favorable position as we approach year-end.

– Jordan Watson, CFA

Updates & News*

Since our last edition of Notes, Tandem has found several opportunities on the composite level to put money to work. Across all three strategies, we increased our position in **ResMed**. **ResMed** provides medical equipment with cloud connection ability for products treating respiratory health issues.

In Large Cap Core and Equity, we trimmed some of **AbbVie**. **AbbVie** is a large biomedical company best known for its drugs Humira, Imbruvica, and Viekira. Humira is an injectable treatment for rheumatoid arthritis and has been **AbbVie's** top seller since its introduction. A recent patent expiration has allowed biosimilars to enter the market, which in turn has negatively impacted **AbbVie's** sales. Biosimilars are knock offs that can produce the same results. More competition in the marketplace can lessen Humira's demand among consumers. The company has attempted to bolster its sales with acquisitions in the aesthetics space over the past few years.

We added to our position in **Brown-Forman** across all three strategies. **Brown-Forman** is a large producer of spirits and wine. They produce Jack Daniels, Tequila Herradura, Woodford Reserve, and many other boozy beverages. The stock set up nicely on a technical level for a composite purchase.

Terreno, Tandem's only REIT, was purchased on the composite level in Large Cap Core and Equity. **Terreno** owns and operates industrial real estate properties in port cities. **Terreno** was added to the portfolio last year. And finally for composite activity, we added to our **NextEra Energy** stake in Equity and Large Cap Core. **NextEra Energy** is an electric utility company. Management recently came out and reaffirmed their long-term earnings guidance through 2026 and dividend growth guidance through 2024. **NextEra** is set to sell their Florida natural gas assets to Chesapeake Utilities for \$923 million.

Nike made news last week as the company beat EPS estimates for Q1 by ~24%. In other earnings news, **Accenture** reported their Q4 results on September 29th. **Accenture** beat on their EPS and barely missed on their quarterly revenue numbers. We purchased **Accenture** on the transition level in the wake of earnings.

– 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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