



October 24, 2022 - Tandem Investment Advisors, Inc.

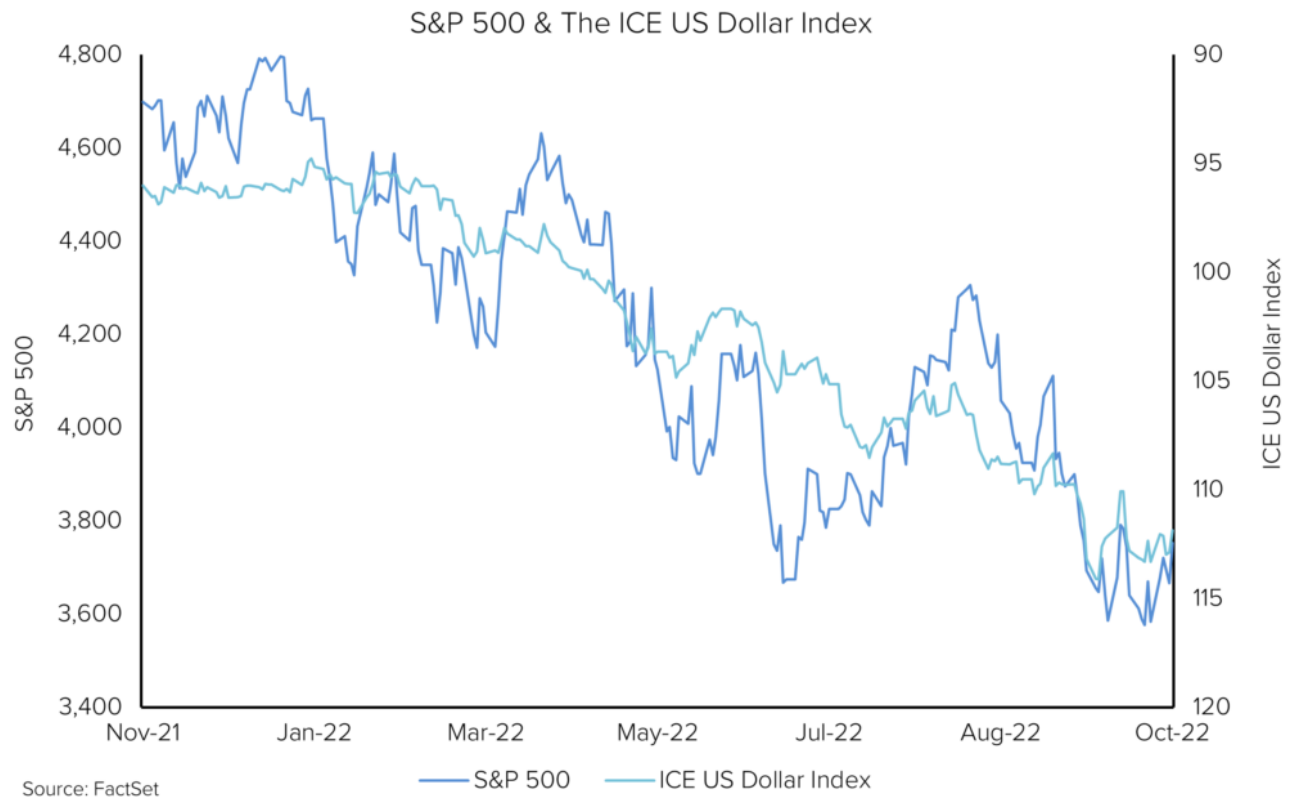
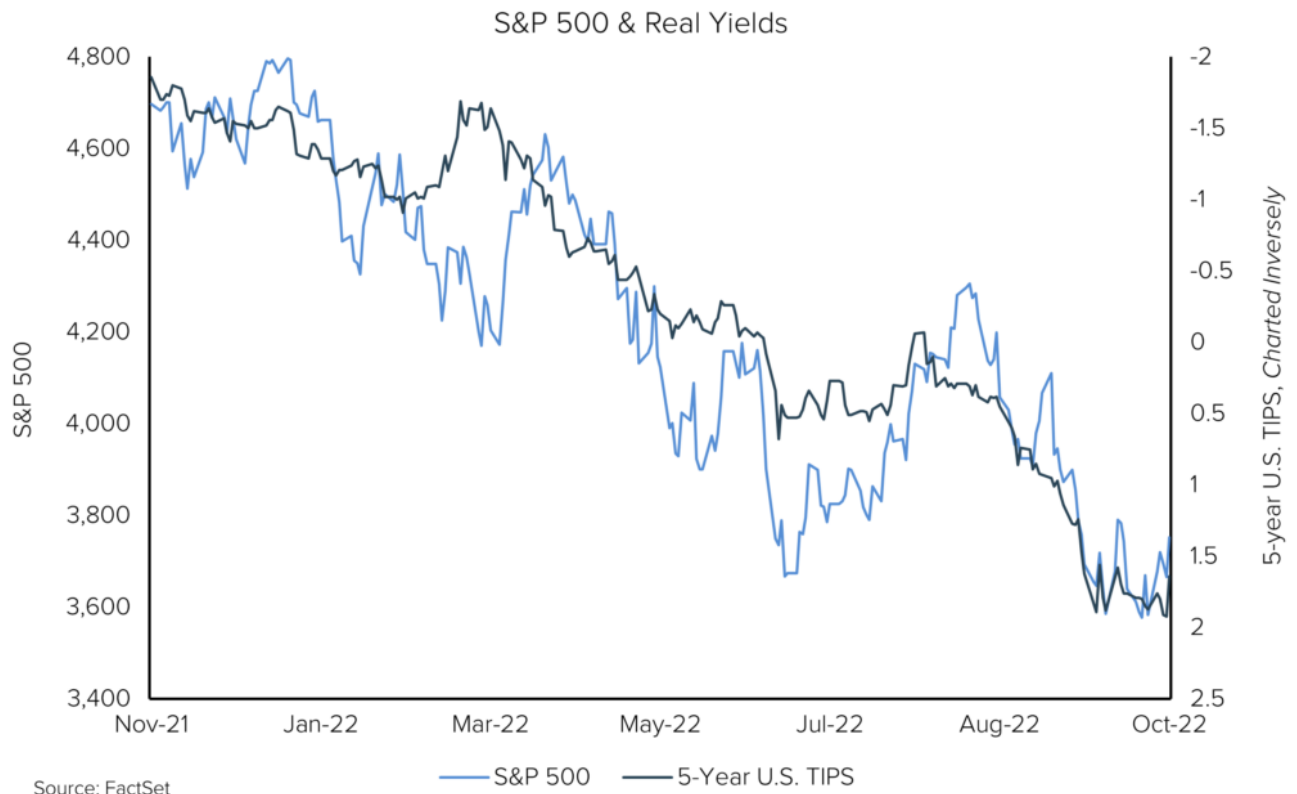
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MARKET MOVERS & SHAKERS

The major U.S. indices seem to have found their footing a bit over the past few weeks. Through Friday's close, the S&P 500 was up 7.5% from its October 13th low. Even that low was mostly just a blip in what has otherwise been a market that has been finding some stability since the end of September. While yields have continued to move higher, the Dollar Index has taken a bit of a breather. Throughout this bear market, dollar strengthening has coincided with weakness in equities. Bear market rallies have all seemingly coincided with periods of a stable, or weakening, dollar. This bear market rally has not been any different so far.

Internationally, all eyes have been on the U.K. for the better part of the past two months. Fear and panic hit the U.K. Gilt market hard following a bold economic agenda from Liz Truss and her cabinet. Gilt's imploded and pensions were reportedly in a dire situation. The sell-off in Gilts forced the Bank of England to reverse course on their QT and in turn resume QE to shore up issues within the U.K. pension system. This ultimately led to some backtracking on Truss's tax cuts – which would have been the largest in nearly 50 years. Following Truss's U-turn and appointment of Jeremy Hunt, markets became more stable. Despite that, Truss's days were thought to be numbered. That ultimately proved true as Truss resigned after just 45 days in office – the shortest-serving prime minister in U.K. history. The 30-year Gilt crested 5% in the midst of all of that mess but has since come back to ~4%. Weakness in the Pound has also been shored up over the past few weeks.

Domestically, the real story seems to be found in rates and currencies. As we mentioned already in this piece, as well as in recent commentary, this year's bear market rallies have coincided with weakness in the Dollar and yields moving lower. More recently, the dollar has been weaker, or more stable at the very least, but yields have been moving higher – that is until you look at real yields rather than nominal yields. Nominal yields are what we all see being discussed in the market on a daily basis. Real yields are less often discussed, but perhaps are more important since they account for the expected inflation rate. Moreover, real yields have been much more stable since the end of September. The stability in real yields have allowed the equity market to get its bearings. Should real yields weaken, one would expect equities to rally since rates and valuations share an inverse correlation to one another.



Elsewhere in news, earnings season is officially underway once more. Banks kicked off the season the past few weeks and their reports were generally welcomed by investors. BofA reported higher debit card, credit card, and consumer loan usage – which the street viewed

amicably and as supportive of a strong consumer backdrop. However, increased consumer loan usage and increased credit card usage could also be a sign of a consumer that is not strong, but rather having to make each and every dollar stretch. Banks also saw their profits drop because of rising loan loss provisions. On Friday, American Express reported its quarterly results and it supported the notion that the consumer is still strong. Travel spend continues to exceed the company's expectations, write-offs remain below pre-pandemic levels, and the CEO stressed "we're not seeing any changes in consumer behavior at all." While the economy largely seems to be on the precipice of a recession, there are pockets of consumers that remain relatively unaffected. Until unemployment begins affecting those various pockets, it seems unlikely to change.

TRANSITION UPDATES & NEWS **

Despite the newfound stability in equities these past few weeks, valuations have remained relatively depressed. As a result, we have continued to find opportunity to put money to work in new accounts, or for new deposits, at a largely accelerated rate compared to more normal times. At the strategy level, this month has seen a newcomer welcomed into our Large Cap Core and Mid Cap Core strategies. Terreno Realty, a REIT, invests primarily in distribution/warehousing space in 6 key markets. A consistent dividend grower, Terreno's dividend has increased at a double-digit annualized rate over the past 5-years. Welcome to the portfolio, Terreno! Independent of that decision but occurring around the same time was the exit of Walgreens from our Equity and Large Cap Core strategies. Walgreens, a holding of Tandem's since 2007, has witnessed a struggling stock price over the past few years with the ever-looming threat of Amazon on the horizon. Despite that, the math continued to work for Walgreens. The math stopped working this year, so we began exiting the position in the second quarter, before finishing our liquidation earlier in October. Sayonara Walgreens!

***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,

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