# *Notes from the Trading Desk*

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### ***Market Mover & Shakers***

U.S. Equities finished higher for the third straight week. Tech was one of the best performing sectors, second only to Energy. The strength in Tech propelled the Nasdaq higher 1.90%. The Russell 2000 was up 1.51%, and was followed by the S&P 500 (+1.22%) and the Dow (+0.70%). Energy benefited from the 5.2% pop in Crude. Financials continued their recent rally as well. XLF, the Financial Select Sector SPDR ETF, is up more than 8% from its early October low; handily outperforming the broader market during that time. Generally speaking, the defensive corners of the market tended to underperform their cyclical counterparts over the last week. Treasuries were largely flat across the curve, though from a technical standpoint, they all seem to be trading into the higher end of their recent downtrend, which could spell either a breakout higher on yields or a spike lower.

The driver in last week's market was undoubtedly earnings. 32% of the S&P 500 reported their earnings last week, with another 30% on tap this week. By and large, earnings have been rather mixed. On the bright side, 80% of the companies that have reported have reported a positive EPS surprise, while 64% have surprised on revenue as well — both of which are above their 5-year averages. However, despite the widespread beats, earnings are still set to decline 3.7%. If a negative quarter is reported, it will mark the 3rd straight earnings decline (according to FactSet). The trend in earnings has been pretty clear to date. Multinational companies are suffering as a result of the global slowdown. Per FactSet, S&P 500 companies with more than 50% of their revenue coming from outside of the U.S. have experienced an earnings decline of 9.1% this quarter. Meanwhile, companies with more than 50% of their revenue being generated in the U.S. have only had an earnings decline of 0.8%.

Readers of *Notes*, *Observations*, or *The TANDEM Report* have surely noticed the evidence of a slowdown domestically. Despite the potential slowdown, it seems the U.S. is still the best house on the block. According to the IMF, global economic growth is looking to end the year at its worst pace since 2009. Germany continues to appear to be on the cusp of, or is already in, a recession. German unemployment ticked higher for the first time in 6 years. What's more, theBundesbank (the German central bank) warned just last week that Germany may have entered a recession already, though we will not be sure till the numbers are officially released in mid-November. Elsewhere, the UK continues to live in global purgatory stuck with one foot still in the EU and the other out. The UK still has yet to have a deal reached with the EU pass Parliament. Meanwhile, China — who continues to remain in headlines for broader social issues in Hong Kong — recently announced that their Q3 GDP growth was just 6%. This number sounds phenomenal. However, it is actually the slowest self-reported growth rate in 27 years. As FT rightly reported a few weeks ago, it seems the global economy has entered a period of "synchronized stagnation". However, despite the global stagnation, and as evidenced by earnings, domestically insulated companies are doing quite well.

On Wednesday we will have another Federal Reserve press conference. The market seems to be in complete agreement that the Fed will cut by 25 bps this week. In fact, according to FactSet, there is a 96.2% chance of a 25 bps cut on the 30th. However, the Fed's path becomes much less clear going out any further than a few days. January's Fed meeting currently has a 51.2% chance of a further 25 bps cut. In other words, the market seems unsure of the Fed's ultimate direction. Jerome Powell has stressed that these recent cuts are to be viewed as mid-cycle adjustments — à la '95 and '96. If Powell is in fact following the mid-90s playbook, then the Fed is possibly done cutting after this week's meeting. After all, Greenspan cut three times over the course of 9 months from July 1995 to January 1996. This would be Powell's third cut. It will be worth monitoring the market's reaction if the Fed does in fact signal an end to their rate cuts. In other news, the Fed announced last week that they were boosting the amount of liquidity being offered in the repo market from $75B to $120B. We have touched on the repo market in the past in *Notes,* so I will not spend too much time rehashing the issue here. However, JPMorgan warned last week that the trouble in the repo market is likely to get "much worse" as the Fed's liquidity is not necessarily meeting the parties that need it most.

### ***Transition Update*****

Earnings season often leads to an increase in activity on the transition level. As such, we were rather busy last week in new accounts and with new money. We bought both Hormel and J.M. Smucker twice last week, along with a handful of other names that were purchased once. Hormel seems to hopefully have found a bit of a floor in the low 40s following their recent ~8% slide over the last month and a half. SJM remains attractively valued in our quantitative model and has been consolidating between $105 and $110 since the start of September — a break above $110 could be a very strong technical signal for the stock.

***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 it is transitioned into our strategy over a longer time period that is dependent upon market conditions. This update describes that transition.*

## Portfolio News & Notes

Henry Schein kicked off the week as news broke Monday morning that the company was being dismissed from the opioid litigation taking place in Summit County. HSIC agreed to make a $1M donation to an educational foundation in Summit County to develop best practices regarding opioids. Dominion Energy agreed to sell a 25% non-controlling interest in Cove Point to Brookfield Asset Management for $2B. Cove Point is an offshore liquid natural gas shipping terminal on the western shore of the Chesapeake Bay. Nike also made headlines as CEO Mark Parker announced that he will be stepping down in 2020. Parker is handing the reigns to John Donahoe — CEO of ServiceNow with previous experience at eBay. Finally, it was announced after hours on Friday that Microsoft will be awarded the Pentagon's $10B JEDI contract. This was a huge win for Microsoft's Azure over Amazon's AWS. Microsoft will now be in charge of transforming the military's cloud computing systems.

Last week was also exceptionally busy in terms of earnings as we had 12 companies report. Each company (UTX, NEE, EEFT, MSFT, EBAY, PYPL, ORLY, LH, CMCSA, TROW, TSCO, and RMD) beat their earnings estimates, while only EEFT and TSCO missed on the topline. PayPal, O'Reilly, and ResMed all had terrific price action following their earnings, jumping 8.6%, 9.2%, and 12.9% intraday, respectively. eBay clearly did not get the message as their poor forward guidance sent shares tumbling 9.1% on Thursday. 16 companies report next week, in what will surely be another busy week at Tandem.

| | WTD | MTD | QTD | YTD |
|---|---|---|---|---|
| Dow Jones | 0.70% | 0.15% | 0.15% | 15.56% |
| S&P 500 | 1.22% | 1.54% | 1.54% | 20.57% |
| Nasdaq | 1.90% | 3.05% | 3.05% | 24.23% |
| Russell 2000 | 1.51% | 2.32% | 2.32% | 15.58% |
| | | | | |
| Comm. Svcs | 0.12% | 2.05% | 2.05% | 22.99% |
| Con Disc | -0.84% | 0.37% | 0.37% | 21.66% |
| Con Staples | 0.58% | -0.36% | -0.36% | 20.16% |
| Energy | 4.33% | 0.40% | 0.40% | 3.49% |
| Financials | 1.96% | 2.16% | 2.16% | 20.13% |
| Health Care | 0.32% | 2.07% | 2.07% | 6.38% |
| Industrials | 2.16% | 1.15% | 1.15% | 22.18% |
| Info Tech | 2.49% | 2.96% | 2.96% | 33.71% |
| Materials | 1.31% | 0.18% | 0.18% | 15.38% |
| Utilities | 0.48% | -0.91% | -0.91% | 21.17% |
| REITs | -1.15% | 0.31% | 0.31% | 26.91% |

### *Upgrades/Downgrades & Dividends*

BRO — Increased quarterly dividend 6.3% from $0.08 to $0.085.

EBAY — Assumed hold at Deutsche Bank with a price target of $42, prior rating was a buy (10/21).

EBAY — Downgraded to market perform from outperform at Raymond James, no price target listed (10/24).

EBAY — Downgraded to hold from buy at Aegis Capital, no price target listed (10/24).

EEFT — Upgraded to buy from neutral at DA Davidson, though price target decreased to $168 from $170 (10/24).

HRL — Initiated underperform with a price target of $40 at Bank of America (10/25).

MSFT — Assumed overweight at Piper Jaffray, previous rating was also overweight. Price target was raised to $158 from $140 (10/24).

WBA — Downgraded to neutral from overweight at JPMorgan, rpice target lowered from $73 to $63 (10/23).

### Earnings Calendar

| Date | Time | Ticker |
|---|---|---|
| 10/28 | Pre-Market | CHKP |
| 10/28 | Pre-Market | WBA |
| 10/28 | Post-Market | BRO |
| 10/28 | Post-Market | WCN |
| 10/29 | Pre-Market | ECL |
| 10/29 | Pre-Market | EXLS |
| 10/29 | Post-Market | CHRW |
| 10/29 | Post-Market | UMBF |
| 10/29 | Post-Market | VRSK |
| 10/29 | Post-Market | SYK |
| 10/30 | Pre-Market | YUM |
| 10/30 | Post-Market | RSG |
| 10/30 | Post-Market | TYL |
| 10/31 | Pre-Market | ICE |
| 11/1 | Pre-Market | ABBV |
| 11/1 | Pre-Market | D |