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MARKET MOVERS & SHAKERS

September has been a rollercoaster for stocks. Yet despite that, the S&P 500 has somehow only fallen half a percent through the 14th. After falling nearly 10% from August 16th to September 6th, the S&P put on its rally cap, climbing more than 5% in just four trading sessions. That was stopped in its tracks following the hotter than expected CPI print on Tuesday. The greater than expected increase in prices led to the worst day since June of 2020 for equities. When the dust had finally settled, the S&P 500 had fallen 4.2%. Still, the market was in the green over its previous 5 trading days. Stocks take the escalator up and the elevator down, and never has that been more apparent than over the last week or so. Elsewhere, yields continued to trudge higher. The 2-year Treasury surged 20 bps following Tuesday's CPI print and got as high as 3.84% prior to Wednesday's PPI print. Meanwhile, the 10-year has been testing its cycle high around 3.45% – a crucial technical level for the benchmark yield.

Perhaps most importantly for markets these days is the movement of the dollar. The direction of the dollar and the direction of equity indices have been moving in opposite directions throughout the year. Strength in the dollar has been a harbinger of weakness for equities. Each steep selloff this year in equities has coincided with a sharp surge in the dollar. It was evident in early-to-mid January, again in late April and early May, as well as early-to-mid June, and the selloff throughout much of August. Seemingly all recent periods of difficulty for equities have coincided with a stronger dollar. On the flipside, recent periods of a more stable dollar, or even a weaker dollar, have been met with equity relief rallies throughout the year. The dollar, which surged from mid-August to early September and coincided with the most recent market selloff, saw some relief as it fell over much of last week (which coincided with last week's equity rally). The Dollar Index changed on a dime following the inflation read though. In fact, the Dollar Index's 1.37% gain on Tuesday was its largest move since we were in the middle of the COVID meltdown in March of '20. Moves of that magnitude are highly unusual for stable currencies.

Despite the dollar being a clear driver for markets throughout the year, the catalyst for the most recent selloff was undoubtedly the CPI print. The headline number of 8.3% came in above expectations of 8.1%. Further adding to the bad news, analysts thought prices would decline 10 basis points month-over-month, when in fact, prices actually grew 10 basis points.

There is still hope that CPI has peaked – the decline in oil prices has created a downward force on prices that should help alleviate some of the pressure on the headline number. However, as we discussed in the previous edition of Notes, other measures of inflation are still accelerating. The Cleveland Federal Reserve produces a trimmed mean inflationary number, which excludes the large outliers creating an outsized upward or downward force on prices. This number has not yet peaked. Similarly, the Atlanta Fed's sticky price index continues to accelerate and hit highs. Perhaps most importantly for most Americans, food prices are continuing to accelerate. Food, in the most recent CPI number, increased at a clip of 11.4%.

The never abating inflationary pressure finally brings us to the Federal Reserve. In recent rhetoric, the Federal Reserve has been clear that they can stomach some economic worry and pains in the marketplace if it means quelling inflation. Coming into Tuesday's inflation print the market placed a 0% probability of a 100-bps hike next week. Just one day later that number had surged to 34%. In Billy Little's most recent Observations he argued,

I hate to burst the bubble of anyone that finds this debate to be truly intriguing, but it doesn't matter. In the grand scheme of things, the difference between a 50 and 75 basis point rate hike is negligible.

Though the debate has switched from a question between 50 or 75 bps to 75 or 100, Billy's point is still spot on. The difference is negligible. Importantly, the Fed has a dual mandate. Their goal is to promote price stability and maximum sustainable employment. The unemployment rate, which is traditionally a lagging indicator, remains quite strong. In fact, there are even arguably tailwinds in the form of a rising participation rate for the labor market. So, part of the dual mandate is being met. This means; that, while the difference between 75 bps or 100 bps is still likely to be negligible, it is worth reiterating that the Federal Reserve should, and likely will, remain hyper focused on reigning in prices to meet the one mandate they are clearly failing to meet. This will likely mean further quantitative tightening and further rate hikes until they either suppress inflation or begin impacting the labor market.

TRANSITION UPDATES & NEWS **

The previous week's rally had slowed the transition a bit as pockets of the market surged. That changed dramatically as markets fell out of bed on Tuesday. The selloff presented an opportunity for us to put money to work in a handful of names for new accounts and recent deposits. While it has remained busy on the macro front in terms of news, it has stayed relatively quiet at the security level. The most recent selloff has seemingly been greeted with share buyback announcements as companies look to take advantage of lower prices. Comcast announced that its board authorized an increase in its share buyback program to \$20B. JNJ announced a \$5B share repurchase program. Elsewhere, McCormick & Co., a recent addition to our Large Cap Core strategy, cut its guidance for Q3 and for the fiscal

year. The company had previously guided their full year earnings to be between \$3.03 and \$3.08. However, citing rising costs, they were forced to guide lower to \$2.63-2.68 for the full year. This unfortunate news for the stock led to a sharp mover lower last week.

***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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