NOTES FROM THE TRADING DESK

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MARKET MOVERS & SHAKERS

Three of the four major U.S. stock indices were down last week. The Dow was just barely down as it dropped 0.03%, the S&P 500 was down 0.64%, and the Nasdaq fell 0.56%. The Russell 2000 bucked this trend, however, as the small cap index was up 2.64%. Last week also marked the third straight week of declines for the S&P 500 — the first time this has happened in nearly 12 months. Energy was the best performing sector, following Crude higher. Crude's nearly double digit return was its best week since June. Industrials, Materials, and Health Care were also all positive for the week. The Consumer Discretionary sector was the largest laggard as Amazon dragged the sector lower. Alphabet, Amazon, Apple, Facebook and Microsoft all closed in the red for the third straight week as well. The dollar snapped its two-week winning streak following a sharp decline in the US Dollar relative to the Yen. Elsewhere, Treasuries were mostly flat and gold closed marginally higher.

The Federal Reserve captured the market's attention during the middle of the week following the September FOMC meeting. The Fed signaled their intention to keep rates near zero for at least three more years. Moreover, the Fed reiterated that they would allow inflation to occasionally run hot and "moderately exceed 2% for some time." The notion of extended near zero interest rates and continued quantitative easing has caused some to fear that the Fed might contribute to the inflation of asset bubbles. In fact, Barron's recently ran the following headline *"Yes, It's a Stock Market Bubble. But That Doesn't Mean Trouble Just Yet."* Another fear stemming from the Fed's spending spree is the potential to cause inflation. However, the Chief Investment Strategist of Société Generale SA, Albert Edwards, recently made an interesting point. He argued that the Fed's spending is basically intended to keep companies afloat. In essence, this sort of policy creates "zombie" companies — companies that would not be solvent were it not for the central bank's monetary policy that gives companies the ability to sustain their operations through the issuance of debt at low interest rates. Edwards went on to argue that if there is one thing to take away from Japan's monetary history, it's that keeping zombie companies alive through bank loans creates deflation, not inflation. This stems from Edwards' belief that low rates and QE lead to malinvestment and the eradication of creative destruction. Therefore, QE causes capital to be inefficiently allocated, innovation is then hindered, and growth is muted. It's an interesting juxtaposition to the notion that the Fed's Balance Sheet enlargement will lead to rampant inflation. Regardless, it seems like a lose-lose if the two options are either excessive inflation or a deflationary environment that cripples innovation.

TRANSITION UPDATES & NEWS **

We had the opportunity to finish the liquidation of Dominion Energy in both our Equity and Large Cap Core strategies. Dominion made headlines earlier this year when they sold some of their assets to Berkshire. Following the sale, Dominion also effectively cut their dividend when they reset their dividend to a lower rate. One of our fundamental criteria in an investment is that they must grow their dividend. Dominion violated this policy, so it had to be liquidated. We also had the chance to continue to add to our position in Becton, Dickinson & Company across all three strategies.

We had two holdings preannounce or update their guidance for earnings at the start of the week. ExlService, a mid-cap holding, raised the midpoint of its full-year EPS guidance to $3.40 from $2.70. The stock popped higher on the news. NextEra Energy raised its 2021 EPS guidance by $0.20. NEE also announced the board's approval of a four-for-one stock split of NextEra's common stock. The stock jumped higher on these headlines. However, the following day, NextEra announced their intention to raise $2 billion in equity units. Each unit will be made up of a contract to purchase NEE common stock and a 5% undivided beneficial ownership interest in NextEra Energy Capital Holdings, Inc. debenture due in September of 2025. The proceeds from the sale will be used to fund some of their energy and power projects, as well as potentially pay down some other debts.

***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.*

BEN CAREW, CFA

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KEY MARKET DATA

	WTD	MTD	QTD	YTD
Dow Jones	-0.03%	-2.72%	7.15%	-3.09%
S&P 500	-0.64%	-5.17%	7.07%	2.75%
Nasdaq	-0.56%	-8.34%	7.30%	20.29%
Russell Mid Cap	1.05%	-2.41%	6.71%	-3.91%
Russell 2000	2.64%	-1.61%	6.62%	-7.89%

	WTD	MTD	QTD	YTD
Comm. Svcs	-2.31%	-7.58%	7.40%	6.36%
Con Disc	-2.33%	-6.77%	11.18%	18.52%
Con Staples	-1.71%	-3.10%	8.21%	0.58%
Energy	2.90%	-5.95%	-12.81%	-45.09%
Financials	-0.22%	-1.71%	5.95%	-20.13%
Health Care	0.84%	-2.66%	5.01%	3.21%
Industrials	1.52%	1.15%	14.25%	-3.46%
Info Tech	-1.04%	-9.62%	6.69%	21.85%
Materials	0.93%	4.11%	16.10%	6.76%
Utilities	-0.82%	-1.50%	2.79%	-10.17%
REITs	-0.21%	-2.11%	1.58%	-8.09%