Notes from the Trading Desk

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Market Mover & Shakers

The major U.S. indices moved lower this week – led by Russell 2000, which dropped 1.16%. The Nasdaq, S&P 500, and Dow Jones dropped -1.05%, -0.72%, and -0.51%, respectively. The market adopted a defensive posture throughout the week as Utilities, REITs, and Health Care were three of the best performing sectors. The Dow Jones 20 Transportation Average topped out once more at 11,000 – now the 4th time it has rolled over at that apparently critical level over the last 12 months. Transportations dropped following poor guidance from FedEx, as the stock dropped 14.5% for the week. Crude rallied 5.9%, its best week since June, following the oil-based attack on Saudi Arabia the previous week.

As expected, the Federal Reserve cut the Federal Funds rate by 25 bps on Wednesday. However, for the first time since 2016, there were three dissents. Two of the dissents were of the opinion that no cut was appropriate, while the third dissent indicated that a 50 bps cut was necessary. The big piece of news coming out of the Fed meeting was not the cut, rather it was the Fed's expectation that there will likely be no more cuts in 2019 – seven officials indicated that rates should be cut once more, five thought no action would be appropriate, and five actually thought a rate hike may be appropriate. The market seemed to take this more hawkish stance in stride – as the S&P 500 actually rallied through Powell's presser. However, despite the muted reaction from the stock market, it does not seem that investors necessarily believe the Federal Reserve. Per FactSet's data, the market is still pricing in a 73.6% chance of a 25 bps cut, and a 21.6% chance two cuts by the end of 2019.

Last week's largest bit of news concerned the repo market as short-term lending rates spiked for the first time since the Financial Crisis. The situation, while certainly complex, does not necessarily spell out disaster for the financial markets. Towards the end of each quarter, corporations have their greatest need for cash to make their quarter-end and year-end tax payments. Rather than holding cash, the corporations will typically invest their cash in money market funds, or Treasuries with maturities to match their cash needs. Short-term rates spiked as there were not enough treasuries to meet the cash demand, which resulted in the funding gap. Thus, the Fed had to step in to exchange Treasuries for cash so corporations could meet their short-term cash needs. If funding pressure continues well into next month, it would not be surprising to see the Fed expanding their balance sheet once more to further add dollars back into the system – a measure that Powell alluded to on Wednesday. However, until this stress is reflected in the rest of the credit market, it is unlikely to be a major issue. For the time being, credit spreads remain very tight.

Transition Update**

Another week passed us by with very little action on the transition level. Tractor Supply (TSCO) has fallen 15% since September 10th on little news. The company not only remains attractively valued, but it appears to have significant support at both the $95 level and the $90 level. As such, we bought the position in transition accounts twice last week. Another beaten down and attractively valued name, Walgreens, pulled back to a key level of support around the $54.50 level. Finally, PayPal continues to hold its 200 day moving average and has seemed to find some support in the low $100s — as such, some PayPal was also bought on the transition level in our Equity accounts.

***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.*

Upgrades/Downgrades & Dividends

ACN — Initiated overweight with a target of $228 at Barclays (9/20).

BF.B — Downgraded to underperform from in-line at Evercore ISI, target of $60 (9/19).

BF.B — Initiated neutral with a price target of $59 at MKM Partners (9/19).

COST — Downgraded to underperform from market perform at Bernstein, though their price target increased from $220 to $230 (9/18).

COST — Upgraded to accumulate at Gordon Haskett with a price target of $330 (9/20).

ICE — Initiated outperform with $100 target at Oppenheimer (9/16).

MSFT — Increases quarterly dividend by 10.9% to $0.51 from $0.46, payable December 12th (9/18).

TJX — Upgraded to neutral from sell at UBS, target increased to $58 from $41 (9/17).

TSCO — Removed from Guggenheim's Best Ideas list, though it still remains a buy. The price target was cut to $110 from $120 (9/19).

UTX — Remains market perform at Bernstein, though they revised their price target to $154 from $143 (9/17).

Portfolio News & Notes

While the week was fairly quiet in terms of headlines for Tandem's holdings, we did take the opportunity to trim our position in Ecolab in our Large Cap strategy. Ecolab was signaled a sell in our model due to its rich valuation and lack of acceleration in their top and bottom line growth rates. Ecolab has been fairly stagnant in terms of price action quarter-to-date, as it has dropped 0.70%. However, the stock had a remarkable first half to the year, and as a result, it is still up 33.06% year-to-date.

	WTD	MTD	QTD	YTD
Dow Jones	-1.05%	2.01%	1.26%	15.47%
S&P 500	-0.51%	2.24%	1.71%	19.36%
Nasdaq	-0.72%	1.94%	1.39%	22.34%
Russell 2000	-1.16%	4.34%	-0.43%	15.66%
Comm. Svcs	-0.96%	2.45%	3.92%	22.97%
Con Disc	-2.16%	0.82%	0.27%	21.32%
Con Staples	-0.61%	-0.38%	3.61%	18.59%
Energy	0.99%	7.15%	-4.04%	6.65%
Financials	-1.00%	4.78%	1.75%	17.95%
Health Care	0.99%	1.86%	-0.58%	6.49%
Industrials	-1.48%	3.17%	0.72%	21.07%
Info Tech	-0.77%	1.23%	2.75%	29.59%
Materials	-0.86%	3.34%	-0.28%	15.64%
Utilities	2.19%	2.57%	6.94%	20.65%
REITs	2.12%	0.11%	6.59%	26.08%

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