NOTES FROM THE TRADING DESK

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MARKET MOVERS & SHAKERS

U.S. Equities finished lower last week as the Nasdaq and S&P 500 both snapped five-week win streaks. The Dow was the best performer amongst the major indices as it fell only 1.8%. The S&P 500 and Russell 2000 dropped 2.3% and 2.7%, respectively. The Nasdaq was the worst performer amongst the major indices as it fell 3.3%. Trading was largely mixed on Monday. The S&P 500 drifted lower while the Nasdaq traded higher on little news. Tuesday was much of the same — very little news hit the tape as stocks drifted higher. On Wednesday, stocks traded higher once more. However, Wednesday's trading session was marked with a rotation into value and out of growth. Tech dragged while Utilities led the way higher. Perhaps the rotation into defensive names was a precursor for Thursday's action. By the close on Thursday, the Nasdaq and the S&P 500 both saw their largest daily pullbacks since June as they dropped 3.51%, and 4.96%, respectively. The NYSE's FANG+ Index (an index that tracks Facebook, Apple, Amazon, Netflix, Alphabet, Alibaba, Baidu, Nvidia, Tesla, and Twitter) slid nearly 6% on Thursday. Apple, a recent darling of the market, dropped more than 8% — the stock's fifth worst day over the past decade. Similarly, TSLA, which had soared more than 500% from its low in March, dropped 9% on Thursday. Friday's trading action initially looked like it was going to be sloppy as well. However, equities stopped the bleeding early on and rallied into the close. The S&P 500 was down more than 3% in the first 90 minutes of trading, but it ultimately clawed its way back, having dropped only 82 bps by the end of the day. For the week, the dollar index rallied nearly 40 bps — its largest gain since early June and perhaps helping contribute to the weakness in Tech. Gold fell more than 2%. It was the precious metal's third weekly drop over the past four weeks.

The market's focus was wholly on Tech. The Nasdaq 100's 3.1% weekly drop was its worst since the market bottomed in March. The runup in Tech has been well documented and nothing short of remarkable. Through the end of August, the Nasdaq 100 had outperformed the S&P 500 by a whopping 24.6% over the past 6 months — its highest rate of outperformance since the Tech Bubble in the late 90's and 2000. At face value, it may seem like last week's Tech wreck came out of nowhere. However, the writing was certainly on the wall. Through Wednesday's close, the VXN (the Nasdaq's volatility index) closed nearly 30% higher over the previous 10 trading sessions. This is indicative of an increasingly fearful sentiment within the index. However, the Nasdaq shrugged off the rising fear gauge as it climbed more than 7% during the same 10 days. As one can see in the chart below, this type of market action is far from normal. The red dot marks the previous 10-days through Wednesday's close. There have only been a handful of days that have seen similar increases in the underlying index and an increasing volatility index. These two indices are often strongly negatively correlated, which means that volatility will often decrease as the market rises and will increase should the market fall. The only other instances of similar market action are found in the heart of the Tech Bubble. The

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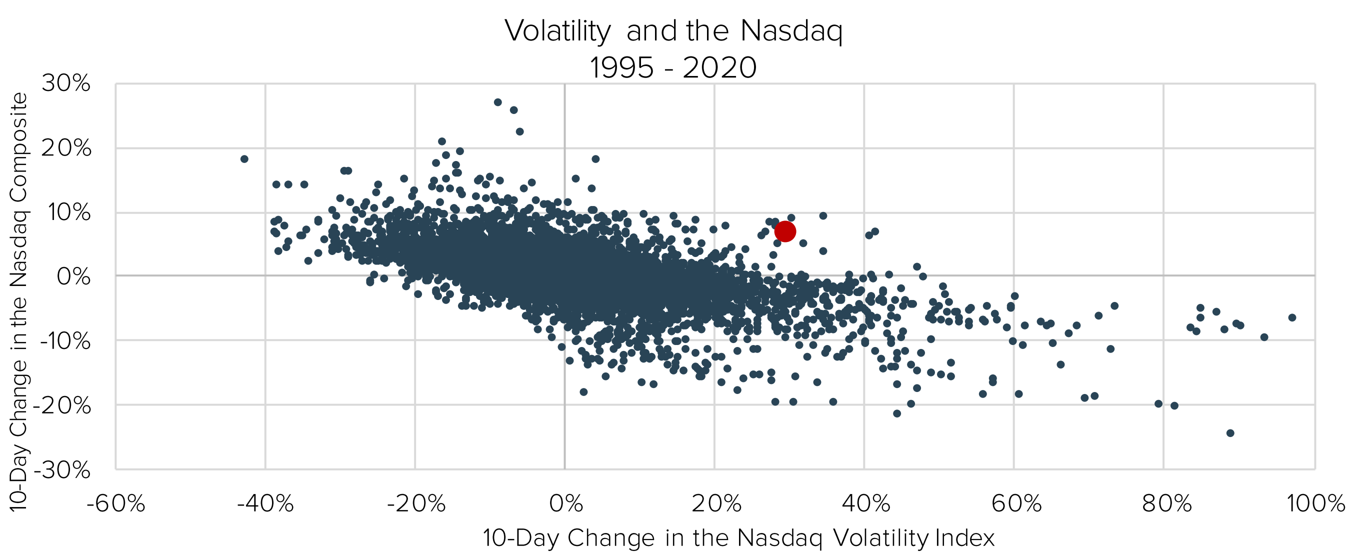


most analogous market to what we have seen over the past 6 months is the Tech Bubble. That's not to say the two are the same — no two markets are ever the same. However, the two undoubtedly share common traits.

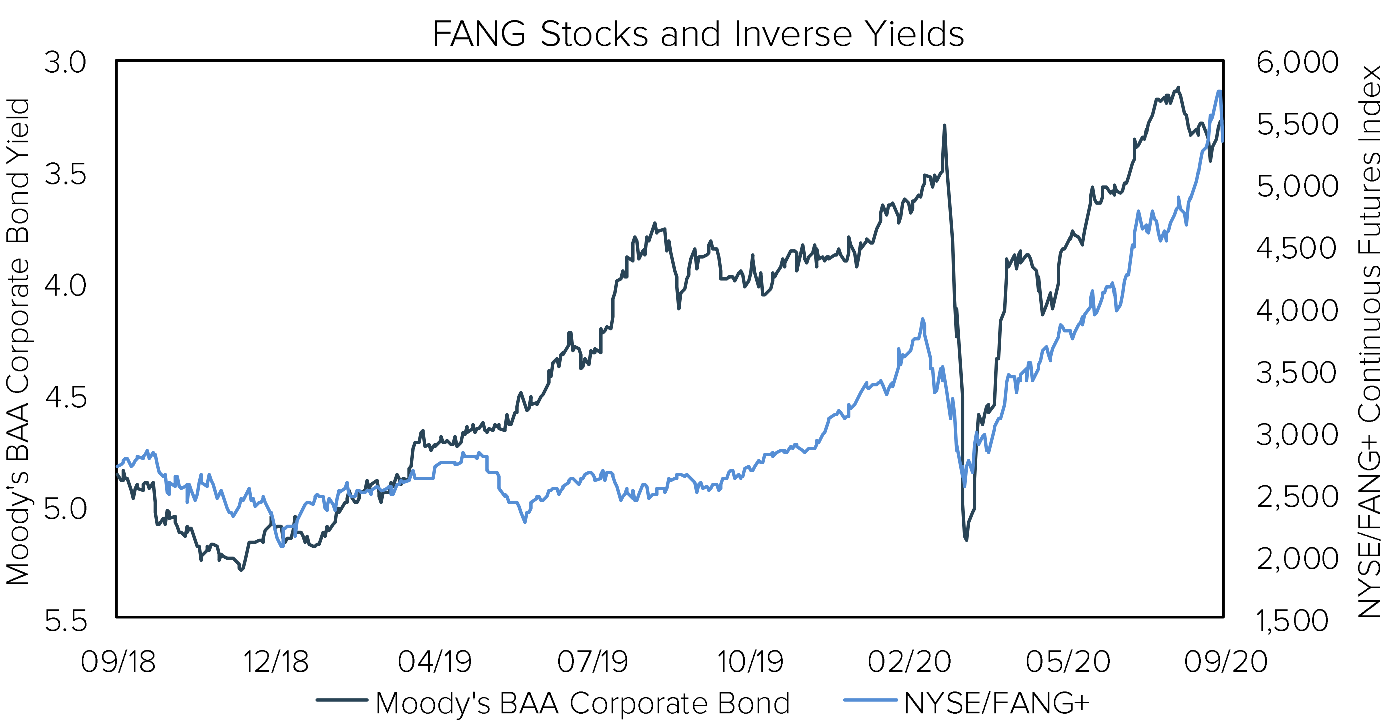
Any continued faltering within the market leading FAANG and Large Cap Growth/Tech names could be a tough obstacle for the broader market to surmount. Apple, Microsoft, Amazon, Facebook, and Alphabet now make up 24% of the S&P 500. As they have become a bigger piece of the indices' pie, it will be harder to overcome any weakness. One potential source of instability could be a quick spike in yields. We touched on yields briefly in the August 3rd edition of *Notes* when we said, "Another clear beneficiary of the falling yields has been the high flying FAANG names. FAANG stocks tend to perform well amidst a flattening yield curve as a premium is placed on growth in an expected low growth environment." While the Federal Reserve seems committed to keeping rates low and near the zero-bound for the foreseeable future, the market seems less sure at times. The 30-year U.S. Treasury Yield has been trading higher since its yield bottomed out around 1.20% in early August. Similarly, Moody's BAA Corporate Bond Index has been rising steadily over the last month or so. The chart below shows NYSE's FANG+ Index and Moody's BAA Corporate Bond Index. The bond yield is charted inversely, so as the navy line rises on the chart, bond yields are actually falling. As one can see, as yields have fallen (risen on the chart), the FANG stocks have steadily risen. If we do see a spike in yields, it would not be surprising to see weakness in FANG stocks.

TRANSITION UPDATES & NEWS **

The mid-week burst of volatility provided opportunity for us on both the transition level and the composite level. We were able to add to our position in Essential Utilities (WTRG) in Equity. The Pennsylvanian water and natural gas provider recently announced a 7% dividend increase. They have now grown their dividend at least 6% for the last 11 years. The utility provider is already a full position in Large Cap Core and Mid Cap Core. We were also given the opportunity to add to Lab Corp (LH) in Equity. Lab Corp does not pay a dividend, so it is not eligible for Large Cap Core. Lab Corp has seen a surge in business due to COVID testing. The stock is already a full position in Mid Cap. Finally, we had the opportunity to add to Cboe Global Markets (CBOE) across all three strategies. As an exchange operator, CBOE primarily provides a marketplace for equity and index options.

The dearth of volatility over the past few months has led to fewer opportunities on the transition level. However, that trend quickly reversed throughout much of last week. Through Friday's close, it is still taking us around 3-6 months to transition accounts. However, we are getting accounts roughly 80% invested in three months or so. In August, it was taking us closer to four months to get to that same point.

***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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KEY MARKET DATA

	WTD	MTD	QTD	YTD
Dow Jones	-1.82%	-1.04%	8.99%	-1.42%
S&P 500	-2.31%	-2.10%	10.54%	6.07%
Nasdaq	-3.27%	-3.93%	12.47%	26.09%
Russell Mid Cap	-1.99%	-1.44%	7.77%	-2.95%
Russell 2000	-2.73%	-1.70%	6.52%	-7.98%

	WTD	MTD	QTD	YTD
Comm. Svcs	-2.52%	-2.12%	13.75%	12.64%
Con Disc	-2.53%	-2.69%	16.05%	23.71%
Con Staples	-0.47%	-0.16%	11.50%	3.63%
Energy	-4.46%	-2.32%	-9.44%	-42.97%
Financials	-0.36%	0.89%	8.75%	-18.03%
Health Care	-2.09%	-2.40%	5.30%	3.49%
Industrials	-1.25%	-0.06%	12.87%	-4.63%
Info Tech	-4.15%	-4.50%	12.74%	28.76%
Materials	0.79%	2.31%	14.10%	4.92%
Utilities	0.43%	0.11%	4.47%	-8.70%
REITs	-0.94%	-0.12%	3.65%	-6.22%