Notes from the Trading Desk

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Market Movers & Shakers

Despite lackluster price action by week's end, it was finally a rather interesting week here in the equity markets. The Dow closed down 27 bps, the S&P was off 13 bps, the Nasdaq was up 47 bps, and the Russell 2000 was actually up 119 bps — none of these moves are exciting. However, the markets followed a new pattern for the first three days of the week as volatility crept back into the market. US equities mirrored international indices overnight on Monday, Tuesday, and Wednesday which led to markets opening in the red each day. Unsurprisingly, the morning dips were quickly bought each day and markets ultimately rallied on Thursday. Outside of the equity world, gold was higher by nearly 2%, and crude was down 30 bps. The yield curve once again flattened this week. Interestingly enough, the 2 year is currently yielding 1.72%. Prior to our Election Day last year, the 10 year was yielding 1.76%. It's pretty astounding how fast the 2 year's ascent has been of late. In the last 2 and a half months alone, the 2 year has moved from 1.26% to 1.72% — a significant move for sure.

Money has flowed into just about any and every asset class over the course of the past decade or so. Over the past year alone, Central Banks have pumped more than $1.5 trillion into the marketplace. We've talked at length before about the impact that this has had on our own equity indices and domestic junk bonds, as well as indices around the world. However, the area with the most notable impact has been fixed income. This past week, Veolia, a French Utility company, issued a 3-year bond with a negative yield. This is the first time a BBB rated firm has been able to do so. What's more, the issuance was oversubscribed… there was high demand for corporate debt with a negative yield! According to *The Wall Street Journal*, Austria, a country that has been independent for 99 years, just issued 100-year debt with an interest rate of 2.10% (bear in mind that our 10 year as of this week's close was yielding 2.38%).The spread between US High Yield and US Treasuries is more or less at cycle lows. European High Yield is currently yielding 2.50% (again our own US 10 year is only at 2.38%!). According to Bank of America Merrill Lynch's High Yield Emerging Markets Effective Yield is yielding a paltry 5.79%, resting just below the all-time lows set in October. Keep in mind our Fed Funds rate was 5.25% just over 10 years ago.

Do these bizarre interest rates fall into the category of irrational exuberance? Is the European Fixed Income manager really to blame for buying the BBB rated debt with a negative yield? Do we really think the actions of an insurance company with a fixed income mandate are preposterous for fulfilling their mandate? Are their actions truly irrational? No. The marketplace created by the Central Banks is irrational. The $1.5 trillion pumped into the global markets by the ECB and BOJ in 2017 would be the 12th largest economy in the world. That's irrational. The punishment of savers around the world is what is bizarre about the Central Bank policy that has molded our economies since 2008. One of the largest US Banks, Chase, currently offers an annual percentage yield of 0.01% on their savings account regardless of size. The ECB recently published a paper in which they discuss potentially ending deposit protection. To put it bluntly, savers around the world have been left out in the cold. Knowingly too! While discussing low and negative interest rates a little over a year ago, Stanley Fischer said in an interview with Bloomberg "If you're a saver, they're very difficult to deal with and to accept, although typically they go along with quite decent equity prices. But we consider all that, and we have to make trade-offs in economics all the time, and the idea is, the lower the interest rate the better it is for investors." The Federal Reserve and other Central Banks around the world have been rewarding investors and punishing savers in their quest for the missing link of inflation. Have they thought to look for inflation in asset prices?

Portfolio News

It was another positive week here for Tandem's core holdings despite a negative week for the market. This past week, the average Tandem holding was up 1.3%, while the S&P was down –0.1%. Ross Stores and Smucker both reported positive numbers on their earnings call. They were subsequently rewarded by closing up 9.9% and 9.7% respectively for the week. Nike also had a rather nice week on the back of Foot Locker's 35% move higher following an earnings release in which they beat bottom and top line expectations. Lastly, MEDNAX, which has been suffering greatly YTD popped 12% this week. Elliot Management disclosed a 7% stake in MEDNAX stating that they believe the company to be undervalued and they are hoping to "engage in a constructive dialogue with … management regarding strategic options." All in all, it was not a bad week for our core holdings.

Scana also made news once more as they proposed a solution to their abandoned nuclear project. SCE&G acquired a natural-gas-fired power plant to replace more than 40% of the projected power that was to be provided by the nuclear power plant. Additionally, SCE&G plans to rollback residential electric rates to where they would have been in March 2015. Lastly, Scana plans on adding approximately 100 megawatts of large-scale solar energy to the SCE&G system — which represents a 50% increase in non-rooftop solar capacity.

	WTD	MTD	QTD	YTD
Dow Jones	-0.3%	0.3%	4.6%	18.6%
S&P 500	-0.1%	0.2%	2.5%	15.3%
Nasdaq	0.5%	0.9%	4.5%	26.1%
Russ 2000	1.2%	-0.6%	0.2%	10.1%
C.D.	1.3%	2.0%	4.1%	15.3%
C.S.	1.0%	3.4%	1.7%	6.2%
Energy	-3.4%	-1.8%	-2.5%	-10.9%
Fins	0.3%	-1.6%	1.2%	12.3%
H.C.	0.0%	-0.3%	-1.2%	17.3%
Ind.	-1.1%	-1.5%	-1.4%	10.8%
I.T.	-0.4%	0.9%	8.7%	37.0%
Mats	0.2%	-1.0%	2.7%	17.2%
Utes	0.2%	0.6%	4.5%	13.8%
REITs	-0.9%	2.7%	3.4%	8.0%

Upgrades & Downgrades

DG — Assumed neutral with a price target of $89 at Goldman Sachs (11/14).

DG — Upgraded to buy from neutral at Deutsche Bank. They raised their price target from $79 to $93 (11/15).

DLTR — Assumed buy with a price target of $106 at Goldman Sachs (11/14).

DLTR — Remains a buy at UBS, price target was increased to $106 from $100 (11/14).

EXPD — Initiated neutral with a price target of $59 at Goldman Sachs (11/13).

PYPL — Assumed neutral at Compass Point. Price target increased to $70 from $54 (11/16).

PYPL — Rating remains a buy at Deutsche Bank, however the price target has been raised to $88 from $77 (11/17).

SCG — Upgraded to neutral from sell at Guggenheim Securities. Price target increased to $45 from $43 (11/16).

SJM — Upgraded to positive from neutral at Susquehanna. Target increased to $127 from $110 (11/13).

SYK — Upgraded to outperform from neutral at Baird with the price target raised from $161 to $173 (11/16).

Dividend News

BF.B — Increased their quarterly dividend 8.2% to $0.1975 per share (11/16).

NKE — Increased their quarterly dividend 11.1% to $0.20 per share (11/16).

Earnings Calendar

Date	Time	Ticker
11/21	Pre-Market	DLTR
11/21	Pre-Market	HRL