Notes from the Trading Desk

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Market Movers & Shakers

The last week was rather dull as far as price action is concerned. The S&P 500 moved up a measly 1/4 of a percent. The Dow showed a little more life, closing up just shy of 1/2 a percent. The Nasdaq and the Russell however, are a different story! Tech continued its extensive YTD run! The tech sector was up 1.84% which allowed the Nasdaq to close up nearly 1%. Conversely, the Russell 2000 closed lower by 90 bps. Small Caps have struggled as of late. The index hit an ATH on October 5th, and nearly a month later we are looking at a rather ugly chart that has continued to drift lower. Treasuries were mostly stronger for the week and the yield curve continued to flatten. 10s and 2s printed their lowest spread for the year and the lowest spread since November of 2007. Gold inched lower this past week. The precious metal is currently at its lowest level since August. Lastly, oil had an impressive week — WTI closed up more than 3%. Matching levels we have not seen since the summer of 2015!

News wise, there were a few important headlines — though I won't spend too much time rehashing them here. First, the House released their tax bill. It pointed towards a lower corporate tax rate and simplified individual income-tax brackets. President Trump nominated Powell to follow Yellen as the next Fed Chair — a move we have discussed in the past and a move the market was anticipating. Finally, and interestingly, the Bank of England raised interest rates for the first time in over ten years. Overly easy monetary policy is slowly, but surely, being tightened around the world.

Bullish Investor Sentiment data came out last Friday (the 27th). The print, 63.5, was the highest print in more than 30 years. Investors are now more bullish than they were during the mid 2000s leading up to the greatest financial crisis and stock market crash since the Great Depression. Investors are now more bullish than they were throughout much of 1987 — a year in which the market was up 39% in 9 months before falling more than 20% in a few short days. Investors are now more bullish than they were during the Tech Bubble of the late 1990s. According to University of Florida research, nearly 800 companies IPO'd during that time with an average first-day return of more than 65%! Yes, we are even more bullish than we were then!

Over the last 31 years (so as to include all of 1987, a rather important year), the weekly Investor Intelligence Survey has printed and gauged 1,606 readings of bullish sentiment. A reading above 60 has only occurred 46 times, or a little less than 3% of the time. Thus, a reading above 60 is certainly not a complete rarity — though I would argue that it is far from common. To be sure, a print of 60+ does not necessarily signify a market top, however it has preceded quite a few. Late August of 1987 showed a print of 60.8. In 1999, 8 such readings were printed (for those keeping score at home, we have had 12 such prints YTD — including one each week of October). The first 2 weeks in October of '07 were also met with two 60+ prints. While it may not mean a market top is imminent — since those were only 11 of the 46 readings — surely it seems to be a key ingredient. What's more though, it might signal slightly choppier waters ahead. The average 1 month, 3 month, 6 month, and 1 year return over the last 31 years for the S&P 500 are 0.7%, 2.1%, 4.2%, and 8.5% respectively. However, the average returns for the S&P following a bullish sentiment print of 60+ are –0.8%, 0.9%, 2.7%, and 3.0% — all are lower than the average time period. Does this signify a market top? There's no way to tell in the moment, but such times of optimism should always be met with caution.

Upgrades & Downgrades

CERN — upgraded to outperform from neutral at Baird, target increased to $76 from $67 (10/31).

CERN — downgraded to outperform from top pick at RBC, target cut to $74 from $84 (11/1).

HRL — initiated sector weight at KeyBanc (10/30).

HRL — initiated underweight at Morgan Stanley with a target of $26 (11/3).

MSFT — upgraded to buy from hold at Argus Research, target of $95 (10/31).

WBA — downgraded to market perform from outperform at Leerink Partners, target decreased to $72 from $86 (11/1).

Earnings Calendar

Date	Time	Ticker
11/6	Pre-Market	CVS
11/7	N/A	EXPD

Portfolio News

Well it was the second busiest week of earnings this quarter for us here at Tandem, and it was actually a rather quiet week. Our names that reported during the week fared, on average, slightly better than the S&P, The S&P 500 moved higher this week 26 bps, whereas the Tandem companies that reported were higher by 79 bps on average for the week. This upside performance was led largely by BDX's beat and raise, YUM's stellar beat, and Verisk's healthy beat as well.

Scana, and oft-discussed stock through Tandem's various pieces of commentary, made a marked move lower. Scana announced the retirement of Chairman and CEO Kevin Marsh and the retirement of SVP of Scana and COO, President of SCE&G Stephen Byrne. CFO Jimmy Addison is being promoted to CEO and former treasurer Iris Griffin will become CFO. Scana continued their downward move and closed lower more than 10% for the week.

The rather dichotomous makeup of our Core holdings of late (we have 23 names within 5% of their 52 week highs and 7 names off 20% or more) has allowed us to be rather aggressive at the transition level. This past week we were able to take advantage of temporary selloffs and earnings news to add to 13 different companies in our recent transition accounts.

	WTD	MTD	QTD	YTD
Dow Jones	0.4%	0.7%	5.1%	19.1%
S&P 500	0.3%	0.5%	2.7%	15.6%
Nasdaq	0.9%	0.5%	4.1%	25.7%
Russ 2000	-0.9%	-0.5%	0.3%	10.2%
C.D.	-0.8%	-0.3%	1.7%	12.6%
C.S.	0.0%	0.1%	-1.5%	2.9%
Energy	1.7%	1.0%	0.3%	-8.4%
Fins	-0.1%	0.7%	3.5%	14.9%
H.C.	-0.7%	0.6%	-0.3%	18.4%
Ind.	-0.8%	0.4%	0.5%	12.9%
I.T.	1.8%	1.0%	8.8%	37.1%
Mats	-0.5%	-0.3%	3.5%	18.1%
Utes	0.3%	0.2%	4.1%	13.4%
REITs	1.6%	0.7%	1.3%	5.8%

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