Notes from the Trading Desk

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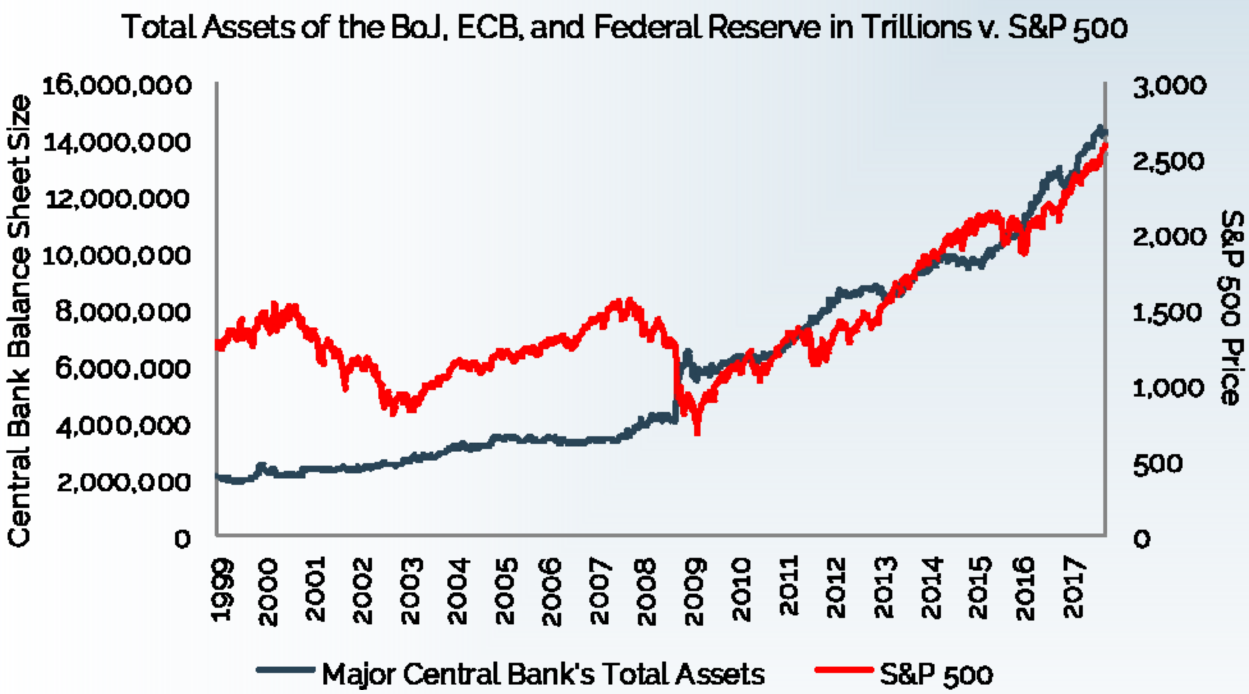
Market Movers & Shakers

Another week is in the books! The S&P continued its ascent upward — closing higher for the 7th straight week. An impressive run to say the least, as we haven't done that since 2014. For the week, the S&P closed up 23 basis points, while the Dow was up 45 basis points. The Russell 2000 closed more or less flat, though it was technically down 6 bps. The Nasdaq however, was the real winner this week! It closed up 1.1%. The Tech sector moved 2.87% higher for the week, but all of that move came on Friday as the sector closed up 2.91% following impressive beats by Amazon, Intel, Microsoft, Alphabet, and many more. Tech was the most obvious winner this week. On the flip side, Telecom, REITs and Consumer Staples all got whacked as yields continued to edge higher for much of the week. Healthcare was also a notable laggard following Amazon's reported push into the pharmacy space. Owens & Minor, Henry Schein, McKesson, Cardinal Health, AmerisourceBergen, and CVS were all off at least 7% due to Amazon (did I mention that Amazon was up over 13% this week?). News out of Washington for the most part took a backseat this week as earnings remain this market's driver. Speaking of Washington though, Fed Governor Powell is reportedly President Trump's frontrunner to replace Janet Yellen as the Fed Chair. Widespread belief is that Powell would maintain the status quo as far as monetary policy is concerned.

With regard to monetary policy, the European Central Bank announced that they are set to trim back their quantitative easing (QE) asset purchases. Their current bond-buying program has the ECB purchasing €60 billion per month, but they announced that they will halve that amount to €30 billion per month starting in January of next year. Why does this matter to the US equities market? Well, according to *The Wall Street Journal,* since the spring of 2016, the ECB has purchased €120 billion of European corporate-debt. The blind purchasing of investment grade debt on behalf of the ECB has pushed a quarter of all investment grade European corporate-debt to a negative yield. This has crowded out previous investors in this space to search for yield elsewhere. Thus, European junk bonds are currently yielding less than US treasuries. The yield on our own domestic junk has been pushed down to cycle lows as well. Essentially the combination of the ECB, the BoJ, and the Federal Reserve's asset-purchasing programs have forced yields lower, which has in turn forced former fixed income investors to search for yield in other marketplaces. This has in turn caused all asset prices to rise. To borrow a phrase from the most recent TANDEM Report, the Central Banks' have been supplying the punch for this party. Only now, our punch supply is slowly, but surely, being taken away. Now, you might point out that I just got done in the paragraph above exclaiming that earnings is currently in the driver's seat! That certainly is true in the short-run, but it is hard to deny the power of the Central Banks' effect on the market since the last recession. The chart on page 2 shows the S&P 500's price chart and the total combined assets of the BoJ, ECB, and our Fed on a weekly basis dating back to January 1, 1999. The balance sheets remained relatively small at the start of the century. However, in the middle of the Financial Crisis, Central Banks began their newest experiment through QE. The correlation between the size of their aggregated balance sheets and the S&P 500 is remarkable.

Going forward, the first signs of weakness in the marketplace are often preceded by cracks in the junk bond market. Most recently, junk bonds peaked in late 2014 before the market stalled out throughout much of 2015 and ultimately fell 13% into 2016. Junk also began to stall out throughout much of 1999 heading into the tech bubble. The BofA Merrill Lynch US High Yield Total Return Index again hit an all-time in June 2007, four months prior to the S&P 500 tapping out. The index is still moving along nicely this go-round, though its ETF counterparts HYG and JNK are beginning to show signs of rolling over. Regardless of outcome, a continued monitoring of the high yield market, especially given the indirect manipulation by Central Bank's, is certainly warranted!



	WTD	MTD	QTD	YTD
Dow Jones	0.5%	4.6%	4.6%	18.6%
S&P 500	0.2%	2.4%	2.4%	15.3%
Nasdaq	1.1%	3.2%	3.2%	24.5%
Russ. 2000	-0.1%	1.2%	1.2%	11.1%
C.D.	1.1%	2.5%	2.5%	13.5%
C.S.	-1.5%	-1.5%	-1.5%	2.9%
Energy	-0.6%	-1.4%	-1.4%	-9.9%
Fins	0.6%	3.6%	3.6%	15.0%
H.C.	-2.1%	0.4%	0.4%	19.2%
Ind.	-1.2%	1.3%	1.3%	13.8%
I.T.	2.9%	6.8%	6.8%	34.6%
Mats	0.7%	4.0%	4.0%	18.7%
Utes	0.3%	3.8%	3.8%	13.1%
REITs	-1.6%	-0.3%	-0.3%	4.2%

Upgrades & Downgrades

CERN — downgraded to neautral from overweight at JPMorgan. Their price target was cut from $71 to $73 (10/27).

CERN — remains a Top Short Idea at Hedgeye, sees 30% downside (10/27).

Dividend News

ABBV — AbbVie announced that they are increasing their dividend by 10.9%, payable February 15th (10/27).

WCN — Waste Connections announced that they are increasing their dividend 16.7%, payable November 22nd. (10/25).

Earnings Calendar

Date	Time	Ticker
10/30/17	Pre-Market	D
10/31/17	Pre-Market	ECL
10/31/17	Post-Market	FISV
10/31/17	Post-Market	VRSK
11/1/17	Pre-Market	CTSH
11/1/17	Pre-Market	MD
11/1/17	Post-Market	SNI
11/1/17	Post-Market	COST
11/2/17	Pre-Market	BDX
11/2/17	Pre-Market	YUM
11/2/17	Pre-Market	ICE
11/2/17	Post-Market	RSG

Portfolio News

What a busy week this was! Not only was it the busiest week of the quarter for earnings in the S&P 500, but it was the busiest week of earnings here at Tandem as well. We also had headline moves due to Amazon reportedly receiving approval for pharmacy licenses in 12 states. I'm not going to spend much more time dwelling on Amazon here as it is a topic we have often discussed in the past (though I highly recommend reading the most recent TANDEM Report's column "Is History Rhyming Again?" to gain a little insight into Tandem's opinion on the battering ram that is Amazon).

According to FactSet, of Tandem's 23 companies that have reported Q3 numbers thus far we have seen reported sales growth of 10.0% and EPS growth of 8.7%. For comparison, according to FactSet, the S&P 500 has reported sales growth 6.9% and EPS growth of 7.9%. All in all, we have had a number of companies report positive numbers and subsequently be rewarded by the market. WABTEC and United Technologies started the week off for us . WABTEC beat analyst estimates but guided lower. They were trading lower in the pre-market, but ultimately reversed course once trading began. They closed more or less flat for the week despite their 10+% intraday move on Tuesday. UTX did the opposite! They beat and raised and were up 2% in the pre-market before closing off 1% that day. On Wednesday afternoon and Thursday morning, we had Waste Connections (WCN), O'Reilly Automotive (ORLY), NextEra Energy (NEE), Scana (SCG), and T. Rowe (TROW) all report. Waste, O'Reilly, and NextEra were all up this week, while Scana and T. Rowe both closed notably lower. Thursday night and Friday morning had Cerner (CERN), ResMed (RMD), Stryker (SYK), Microsoft (MSFT), and AbbVie (ABBV) all report. All were largely positive reports with the exception of Cerner, who guided light for Q4 and fiscal year 2018.

Outside of the earnings realm, CVS and Walgreens both had noticeable moves to the downside on the backs of the aforementioned Amazon news, as well as President Trump's criticism of the drugstore industry and its role in the opioid crisis. CVS also made a big splash after *The Wall Street Journal* reported that CVS was in talks to buy Aetna. The move would push CVS into a new line of business (insurance) and would also be a massive acquisition as Aetna has a market cap of nearly $60B,