

# NORTH FORTY TWO

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December 7, 2018

In our last note from October, after a sudden drop in equity prices, we posited that a correction could extend another 4%-6%. Following the market action of the past week, we are still in that range.

Year-to-date, in a strange oddity, both the S&P 500, a broad measure of the largest U.S. companies, and the Barclays Aggregate, a measure of bond prices, are down around 1.3%. In fact, for the first time since 1972, there is not a global asset class that has returned more than 5% for the year, and there are very few asset classes that have outperformed cash.

There are a few important themes that have caused this correction:

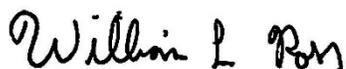
- U.S. equities were simply overpriced and had pulled future gains forward
- The market has now realized that next year's growth and earnings estimates were too lofty
- Interest rate volatility, plus the uncertainty of the Federal Reserve's future path and rate of change in 2019
- Heightened trade uncertainty with China and related geopolitical concern

We feel that current valuations are now reasonably fair, assuming no recession in 2019. That said, the ongoing correction is evidence that the market is having trouble figuring out the appropriate price levels. Our base-case view in the near-term is that U.S. stocks will hold above February lows, and if so, we may see a Santa Claus rally with equities generating modestly positive returns for the year. If those levels do not hold, it would appear that market participants believe a recession is closer than previously thought.

We are now turning our attention to our 2019 outlook and fine-tuning our positioning going into the New Year.

We would encourage you to reach out to us if you are feeling anxious or concerned about the recent volatility. We would be happy to review the strategy and our confidence in our positioning looking ahead.

Best,



Will Ross  
Founder & Chief Investment Officer



Whitney Dow  
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