NORTH
FORTY TWO
Est. 1998

February 27, 2020

We know that the last several days have been unnerving for investors. Below is some context for the market action of the past five trading days, in which the S&P 500, a broad-based U.S. Index, has declined 11.75%. Our thoughts on a correction that has been long overdue but still feels concerning:

- Stocks, in large part fueled by momentum factors, reached all-time highs this month and valuations had become quite lofty compared to historical norms at approximately 20 times earnings.

- The backdrop of stretched stock prices was amplified by an accommodative Federal Reserve hoping to limit the impact of a recessionary manufacturing sector spilling over to the broader economy by keeping rates low and adding substantial liquidity into the system.

- The Coronavirus epidemic initially halted global supply chains, creating a supply shock for manufacturers sourcing components from Asia.

- The Coronavirus has now spread across continents, with a relative handful of cases observed within the United States. Fear of this advance is affecting the speed of this correction.

- This public health shock has a follow-on psychological effect in addition to the immediate and direct economic impact. People are likely to start wondering about the future and worrying about our economy falling into recession.

- With a stock market priced to perfection, the notion of a virus causing a sudden slowing of already anemic global growth has caused a re-pricing of assets on Wall Street. This is justified but not fun.

- Fortunately, asset allocated portfolios with meaningful exposures to bonds and cash have had some ballast to weather some of the market storm, and year-to-date returns are down but not significantly.

NORTH FORTY TWO & CO.
PORTLAND - LAKE OSWEGO • CENTRAL OREGON - BEND
(503) 417-2970 • NORTHFORTYTWO.COM

- The flight to quality in fixed income has seen 30-year Treasury Bonds print all-time lows in yield at under 1.80%, and 10-year Treasury Notes at an all-time low of under 1.30%, as investors seek safe haven. At these levels, the time is now to look at refinancing mortgages.

- Double-digit percentage corrections are quite normal in the rhythm of the stock market – we have seen 10% drawdowns nine times in the past decade. That said, the speed of this one is unprecedented.

As always, we are here to support you, to listen to you, and to educate you on what is happening in global markets and why those events matter. Now that the market correction is in play, our attention turns to what impact these developments will have on global growth, the U.S. economy, and the upcoming elections. Please reach out to us with any questions or concerns, or if you would like an update on our current strategy to manage your portfolio though all of this. Your trust continues to be our guiding light in our endeavors on your behalf.

Best,

William L Ross
Will Ross
Founder & Chief Investment Officer

Whitney Dow
Whitney Dow
President