NORTH
FORTY TWO
Est. 1998

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Some context and thoughts on the past two market sessions:

- Over the course of the past two days, the broader market, as measured by the S&P 500 Index, has slipped 5.4%. Other measures such as the Dow Jones and the tech-heavy Nasdaq are off similarly.

- This momentum correction has been expected and is overdue; however, the velocity of the selloff is discomfiting. Nevertheless, 3% daily declines occur with some regularity, on average twice per year.

- On average, each calendar year we see a peak-to-trough drawdown of -13% for stocks. The current drawdown from all-time highs is approximately -7%, occurring over the last couple of weeks. To note, in February, we experienced a drawdown of just over -10%.

- Several key technical levels for the broadest market measures were breached on high volume, which can portend more pain in the short-term and more modest returns in the intermediate-term.

- A central catalyst for the reversal has been the speed at which market interest rates rose over recent weeks. Tightening monetary policy and the normalization of interest rates was much anticipated, as the era of quantitative easing is now well in the rear-view mirror.

- While the domestic economy remains healthy – albeit without notable inflationary pressures (yet) – global growth is slowing against the backdrop of contentious trade policy and elevated debt levels.

- Alternatives to equities in diversified portfolios, such as shorter-term fixed income exposures, have faired well in this rapid risk-off move. Cash equivalents also remain attractive at 2% yields.

- Looking forward, the critically-important upcoming earnings season looks strong, as analysts see earnings growing at a robust 19% clip. If companies exceed estimates and convey healthy forward guidance, that will diminish the impact of this recent downturn.

Nothing so far has caused us to change course; this dip presents an opportunity to establish new positions or add to long-term exposures at attractive prices. Our asset allocation strategy is designed to mute these violent market movements, and markets like those experienced over the past two days have served to validate our approach.

The difficult question is always where do markets go from here. Our best educated guess is that this correction could extend another 4%-6%. If earnings and economic growth meet current Wall Street expectations, some of the drawdown could be earned back by year-end. If domestic growth slows and earnings have already peaked (which is quite possible), we would expect returns to be very modest and challenged by those headwinds while markets reprice to more reasonable valuations.

As always, we are here to support you and to educate you both to what is happening and why, as well as to share with you the strategy we are deploying to manage through the inevitable volatility of global markets in late-stage cycles.

Best,

Will Ross
Founder & Chief Investment Officer

Whitney Dow
President