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PORTFOLIO UPDATE – JANUARY 9, 2019

When the market is in free fall, the question we always ask before being willing to assume more risk is "What will put in the bottom?" We have found through our years of analysis and portfolio decisionmaking that the bottom usually arrives when a significant gesture from outside the market changes the direction of sentiment. The severe market correction stemming from the financial crisis a decade ago effectively stopped in March of 2009 when Treasury Secretary Geithner gave form and substance to the ideas put forth in the Emergency Economic Stabilization Act of 2008 (the Troubled Asset Relief Program, TARP). Europe stopped bleeding in late July of 2012 when Mario Draghi, President of the European Central Bank, said in his comments to the Global Investment Conference in London "...the ECB is ready to do whatever it takes to preserve the Euro."

What we experienced over the last two months was a far cry from the genuine crises that were driven by fundamental concerns over asset values and market structure in 2008 and 2012. There were certainly issues aplenty, from slowing growth to trade conflict with China to a looming US government shutdown. However, there were no real revelations that triggered the sell-off. The concerns were known and, at least theoretically, already priced by the market, including incremental tightening by the Fed which had been telegraphed quite literally for years ahead of time. We experienced a worldwide drawdown that was mostly feeding on itself. Selling begat selling. We needed our Geithner or Draghi moment.

That moment came on January 4th when Fed Chairman Jerome Powell, speaking at the American Economic Association annual meeting along with the prior occupants of his seat since the Crisis, Ben Bernanke and Janet Yellen. Powell's comments were not as profound and decisive as those made by Geithner or Draghi in their moments, but they were sufficient to turn the tide. "As always, there is no preset path for policy." and "...we will be patient as we watch to see how the economy evolves." did the trick, even though he did not commit to actually doing anything.

We took a few beats to see how global markets would absorb the shift in tone to make sure it would hold, and then decided to step back in with conviction. On January 9th, across all models, we restored equity exposure and actually took an overweight in equities relative to our policy benchmarks. However, we were targeted on where the assets were deployed. We established overweights through the US in all market caps in both growth and value. After letting weakness across the Pacific Rim resolve we recommitted to Asia but without Japan, and based on more bad than good signs in Europe we remain deeply underweight there in both developed and emerging markets. Similarly we do not have material LatAm exposure. In fixed income we remain largely removed from international bonds, and have maintained our shorter duration and preference for the US dollar.

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