

Message

**From:** Scott Borgerson [REDACTED]  
**Sent:** 10/12/2018 1:30:14 PM  
**To:** [REDACTED]  
**CC:** [REDACTED]; [REDACTED]  
**Subject:** Re: Volatile Markets

Thanks for the note Lyle and Scott and hello from California, the land of fruits and nuts. Keep calm and carry on.

Let us know if you have an idea for our planned portfolio distribution over time if there is a particular opportunity, e.g. when we legged into MLP's.

Otherwise, we're cool.

sgb

Sent from iCloud

On Oct 11, 2018, at 09:16 PM, [REDACTED] wrote:

Scott/Ghislaine,

We are reaching out to let you know we are monitoring data and comments from a variety of sources on the dramatic sell off in equities. We have attached our CIO's responses and commentary here. Below are the basic take-aways:

- The movement in interest rates is certainly getting most of the attention for the correction. There is a strong case for this argument as bonds become more attractive relative to stocks as well as the fact that the cost of capital for market participants increases as interest rates increase.
- Tariffs can't be ignored and may be a contributor to the current weakness if prices rise as a result.
- Growth equities, FANG stocks and technology in particular were hit the hardest (the Russell Growth Index and Nasdaq fell around 4%) – These are the companies which have led the market higher this year. Before the recent correction growth stocks were up around 17% while value stocks were up under 4%. Growth equity valuations in many cases got stretched, and this is more of a normal mean reversion in those valuations.
- Value and yield oriented stocks didn't fall as much. MLPs as an example were down 2% yesterday, but are still up on for October.
- The S&P 500 recently broached the year 2000 data point where technology firms represent over 25% of the value of the index. This has made the S&P 500 more sensitive to the draw down in tech stocks.
- The media is also focused on Trump comments directed at the Federal Reserve. The Fed is supposed to be an apolitical body, there may have been some reaction later in the day to Trump's comments, as its not typical to see a President take shots at the Fed.

It's always hard to tell exactly what cause and effect are until time has passed and information becomes more perfect, however we do think the impact of interest rates is ultimately the blame. We saw something very

similar occur in Q1 of 2015, also at a time that the yield curve was steeping and after a period of strong performance in growth/technology stocks.

Late cycle investing tends to persist with an upward trend and more volatility which we have discussed in the past. The UBS CIO view of continued strong earnings power as a result of tax reform and continue economic growth should be enough to keep the cycle going, as such UBS believes we will end the year higher in equities.

In the short term, there are a lot of technical issues that take over in the market, given yesterday's dramatic fall it would not be unusual to see another couple of days of selling, but we do not believe there is a reason to make changes to long-term portfolios.

As always, please let us know if you have any question or would like to connect.

Best,

Lyle & Scott

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