BARRETT
ASSET MANAGEMENT

Investment Management Perspective

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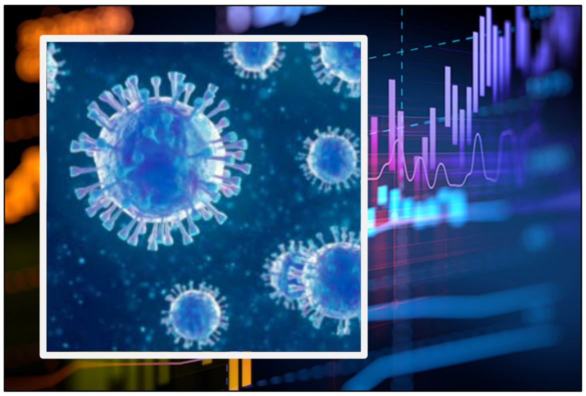

The recent heightened market volatility is certainly unsettling for all of us. Our goal is to separate the noise from fundamentals. As Warren Buffett has said, "Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it."

For most of 2019, the US stock market seemed unstoppable. Specifically, the S&P 500 index generated a total return of 31.5%, representing the second-best year of annual returns since the 2009 financial crisis. Although the US market did experience pockets of vulnerability throughout last year, mostly due to political rhetoric or uncertainty over the trade war, those periods of volatility now pale in comparison to the market weakness we saw this past week, which as of this writing is a double digit pull back from the peak of February 19th. In just a few days' time, market volatility (as measured by the CBOE volatility index) has spiked to levels last seen during the 2018 Q4 sell-off.

While it is widely known that the COVID-19 (aka corona) virus has stoked worries and is a major catalyst for this setback, the latest market behavior is baking in fears that a surge of cases outside of China may push the global economy into a recession. Earnings for the S&P 500 have already been revised downward. Some economists believe this will just be a temporary hit to Q1 growth; however, more bearish scenarios are calling for no earnings growth for the entire year.

In our view, and recognizing the data points are rapidly changing, the coronavirus outbreak will likely trigger a temporary, but meaningful, setback to world GDP. Lost revenue, as in the case of a consumer foregoing travel or unable to buy a cup of coffee at a cafe in China, will dampen earnings growth to a degree. However, deferred revenue, as in the case of delays in manufacturing, could be recouped in later quarters. The exact negative impact to global GDP will depend on what government officials do in an effort to contain the virus. As we have seen with past viral outbreaks, namely SARS (2003), Ebola (2013), MERS (2015), and the swine flu (2009), it could take at least a quarter or two before signs of containment begin to form. In the event scientists can find an effective treatment for the virus then markets may rebound sooner.

Bear in mind that the setback to GDP could be offset by changes to monetary and fiscal policy, which may shift to bolster liquidity in the financial system. It is our belief the Fed will react with further rate cuts if the situation intensifies. Further, a global coordinated effort amongst major central banks could be possible.

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—Warren Buffett

As we continue to digest new information, our focus is on the facts, to maintain a long-term perspective and not trade on fear. We continue to favor companies with robust balance sheets (think high cash flow, low leverage) that will help withstand further pressure should the economic effects become more pronounced. Looking back at our last quarterly outlook piece, we wrote there are always unpredictable twists and turns that force a reassessment of outlooks. The coronavirus, in our opinion, fits the bill.

The entire team at Barrett Asset Management is available to you.

Please let us know if you have questions or concerns that we can help address.

Stay calm, patient and healthy.

Bob Milnamow
President

Amy Kong, CFA
Chief Investment Officer

About Barrett Asset Management

Since 1937, Barrett has been putting its clients first—working to help each of them achieve their goals and aspirations. Barrett is an independent investment management firm focused on the growth and preservation of wealth for individuals, families, trusts and non-profit institutions. The firm tailors each investment portfolio based on a client's objectives for income and growth through suitable asset allocation and individual investment selections. To learn more about Barrett, please visit www.barrettasset.com.