OLIVAR Capital Management

February 2018 Client Note

The Dow Jones Index **(DIA)** plunged 1,175 points on Monday, making for the index's largest point decline in history. This drop added dramatically to last Friday's 666-point dive. The S&P500, a better representation of the market, recorded the second ever 100+ point decline in history, equating to a 4.1% one-day move. Regardless of your benchmark, it was an ugly start to the week for global markets, and comparisons to past recessions have been flying around. It all started when interest rates spiked due to fears of an overheating economy, which would trigger inflation and thus more rate hikes. Markets appeared to stabilize on Wednesday, but last night the S&P500 fell another 100 points, for a 5-day loss of over 10%.

Whether this is the start of a bear market or just a small hiccup, we as long-term investors are committed to staying the course. We are monitoring as the situation unfolds, but keeping in mind that corrections in the range of 5-10% are healthy, and especially common during sustained bull markets. Remember, the stock market almost never crashes directly after all time highs, holding true in the crash of 1987, the tech bubble pop of 2001, and the recession of 2008. It is rare that high valuations and an overheating economy turn straight to a recession, especially since economic fundamentals still look fairly positive.

Trump's tax bill is a huge win for the stock market, and he'll be pushing to deliver a major infrastructure plan later this year. This is accelerating GDP growth, and corporate earnings are set to outperform. Companies have become armed with large sources of cash, which can be used to buy back shares during market weakness. This may have been a deep enough sell-off to get rid of overbought conditions, retrace to stronger chart support, and shake out latecomers. The focus will soon return to earnings and economic data, both of which are coming in strongly.

Our position moving forward:
Just as we keep a level head during times of market euphoria, we are committed to staying the course during periods of volatility. We are strategically positioned to endure downward pressure, and our portfolio has outperformed index benchmarks this past week. Market outlook is unclear especially after a relentless bout of selling in the last half hour of trading yesterday, however we are more inclined to view this situation as a buying opportunity. We are not aggressively buying at the moment, however 100-year-old conglomerates such as General Electric **(GE)** trading at a PE ratio of 13x are hard to ignore. We will likely be allocating cash that has been on the sideline over the next month.

This week has suggested a regime change in market psychology. 2017 was characterized by "lower for longer" in respect to interest rates, while 2018 is poised for "inflation is coming". If there's any one economy in the world that would enjoy some inflation more than Colombia, we don't know of it. There are masses of stalled out construction projects, and the arduous wait on oil prices to go up and consumer credit to stop shrinking is ending. If inflation picks up in the U.S., Europe and China, Colombian stocks such as Grupo Aval Acciones **(AVAL)** that have been in second gear for years, are positioned for a moonshot to the upside.

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