TURTLE CREEK

March 27, 2020

Dear Turtle Creek Client,

Global markets rallied significantly through the week as unprecedented intervention by Central Banks calmed dysfunctional credit markets and equities reacted favorably to a historic government stimulus plan. While it is impossible to speculate on when markets and the economy will return to a normal place, we continue to see attractive valuations in equities for those investors with a long-term time horizon and believe staying invested through this market cycle remains the best plan.

While all eyes have been on stock market, the bond market has quietly delivered even greater dislocations. Investment grade bonds have only traded hand at steep haircuts and less credit worthy companies have been unable to borrow. Bond markets settled down this last week thanks to unprecedented Federal Reserve action. The Fed signaled it will do almost anything to maintain the flow of credit including extending loans directly to corporations for the first time in its history and bond purchasing well in excess of any steps taken in the wake of the credit crisis. This “Whatever It Takes” stance had an immediate effect, with spreads on riskier bonds declining and gyrating treasury yields exhibiting more stable behavior.

Stock markets jumped considerably as well, as the catalyst of direct government support for out-of-work consumers and hard-hit industries enticed investors back into the market. The Dow Jones Industrial Average jumped 20% from its March 23rd low. Both the nature and scale of this government rescue package are different from previous recessions. While government response was eventually robust in the wake of the credit crisis, it was slow-moving and largely left the economic recovery to the private sector. The current package is much faster, much more targeted, and much greater in scale. Most importantly, it is backed by a similar “Whatever It Takes” bi-partisan attitude in Congress.

We have fielded many client inquiries about this week potentially “being the bottom” and we would caution against that sort of speculation. We believe market troughs are only recognizable in hindsight. We see three key elements of a sustainable market recovery and two of them, Federal Reserve action and Federal Government support, arrived in great form this week. The most important, however, is the duration of the economically debilitating measures needed to adequately weather this health scare. That remains very much up in the air as the virus continues to grow.

We stress instead the attractive valuations now available for the very best of U.S. companies. We believe that high-quality corporations will emerge from this economic shock and will continue to generate profits and cash flow for the long-term. As long as your investment plan provides adequately for your near-term needs, it is best to look through market instability and take advantage of these historic discounts to intrinsic value. As market volatility subsides and daily news flow becomes less negative, valuations will begin to more accurately reflect future earnings. Prices for many of these stronger, well capitalized businesses will move higher accordingly.

As always, please call or write should you have any questions.

TURTLE CREEK MANAGEMENT, LLC
TURTLE CREEK TRUST COMPANY, LTA

Turtle Creek Management, LLC | 3838 Oak Lawn Ave | Suite 1650 | Dallas, Texas 75204 | 214-468-0100 | 214-468-0106 fax |
turtlecreekdallas.com