*"Losing your head in a crisis is a good way to become the crisis."*

C.J. Redwine, *Defiance*

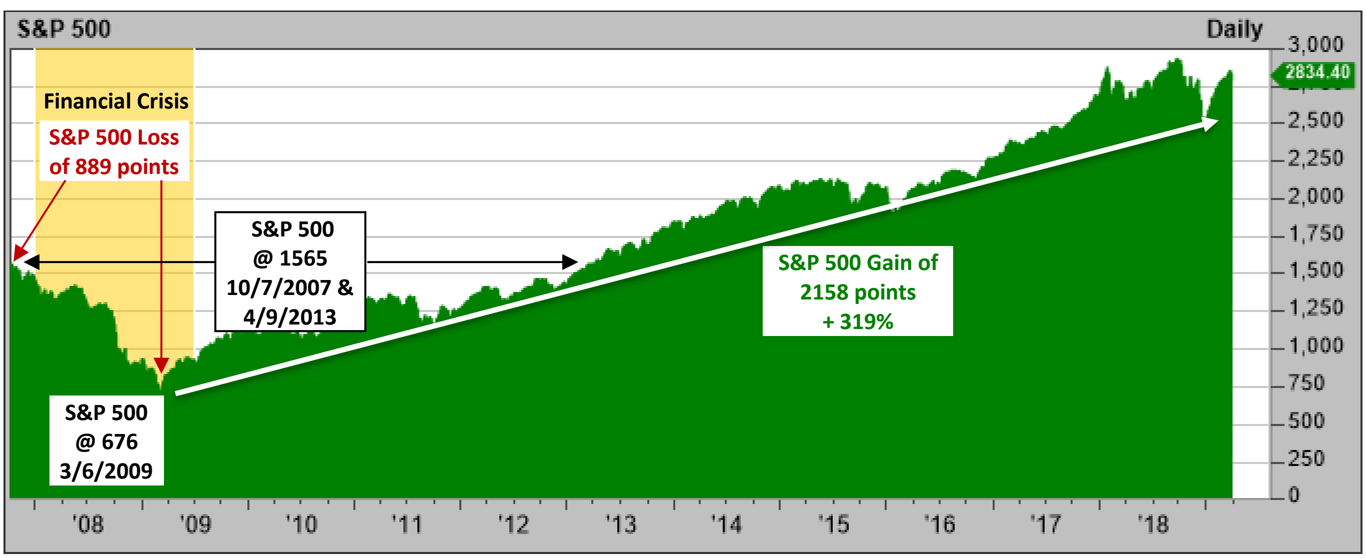
### Ten Years after the Financial Crisis

In the first quarter of 2019, we officially passed the 10th anniversary of the 2008-2009 financial crisis market low struck on March 6th, 2009, when the S&P 500 touched 666. As we mark this important, albeit distressing, event in history, we at Aureus want to take this moment to commemorate the crisis, but more importantly, look at what has happened since then.

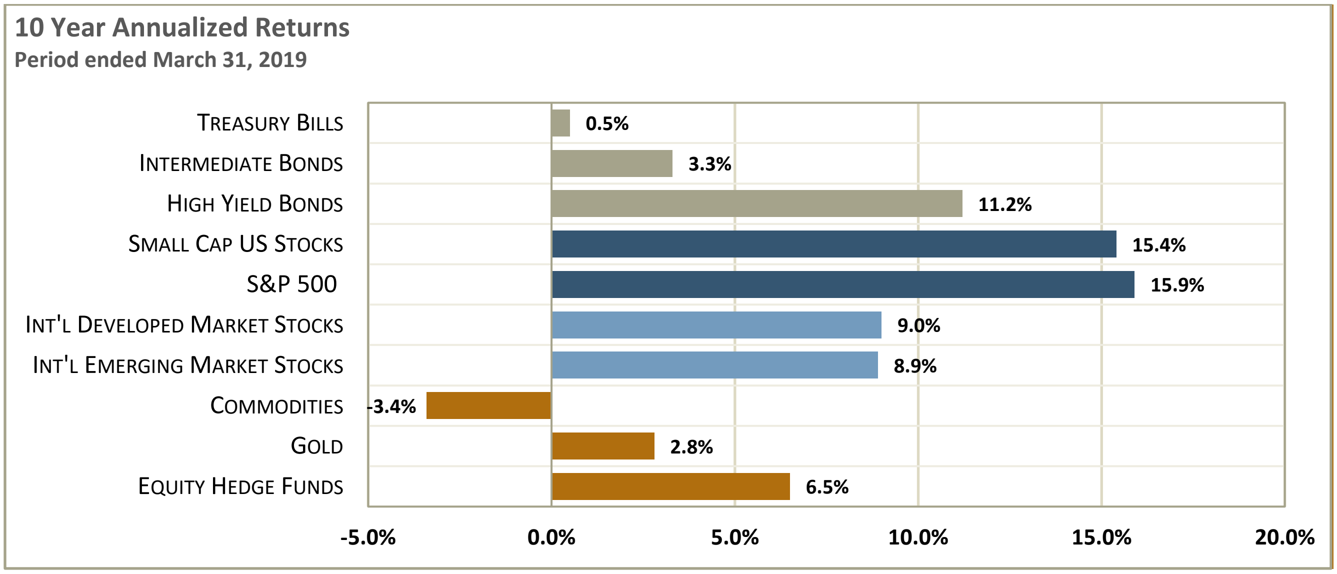
From the pre-financial crisis closing high of 1,565 on October 7, 2007, the S&P 500 dropped 889 points to a closing low of 676 on March 6, 2009. In 17 months, the financial crisis dropped the index 57%. For investors who lived through that bear market it was a trying time, to say the least.

Those who resisted the urge to sell as the market dropped to record lows have since been rewarded. Over the ten-year period starting on March 6, 2009, the S&P has risen 2,158 points or 319% cumulatively. Put another way, $100 invested then would be worth $419 today. This represents a compound annual growth rate of 15.9%, the S&P's highest rate of return over a ten-year period other than the 'dot.com'-fueled period between 1990 and 2000.

Patience was required as recovery to the pre-crisis high of 1,565 took until April 9, 2013 – or 49 months. Since then, the market has added another ~80% to a level of 2,834 at the end of Q1 2019. For the long-term investor, this also means that if you had invested money at pre-crisis market highs (i.e., the "worst" time), you still would have realized a return of ~80% (more than 108% including dividends) if you had remained invested through today.




US equities have held up remarkably well versus other asset classes and geographies over the past decade. The only asset class with negative returns during this time is commodities, where a dramatic rise in US oil production and slowing metals demand from emerging markets have weighed on prices. The interest rate on ten-year US Treasury Bonds ranged between 1.45% to 3.84% over this period, which contributed to the low returns on high-quality fixed income. The prolonged underperformance of International stocks vs. the US is the most pronounced we have seen since the 1990s, when global investors gained the ability to move funds across borders with ease. This is in part a testament to the bold, coordinated actions taken by the US Treasury and the Federal Reserve in the wake of the financial crisis, which stands in contrast to the European Union, which had more difficulty managing the balance between cutting budgetary excesses and providing needed stimulus.




The US economy and financial markets have proven their resilience in the wake of the financial crisis. While the current economic recovery is now one of the longest in the past century, it has also been much more gradual than previous recoveries. Further, significant regulatory changes in the wake of the financial crisis, have left our banking system far better capitalized and insulated than was previously the case. While this may have stymied some economic growth over the past decade, it also helped prevent significant new asset bubbles.

Pre-crisis, the backdrop for the housing market was marked by historically high valuations, loose lending standards, and low levels of collateral. Today, none of those three conditions are prevalent, and housing demand continues to outstrip supply in most markets around the country. Household debt remains well below the 2007 peak, and the overall consumer backdrop is encouraging.

Today, one of the most significant legacies of the financial crisis is the aftermath of quantitative easing ("QE"). QE, which successfully stabilized the economy, also added significantly to sovereign debt levels. In the US, total debt to GDP has risen to 78% (from 35% pre-crisis). While not yet at an alarming level, this is clearly an area to watch given the forecasted trajectory of budget deficits over the coming decades. Recent tax reform, which made US corporate tax levels much more globally competitive, only exacerbated this trend. While concerning, the cost to service this debt remains manageable, with interest rates at low levels and the economy continuing its steady expansion.

Looking ahead, we remain optimistic about the long-term return profile of US equities. The S&P currently trades at its 25-year average of 16.5x forward earnings. We believe this is a reasonable valuation but are monitoring potential risks including weaker than expected earnings, the lack of a US-China deal, a messy Brexit, and soft demand for several large IPOs.

While the market may not see another ten years as strong as the last, we feel confident in the long-term benefits of being an active market participant.