New York
Boston
Washington, D.C.
West Palm Beach

Douglass Winthrop Advisors, LLC
521 Fifth Avenue, 19th Floor
New York, NY 10175

Telephone 212 557 7680
Telefax 212 557 7683
douglasswinthrop.com

Douglass Winthrop

News

March, 2020

Message from Douglass Winthrop Advisors on the Coronavirus (COVID-19)

Every hour brings a new headline about the global outbreak of the novel coronavirus and the illness it causes, COVID-19. The course this pandemic will take is impossible to predict. No one knows how far it will spread, or when it will be brought under control. Faced with such an uncertain threat, stock markets around the world sold off swiftly and sharply in late February, and interest rates plummeted as investors sought the shelter of bonds. As of this writing, the 10-year Treasury rate has fallen below 1.0%, inverting the yield curve for the second time in less than a year and prompting the Federal Reserve to slash short-term borrowing rates by 0.5%, a rare inter-meeting cut made all the more unusual by its coincidence with a Presidential election year.

So what is one to do in the face of such turbulence? In our opinion, the investing playbook doesn’t change in the face of adverse market conditions.

First, focus on the fundamentals. The coronavirus is certain to deal a blow to global economic growth—China’s factories were shuttered for weeks and supply chains across many industries will be disrupted for months. Demand for goods and services may slow, especially discretionary purchases, as consumers hunker down. That said, the domestic economy was in pretty good shape heading into this year, with low unemployment and reasonably strong income growth. We still expect corporate profits to grow in 2020, though earnings in the first half of the year will be less robust than previous estimates. And equity valuations have moderated, particularly in comparison to bonds.

Second, concentrate on quality. The companies in our portfolios have all passed our rigorous “five filter” research process: strong competitive advantages (a.k.a. economic moats) that enable abundant free cash flow generation; ample opportunities to reinvest that cash into organic growth; financial flexibility characterized by strong balance sheets and low capital intensity; shareholder-oriented management; and valuations that offer an attractive ratio of appreciation potential to downside risk. When business conditions become more challenging, these firms tend to gain market share at the expense of their lower-quality competitors.

Douglass Winthrop

Third, stay focused on the long run. The news of the moment can cause notable changes in the *price* of a stock in any given day, week or month, but the *value* of the underlying business changes more gradually over time. We are always on the lookout for opportunities to establish or add to positions in great businesses when short-term volatility leads to temporary price dislocations.

Turning to our own business, while we sincerely hope that our lives and those of our clients, friends and families will proceed as normally as possible in the weeks and months ahead, Douglass Winthrop stands prepared for disruptions to business as usual. Our business continuity plan is designed to provide a seamless experience for our clients should we be unable to gain physical access to our offices. And our clients' custodians have similar plans in place. Thank you for your trust. As always, please call us with any questions, comments or concerns you have.