Navigating Financial Repression for Better Retirement Income Planning

Between lower-for-longer rates, rising inflation, negative real yields, and rising equity volatility, investors should re-think their nest egg allocations.

Clinical as it may sound, the term "financial repression" can be used to describe some of the angst in markets today. That's when savers are punished by lower-for-longer interest rates despite higher inflation and significant growth in GDP. For investors looking to augment their retirement income, allocation decisions and dislocation risks loom large, especially when unprecedented liquidity has driven equity prices to record heights.

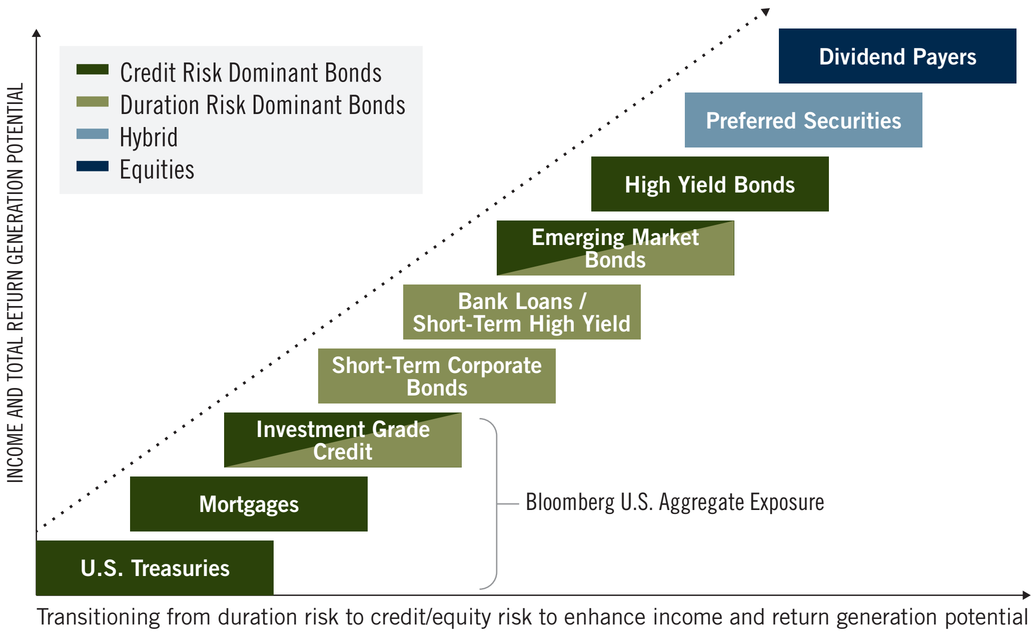
There are four major headwinds at work against investors in the current climate of financial repression. Overcoming each requires redefining what risk really means to an investor today.

FINANCIAL REPRESSION MAGNIFIES FOUR BIG HEADWINDS

Source: Allianz Global Investors US LLC.

1. Income Scarcity. Negative-yielding global debt is an astonishing $16.5 trillion today. Too many investors are choosing to grow poor slowly by sitting in low-interest investments when they could look beyond traditional income sources.

PORTFOLIO IDEAS FOR GENERATING INCOME IN A LOW-RATE ENVIRONMENT

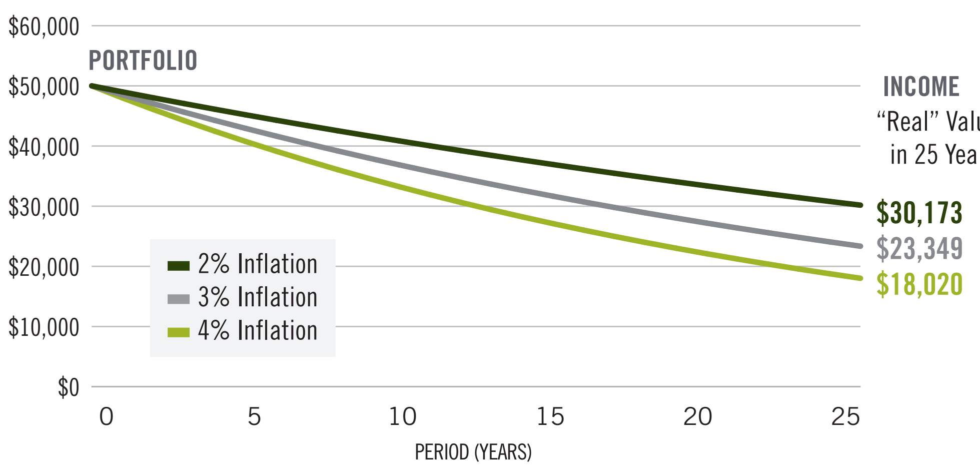


Source: Allianz Global Investors US LLC. The chart shown is for illustrative purposes only and is not indicative of any Virtus strategy.

2. Inflation. Whether transitory or persistent, pockets of inflation erode the real value of an investment, especially fixed income, in a lower-for-longer rate environment—ample reason to add asset classes that have tended to perform well in inflationary environments.

INFLATION: THE STEALTH THREAT TO RETIREMENT INCOME

Effect of Inflation on a $50,000 Portfolio over a 25-Year Period



Past performance is no guarantee of future results. Source: Virtus Performance Analytics. For illustrative purposes only. Calculations based on hypothetical inflation rates of 2%, 3%, and 4% to demonstrate the impact of inflation over time. Actual inflation rates will vary and may be more or less than shown.

3. Rising Volatility. Equity markets sitting at or near all-time highs may become fragile with the removal of accommodative policy. Since the Fed announced "QE4" on March 20, 2020, the correlation between S&P 500® Index price return and Fed balance sheet expansion was 0.93. What happens when the Fed eventually starts tapering asset purchases? Expect more volatility going forward as investors shift focus from the Fed to fundamentals.

RISING VOLATILITY MAY EXACERBATE INVESTOR RISK

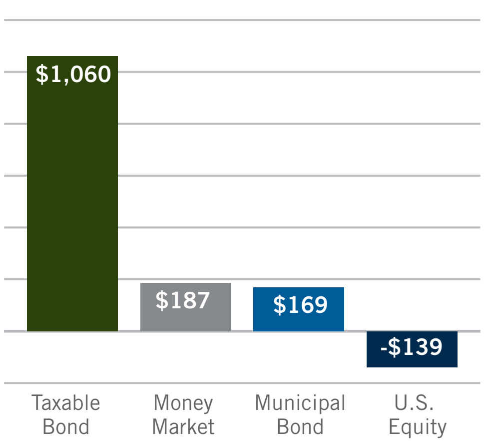
CBOE Volatility Index (VIX)

Past performance is not indicative of future results. Source: Allianz Global Investors US LLC, using data from VIX CBOE Volatility Index, Bloomberg. QE1: 11/25/2008–3/31/2010, QE2: 11/3/2010–6/30/2011, QE3 + tapering: 9/13/2012–10/29/2014.

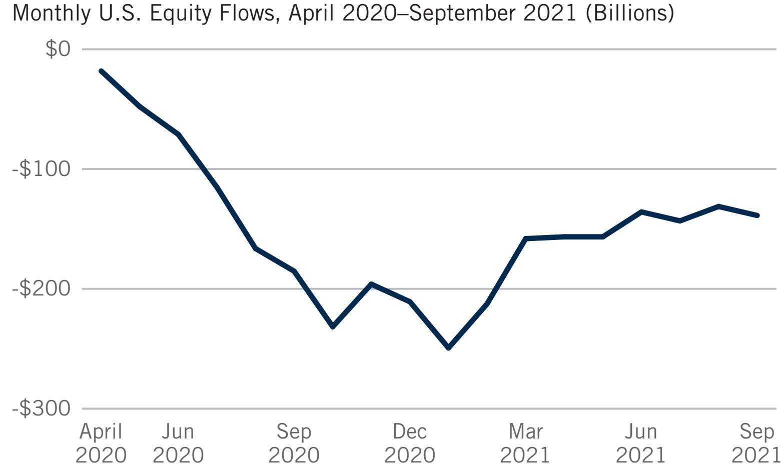
4. Investor Behavior. A veteran financial journalist once said our investing brains often drive us to do things that make no logical sense—but make perfect emotional sense.[1] Take, for example, how much investors let risk aversion take control since the beginning of the pandemic. Investors largely and consistently favored fixed income and cash (the top three selling categories shown below) over equities, thereby missing the opportunity to participate in the stock market's remarkable climb. Sadly enough, such self-sabotage tends to be repeated through risk aversion and market timing.

RIGHT TIME BUT WRONG PLACE

Total Flows, April 2020–September 2021 (Billions)



Monthly U.S. Equity Flows, April 2020–September 2021 (Billions)



Source: MorningstarDirect. Data as of September 30, 2021.

[1]Jason Zweig, "Your Money & Your Brain: How the New Science of Neuroeconomics Can Help Make You Rich," Simon & Schuster, 2007.

What should investors near or already in retirement do in such an environment? Here are four ways they can reassess risk in the face of key issues that could weigh on returns:

	Issue	Action
1	**Duration Risk**	If duration, a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates, is too high, short-term bonds may reduce the risk of rising interest rates. Exposure to credit may help in rising rate environments as well.
2	**Income Scarcity**	Look beyond traditional income sources. Investors can move out the credit spectrum to enhance yield potential. Active security selection may help manage risk.
3	**Inflation**	Add assets for growth and real, after-inflation gains.
4	**Investor Behavior/ Sequence of Returns Risk**	What happens if the markets take a deep dive just when you're ready to start taking withdrawals? This is known as "sequence of returns risk." Among the allocation opportunities investors may want to consider in such a scenario are hybrid asset classes that offer exposure to the equity risk premium and may drive long-term growth in a risk-managed way.

The **Bloomberg U.S. Aggregate Bond Index** measures the U.S. investment grade fixed rate bond market. The index is calculated on a total return basis. The **CBOE Volatility Index**, known by its ticker symbol VIX, is a popular measure of the stock market's expectation of volatility implied by S&P 500 index options. The **S&P 500® Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

IMPORTANT RISK CONSIDERATIONS

Investing involves risks and the possible loss of principal. This report is based on the assumptions and analysis made and believed to be reasonable by the Adviser. However, no assurance can be given that the Adviser's opinions or expectations will be correct. This report is intended for informational purposes only and should not be considered a recommendation or solicitation to purchase securities.

Equity Securities: The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small or medium-sized companies may enhance that risk. **Credit & Interest:** Debt securities are subject to various risks, the most prominent of which are credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt securities may rise or fall in response to changes in interest rates, and this risk may be enhanced with longer-term maturities. **Foreign & Emerging Markets:** Investing internationally, especially in emerging markets, involves additional risks such as currency, political, accounting, economic, and market risk. **Allocation:** Asset allocation does not guarantee a profit or protect against a loss in declining markets.

Diversification does not assure a profit or protect against losses.

Please consider a Fund's investment objectives, risks, charges, and expenses carefully before investing. For this and other information about any Virtus Fund, contact your financial representative, call 800-243-4361, or visit virtus.com for a prospectus or summary prospectus. Read it carefully before investing.

Not insured by FDIC/NCUSIF or any federal government agency. No bank guarantee. Not a deposit. May lose value.

Distributed by **VP Distributors, LLC**, member FINRA and subsidiary of Virtus Investment Partners, Inc.