Comments from Joe Terranova, Virtus Investment Partners
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"Today's investors should keep in mind the 1964 Rolling Stones classic, 'Time Is on My Side,' especially its opening lyric: 'Time is on my side, yes it is!'"
– Joe Terranova

"Time is on my side, yes it is"

"Time, why you punish me?" The opening lyric from the 1994 Hootie and the Blowfish hit "Time" seems appropriate to define the first four months of 2022, as persistent volatility has frustrated investors with a broad-based risk asset correction. I'm focused on "time," as I'm confident that its further passage is what's needed to diminish the strong headwinds emanating from inflation, the Russia/Ukraine conflict, and normalizing monetary policy. To be clear, there are still secular tailwinds in place, including the resilient consumer, strong corporate earnings, and robust revenue growth. In the current quarter's earnings reporting, profit margins for stocks in the S&P 500® Index have modestly declined 25 basis points from the previous quarter's all-time high. For now, investors must endure the absence of much-needed clarity on the prevailing headwinds that are dominating the capital market environment. Only with the passage of time can clarity, favorable or unfavorable, quell the unknown which is fueling the persistent volatility.

A classic "price correction"

The calendar year began with a new all-time high for the S&P 500® Index at 4818.62 on January 4. That was followed by a fast and aggressive correction that reached 12% by the morning of Monday, January 24, at an intraday low of 4222.62. That's a classic "price correction," consistent with the many corrections since 1966. A price correction is defined as a cyclical decline of at least 10% that is characterized by deleveraging and risk neutralization. Sometimes the price correction extends beyond 20%, which the business media will immediately announce as the start of a bear market. Was it that in 1966, 1990, 1998, 2011, 2018, or 2020? History confirms otherwise, with the Index recouping all the losses and exceeding the previous peak within one year – no bear market. Only through the passage of time will a true bear market such as 1973, 2001, or 2008 reveal itself.

Much-needed clarity in March

Persistent elevated volatility and the onset of the Russia/Ukraine conflict on February 24 modestly extended the "price correction" by another 2.6%, to 14.6% overall. March was rather remarkable, especially Monday, March 7. On that day, the price of crude oil traded at $130.50, its highest level since 2008. Also on that day, the 10-year U.S. Treasury yield reached 1.67%. Six weeks later, on April 20, that yield surged to 2.97%. Markets seemed to absorb that oil spike and Treasury selloff remarkably well. Time allows for clarity and, in fact, during the month of March, markets received some clarity from the Federal Reserve (the Fed), with the long-anticipated release of its balance sheet reduction plan. The response was favorable, lifting the S&P 500® Index toward the upper end of the trading range between 4200 and 4600 that has been in place since January 24. Since January 24, there have been only five trading days when the price tested outside that 4200 to 4600 range. In all five instances, the price quickly returned to the range.

I do suspect there will be further attempts to trade below or above that range. Yes, the 2022 low for the year on February 24 at 4114.65 could be violated, without further clarity. Pattern matching the yearly price action to date in 2022 traces out similarly to 2016, when the majority of price damage unfolded in the first two months of the calendar year, followed by a five-month price capture period. I expect time is the now the enemy that will frustrate investors.

Reset expectations and remain patient

The challenge for investors during a time correction is to exhibit discipline and patience, which I will acknowledge is difficult, since corrections since 2008 have been followed by fast V-shaped recoveries. That has created an impatient investor class. Since 2008, there have been six declines greater than 10%. In only one instance, from May 2015 to February 2016, did the combined duration of the correction and subsequent recovery to the prior high take more than nine months. The other five instances had a combined duration of less than five months. That is historically abnormal, creating false expectations and impatience when the V-shaped recovery does not arrive. Year to date, the correction and recovery attempt has taken less than four months. That is statistically below even some of the most optimal correction scenarios since 1966. Prudence dictates resetting expectations to prepare for somewhat more of a "time correction" until clarity emerges.

In late January I wrote the following, which was a judicious first step. That last idea is as critical today as when I advocated for it on January 29:

"Elevated volatility does not necessarily equate to a bear market or sustained corrections for multiple asset classes. In fact, as an analogy, I suspect like an amusement park roller coaster ride, markets may travel to many different places and ultimately end up in the same spot, just as the S&P 500® Index did this past week. But that doesn't mean the volatility will not challenge and tempt the discipline of investors. ***Before reacting to the volatility, study your portfolio. Is it diversified? Are you overconcentrated? Can you take advantage of rebalancing opportunities?"***

A practical recovery approach

Rather than relying on the possible speed of a recovery, I think it will be more beneficial to consider where each type of recovery might unfold. In the January 29 *Observations and Expectations*, I provided a practical recovery approach by creating what I call recovery baskets. Each of the three baskets corresponds to a particular recovery scenario: V-shaped, U-shaped, or L-shaped. Creating these baskets requires flexibility, as a particular asset, strategy, or equity size class that is in one basket today may see improving or deteriorating conditions that move it into another basket.

My recommendation for the three baskets is largely the same today. Some minor adjustments would be to tactically seek opportunities in Western Europe or the emerging markets that are also commodity producers and enjoy lower inflation. In addition, investors should consider moving money center banks to the U-recovery basket, and introducing capital markets, defense, cybersecurity, and equal-weighted strategies to the V-shaped basket.

Overall, this is a strategic approach that avoids concentration, respects valuation, prioritizes risk assumption, and emphasizes ownership of assets that are not highly speculative. These investment behaviors should strengthen an investor's ability to exhibit discipline and patience.

In doing so, maybe the 1964 Rolling Stones classic "Time Is on My Side" is better-suited, with its opening lyric: "Time is on my side, yes it is!"

Strategies for different recovery scenarios

1. **V-Shaped Recovery Basket:**
   Dividend Growth, Debt Reducers, Capital Shareholder Returns, Energy, Agriculture, Natural Resources, Western Europe, Commodity Producing Emerging Markets, Defense, Cybersecurity, Capex Industrials, Capital Markets/Regional Banks, Large Cap/Low P/E Health Care, Global Staples, Insurance Companies, Small Cap Value, Equal Weighted, Leveraged Loans, Consumer Loans, Consumer High Yield, Asset Backed Securities, Low Beta, Industrial REITs, Apartment REITs

2. **U-Shaped Recovery Basket:**
   High Beta, High Labor Costs, Non-Profitable Tech & Consumer Discretionary, Small Cap Biotech, Low Revenue Growth, Money Center Banks, Investment Grade, Long Duration, Office REITs, Retail REITs

3. **L-Shaped Recovery Basket:**
   Low Volatility Strategies, Pandemic High P/E Beneficiaries, Cannabis, SPACs, Do-It-Yourself Equity Targets

Market Peaks, Declines and Recovery Periods for the S&P 500® Index

Start	Peak	End	Trough	Decline	Days	Length	Recovery	Price	Days	Length
1-04-22	4818.62	*2-24-22?*	*4114.65?*	*(14.6%)*	*51?*	*1m 20d ??*	?	?	*57?*	*1m 29d ??*
2-19-20	3393.52	3-23-20	2191.86	(35%)	33	1m 4d	8-18-20	3395.06	148	4m 26d
9-21-18	2940.91	12-26-18	2346.58	(20%)	96	3m 5d	4-29-19	2949.52	124	4m 3d
1-26-18	2872.87	2-09-18	2532.69	(12%)	14	0m 14d	8-21-18	2873.23	193	6m 12d
5-20-15	2134.72	2-11-16	1810.10	(15%)	267	8m 22d	7-11-16	2143.16	151	5m 0d
5-02-11	1370.58	10-04-11	1074.77	(22%)	155	5m 2d	2-27-12	1371.94	146	4m 23d
4-26-10	1219.80	7-01-10	1010.91	(17%)	66	2m 5d	11-04-10	1221.25	126	4m 3d
10-11-07	1576.09	3-06-09	666.79	(58%)	512	1y 4m 23d	4-10-13	1589.07	1496	4y 1m 4d
12-02-02	954.28	3-12-03	788.90	(17%)	100	3m 10d	5-28-03	959.39	77	2m 16d
3-24-00	1552.87	10-10-02	768.63	(51%)	930	2y 6m 16d	7-13-07	1555.10	1737	4y 9m 3d
7-19-99	1420.14	10-18-99	1233.66	(13%)	91	2m 29d	11-16-99	1420.36	29	0m 29d
7-20-98	1190.58	10-08-98	923.32	(22%)	80	2m 18d	11-24-98	1191.30	47	1m 16d
10-07-97	983.12	10-28-97	855.27	(13%)	21	0m 21d	12-04-97	983.36	37	1m 6d
7-16-90	369.78	10-11-90	294.51	(20%)	87	2m 25d	2-12-91	370.54	124	4m 1d
8-25-87	337.89	10-20-87	216.46	(36%)	56	1m 25d	7-26-89	338.05	645	1y 9m 6d
10-10-83	172.65	7-25-84	147.26	(15%)	289	9m 15d	1-21-85	175.42	180	5m 27d
11-28-80	140.52	8-09-82	102.20	(27%)	619	1y 8m 12d	11-03-82	142.88	86	2m 25d
2-13-80	118.44	3-27-80	98.22	(17%)	43	1m 14d	7-14-80	120.01	109	3m 17d
10-05-79	111.27	11-07-79	99.87	(10%)	33	1m 2d	1-21-80	112.10	75	2m 14d
9-21-76	107.83	3-06-78	86.90	(19%)	531	1y 5m 13d	8-15-79	108.25	527	1y 5m 9d
7-15-75	95.61	9-16-75	82.09	(14%)	63	2m 1d	1-12-76	96.33	118	3m 27d
1-11-73	120.24	10-03-74	62.28	(48%)	630	1y 8m 22d	7-17-80	121.44	2114	5y 9m14d
4-28-71	104.77	11-23-71	90.16	(14%)	209	6m 26d	2-04-72	104.86	73	2m 12d
11-29-68	108.37	5-26-70	69.29	(36%)	543	1y 5m 27d	3-06-72	108.77	650	1y 9m 9d
9-25-67	97.59	3-05-68	87.72	(10%)	162	5m 9d	5-01-68	97.97	57	1m 26d
2-09-66	94.06	10-07-66	73.20	(22%)	240	7m 28d	5-04-67	94.32	209	6m 27d

Source: Bloomberg. **Past performance is not indicative of future results.** Red shading indicates confirmed recession with correction or bear market period. Yellow shading indicates recovery period greater than 1 year. Green shading indicates recovery period less than 7 months.

Joe Terranova's industry trends and observations are the result of his research. His observations reflect his industry expertise and have been prepared using sources of information generally believed to be reliable; however, their accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice. Please consult your financial professional for investment advice.

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S&P 500® Index: 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 index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and it is not available for direct investment.