***Virtus Vital Signs,* April 2016**
Market Insights from Joe Terranova, Chief Market Strategist
Interview conducted on March 31, 2016
Transcript edited for clarity

Brian Portnoy: *Hi. Welcome to Virtus Vital Signs for April 2016. I'm Brian Portnoy, Director of Investment Education. As always, I have with me Joe Terranova, Chief Market Strategist and Senior Managing Director. Hi, Joe.*

Joe Terranova: Good morning, Brian. It's good to speak with you once again.

Brian Portnoy: *Yes, absolutely. We just wrapped up the first quarter of 2016, which was very interesting in terms of market activity. We had a terrible start to the year, maybe one of the worst in recorded history, but then a relatively sharp climb back from those lows. One big trend, a reversal of last year, was that value stocks far outpaced growth stocks. Can you comment on how you understood the rally in Q1 and whether the factors behind it might still have legs?*

Joe Terranova: I think, Brian, as we enter Q2, it is very important for investors to have a playbook, and a strategy in place. Heading into Q1, we talked about several indicators that investors needed to focus on which could change the dynamic. You speak about January. It was one of the worst Januaries in almost 100 years. The conditions in January really were an absence in buyers. There was a vacuum of buybacks because the blackout period really was not there. You had significant sovereign wealth selling as it related to the commodity space and global equities. That dissipated and allowed for the opportunity in February for a little bit of a mean reversion for asset prices.

We've carried the momentum now into March. That's on the backs of global central banks obviously being fully coordinated in the wake of the G-20 meeting. Some indicators within the market that we have talked about that I want investors to continue to focus on are specifically the currency market. Let's keep in mind the Chinese currency has moderated considerably. In fact, it is being pegged unchanged to higher versus the U.S. dollar over the last six weeks. Clearly, the language from Janet Yellen and the March statement from the Federal Reserve has arrested the [dollar's] appreciation. I do not want to say it has created a bear trend for the U.S. dollar. It has not done that. But it has arrested the rate of appreciation, and that is incredibly important. Those currency dynamics remain in place.

You mentioned value over growth. Yes, value is going to remain a premium over growth in 2016, because there's suspicion regarding the momentum and the extension of the recovery we are seeing right now.

Brian Portnoy: *Okay. Which sectors under the value umbrella do you find at least on a relative basis, maybe even on an absolute basis, most attractive for investors to keep in their playbook?*

Joe Terranova: Well, as we head into April, the important thing is can we extend the significant rally that the market has experienced? I think that's ultimately the critical question. The answer to that is yes, I believe we can. You talk about value areas. Certainly two value areas that would be interesting would be financials, which are down nearly five percent on the year, and healthcare, which is down about 5.5 percent on the year. Those are two sources of opportunities.

We are going to get earnings this month. I lean towards the belief that the positive momentum in the marketplace and earnings themselves will be constructive, and we will have the ability for the S&P 500, not necessarily so much to aggressively advance, but not to return to the prevailing type of trade that we witnessed in January once again. I am suspicious of that occurring. I still think flat is the new up, as I've talked about [in the past] with you, but not necessarily sure that the calendar presents itself in April as the month where the markets will roll back over once again.

Brian Portnoy: *Okay. Central bank activity, the prospect for both inflation and deflation, are just about the hottest topics out there. You always have current insights into that debate and where things might be going next. When you look at [Janet] Yellen, the ECB, Bank of Japan, and what's going on in China, what is your current take on the next central bank moves and consequences for markets and investors' playbooks?*

Joe Terranova: Brian, I always like to look at what is changing. What is the new dynamic? The new dynamic right now is inflation. It is very new to the conversation as it relates to global central banks. It is something that global central banks have wanted.

The Federal Reserve is very skeptical to some of the increases that we are witnessing over the last three to four months as it relates to healthcare inflation. That's really the key input right now. Sixty percent of the increase that we have witnessed since July of 2015 is because the roll-off the Affordable Care one-time price cut has come off now. A lot of the contribution to inflation is coming from healthcare. The Federal Reserve is saying wait a second. We are a little bit skeptical about these readings in inflation that we are seeing right now. The one thing, rather candidly I would say, is that in the economic projections of the Federal Reserve over the last couple of years, they have done a horrible job. So if they are actually telling you, listen we are concerned over the last couple of years, we want inflation, we want to create inflation, and now they are telling you we are seeing signs of inflation, we are a little skeptical of it. I think the strategy is for investors to say hey, wait a second, let's grab ourselves a little inflation protection.

Now you can do that through the precious metals market. You can do that through TIPS, which have had a nice little bounce over the last couple of months. I like that strategy. You could also look into the taxable fixed income space at things such as senior floating rate notes. But, I think it is warranted right now for investors to seek to add in their portfolios a little bit of inflation protection because the Federal Reserve is skeptical of [inflation], they want to create it, and they have been so wrong in their economic projections.

The last thing to keep in mind is, if the language from the Federal Reserve continues to suggest a pause in the appreciation of the U.S. dollar, that is favorable for commodity pricing. It does not necessarily mean commodity prices – and specifically oil shoots to fifty or sixty dollars – but it means a lift, and on a year-on-year comp basis, that's going to lend itself favorably to a little bit more of a continued uptick in inflation. So the Fed wants inflation. The signs are there. You might be getting it. But they do not trust it. If I am an investor, I say wait a second, let's grab a little protection in our portfolio for it.

Brian Portnoy: *That makes a lot of sense and is very practical. As always, Joe, it is a treat to get your insights. We will catch up with you next month. Thank you very much.*

Joe Terranova: Thanks Brian. Let's hope the second quarter starts off better than the first did.