



Where to Invest Now?

George Mateyo, Chief Investment Officer

The Key Wealth Institute is a team of highly experienced professionals from across wealth management, dedicated to delivering commentary and financial advice. From strategies to manage your wealth to the latest political and industry news, the Key Wealth Institute provides proactive insights to help grow your wealth.

In the current environment, it may be wise to adopt the mindset of a closer in baseball: do not worry about what you cannot control, and focus on the future.

The closer in baseball is a designated role, typically a pitcher who enters late in the game with a narrow lead, tasked with facing a relatively small number of batters to close out the game. Some of the most successful closers intimidate batters before the first pitch is thrown, but perhaps no closer is better known than Mariano Rivera, who recorded over 650 saves, spanning nearly 20 years in Major League Baseball. No one else comes close.

When asked what enabled him to maintain his composure amid tense circumstances, Rivera said: "I do not worry about things I cannot control." And when asked to reveal effective strategies he used to overcome adversity and regain his confidence after losing a game (a rare occasion), Rivera remarked: "I focus on the future, forget the past, as if I have no memory of it."

Implications for Investors

With major stock market averages down over 20% in 2022, and many individual stocks down far more, it is tempting to focus on the past. Moreover, studies have shown that investors feel twice as bad about losses (even if they are only on paper and not realized) relative to the satisfaction they derive from gains (an irrational reaction, I would add, but will elaborate in another essay).

I am no different. As I reflect on our recommendations made over the course of the year, I cannot help but second guess. At the macro level, we were right in late 2020 in foreseeing that inflationary conditions would be ignited by a massive spending boom and a dearth of supply necessary to meet that demand. Equities would do well in that environment, but with interest rates on most high-quality bonds yielding around 1%, fixed-income securities were not very compelling, we surmised.

We maintained this broad framework throughout 2021 and into the first few months of 2022, although around this time last year, we tempered some of our enthusiasm for stocks and suggested they would post flattish returns this year. In early spring of this year, we grew more cautious about stocks. We advised clients to maintain slightly above-average cash balances, while also continuing to incorporate new tools into their portfolios to provide more robust diversification.

Where to Invest Now?

In retrospect, we were not cautious enough. We correctly identified inflation as being more persistent than policymakers wished, but we underestimated the market's re-rating of valuations. Put another way, earnings have remained relatively strong, but multiples applied to those earnings have fallen further than we anticipated. On the other hand, many of the new tools that we selected have provided very strong relative returns.

So Where to Invest Now?

Despite aggressive measures by the Federal Reserve (Fed) to quell it, inflation remains elevated. Prices of certain items (e.g., goods) have begun to recede, whereas prices of other items (e.g., services) have increased. Energy, electricity and food have seen some moderation in prices, but they are all considerably higher relative to a year ago. Perhaps most problematic for the Fed, wages are also generally higher, which might explain why consumers' expectations of future inflation have also risen.

Looking forward, I suspect we will be talking about inflation cooling in the months ahead, but we will also be discussing that it is not cooling fast enough. One component of the Consumer Price Index (CPI) worth watching closely is shelter or rental prices. This segment accounts for nearly one-third of the CPI and last month rose 6.6%, its fastest increase since data was first collected in the late 1980s. Such an increase is somewhat vexing when considering the recent softness of the housing market. It will be important to assess this through the balance of the year when gauging inflation more broadly.

With this backdrop, we continue to think that slightly higher than normal cash balances are warranted as market volatility is likely to persist as long as the Fed's aggressive stance exists. And while our enthusiasm for the long-run future of innovation (and thereby corporate profits) is unbridled, we would not over-commit to stocks in the short run.

Value Versus Growth

Within equities, we continue to think that shorter-duration (i.e., value) stocks are attractive relative to longer-duration (i.e., growth) stocks. This was a view we expressed by consciously de-emphasizing capitalization-weighted indices and emphasizing equal-weighted indices.

In hindsight, a larger allocation away from growth and into value would have proven more advantageous, but equal-weighted indices have fared noticeably better than their cap-weighted cousins.

Quality stocks, another longtime favorite market segment of ours, have not contributed to total portfolio performance as much as we would have hoped. But they have not been large detractors either and we still believe that high-quality companies will be rewarded. We are also warming up to small-cap stocks, which appear to be overly discounting recession fears. In sum, despite challenges facing equities en masse, dispersion *among* equities remains high providing compelling opportunities for skilled and attentive active managers.

Elsewhere, unlike a year ago, fixed-income securities now actually offer investors income in the form of higher coupons, ranging from 3-4% for government-backed debt to 7-9% (and more) for more speculative debt. Selectivity remains paramount, however, and here, too, we are predisposed to high-quality securities that are backed by companies with strong fundamentals.

Investors looking to be opportunistic, seeking higher returns and electing to provide capital where it is scarce, may find attractive opportunities within private credit, noting that some of these investments entail surrendering liquidity, which, by itself, is not a negative, but needs to be managed prudently.

Similarly, hedge funds and low-volatility strategies also need to be sized appropriately when including them within a portfolio. But in many instances, returns on such strategies have demonstrated strong resilience this year as other asset classes have struggled. Active management is not just preferred, but advised.

Key Takeaways

Focusing on the past is a natural response with major asset classes such as stocks and bonds both in bear market territory. But as with successful closers in baseball, successful investors find ways to avoid over-emphasizing the past. Instead, they learn from it, focus on the future and actively seek out opportunities that present themselves as market volatility increases.



Where to Invest Now?



About the Author

As Chief Investment Officer, George Mateyo is responsible for establishing sound investment strategies for private and institutional clients, expanding internal and external research capabilities, and managing the delivery of solid risk-adjusted investment performance.

In previous roles, George spent more than 15 years in investment management and investment consulting, where he acquired firsthand knowledge and insights into the capital markets and the stewardship of investment portfolios for institutional and high net-worth investors.

George received his MBA from the Weatherhead School of Management at Case Western Reserve University and completed additional studies at the London School of Economics.

For more information, please contact your advisor.



The Key Wealth Institute is comprised of financial professionals representing Key entities including Key Private Bank, KeyBank Institutional Advisors, and Key Investment Services. Any opinions, projections, or recommendations contained herein are subject to change without notice and are not intended as individual investment advice. This material is presented for informational purposes only and should not be construed as individual tax or financial advice.

Bank and trust products are provided by KeyBank National Association (KeyBank), Member FDIC and Equal Housing Lender. Key Private Bank and KeyBank Institutional Advisors are part of KeyBank. Investment products, brokerage and investment advisory services are offered through Key Investment Services LLC (KIS), member FINRA/SIPC and SEC-registered investment advisor. Insurance products are offered through KeyCorp Insurance Agency USA, Inc. (KIA). KIS and KIA are affiliated with KeyBank.

Investment and insurance products are:

NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE • NOT A DEPOSIT • NOT INSURED BY ANY FEDERAL OR STATE GOVERNMENT AGENCY

KeyBank and its affiliates do not provide legal advice. Individuals should consult their personal tax advisor before making any tax-related investment decisions.