

BEYOND WEALTH
Worth[®]

**MASTERING ESG
INVESTING**

**TOURISM
WITHOUT
A TRACE**

**10 MOST
SUSTAINABLE
COMPANIES**

THE SUSTAINABILITY ISSUE

Grounded Optimism

**Meet the innovators changing
how wine is made, marketed,
and moved around the world.**

JULIA JACKSON,
FOUNDER OF
GROUNDED.ORG

WORTH.COM
EDITION 02 | 2022
\$18.95



Investing Amid “Stagflation”

BY LUKE ANDRIUK, CFA®

In 2021, U.S. investors experienced a phenomenon they hadn’t seen in 40 years: high inflation, which rose 8.5 percent year-over-year in July.

Uncharacteristically, this dramatic rise in prices came amid slowing economic growth. Data released in July confirmed the U.S. economy just experienced two consecutive quarters of negative GDP growth, which meets the technical definition of a recession, even though inflation-adjusted consumer spending is roughly flat and the job market remains strong.

Regardless of the debate around whether the U.S. is already in a recession, the combination of higher prices and slower growth, termed “stagflation,” should prompt investors to consider potential adjustments, which might include:

Asset Diversification Across Economic Drivers

Many portfolios are positioned to prosper during boom times, with little consideration given to periods of economic malaise. Diversifying beyond stocks, which form the backbone of the average investor’s portfolio and are highly correlated with global growth, might provide important benefits such as lowering portfolio volatility and improving risk-adjusted returns. This diversification can include:

1) Owning Commodities: Commodities are one of few asset classes to produce positive returns in 2022. Commodities typically behave cyclically, experiencing booms alongside global economic growth and busts during slowdowns. Today, supply-side constraints resulting from structural underinvestment have improved the return outlook for commodities despite slowing global growth.

2) Owning High-Quality Fixed Income: Fixed income has a long track record of effectively diversifying stocks due to their low return correlations. This is particularly true in risk-off market environments. Should recession concerns outpace

inflationary ones, we would expect the Federal Reserve to pause or even reverse recent rate hikes to help re-ignite economic growth. When interest rates decline, sovereign debt and high-quality corporate bonds have historically benefited and are preferable to gold or cash as alternative safe-havens.

3) Owning Value Stocks: Value stocks outperformed Growth stocks in the 1940s, 1970s, and 2000s, all decades characterized by above-average inflation. Meanwhile, low inflation regimes in the 1930s and 2010s saw Growth outperform Value. We’ve already seen U.S. Value beat U.S. Growth by nearly 10 percent year-to-date. Value’s lower valuations and higher dividend yields continue to make it stylistically attractive relative to Growth.

Investing vs. Maintaining Cash

It may seem enticing to hold more cash in an economic slowdown, but elevated inflation will erode the purchasing power of cash much faster today than in the past. “Timing” the market with respect to re-deploying sidelined cash can also result in missing market rebounds, which tend to happen in close

succession with drawdowns.

Look Beyond Market Corrections to Take a Long-Term View

Despite the challenges presented by the macroeconomic environment, investing in a diversified portfolio has proven to be a resilient strategy time and time again. Since 1950, there have been 24 market corrections, and roughly 80 percent of those corrections recovered in less than two years. Long-term investors require that their portfolios perform over decades, not years. Those decades will bring varying macroeconomic and geopolitical shifts, making diversification across low-correlated asset classes important to achieving acceptable risk-adjusted returns.

In today’s low growth/high inflation environment, investors may benefit from non-correlated diversification, select tactical portfolio tilts, and remaining invested rather than moving to cash both to avoid losses and principal erosion during periods of high inflation. Individual investors should consult a knowledgeable financial advisor to ensure any strategy is aligned with their financial situation.

ABOUT LUKE ANDRIUK, DIRECTOR OF INVESTMENTS



Luke is responsible for investment idea generation, portfolio performance monitoring, and leading the Saugatuck Financial Investment Committee. He has his Chartered Financial Analyst designation and is a graduate of Cornell University.

Saugatuck-financial.com | luke.andriuk@nm.com | 203-221-5275

Disclaimer

The opinions expressed are those of Luke Andriuk as of the date stated on this article and are subject to change. There is no guarantee that any forecasts made will come to pass. This material does not constitute investment advice and is not intended as an endorsement of any specific investment or security. All investments carry some level of risk, including the potential loss of principal invested. Indexes and/or benchmarks are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance and are not indicative of any specific investment. Diversification and strategic asset allocation do not assure profit or protect against loss.

Luke Andriuk uses Saugatuck Financial as a marketing name for doing business as a representative of Northwestern Mutual. Saugatuck Financial is not a registered investment adviser, broker-dealer, insurance agency or federal savings bank. Northwestern Mutual is the marketing name for The Northwestern Mutual Life Insurance Company, Milwaukee, WI (NM) (life and disability insurance, annuities, and life insurance with long-term care benefits) and its subsidiaries in Milwaukee, WI. Luke Andriuk is an Associate Insurance Agent of NM. Investment advisory services are provided as an Advisor of Northwestern Mutual Wealth Management Company®, (NMMWC) Milwaukee, WI, a subsidiary of NM and a federal savings bank. Investment brokerage services are provided as a Registered Representative of Northwestern Mutual Investment Services, LLC (NMIS), a subsidiary of NM, broker-dealer, registered investment adviser and member FINRA and SIPC.



Justin Charise, CFP®

Founding Partner, Wealth Management Advisor

Luke Andriuk, CFA®

Director of Investments

Saugatuck Financial

274 Riverside Avenue, 4th Floor

Westport, CT 06880

Tel. 203-331-5275

justin.charise@nm.com

saugatuck-financial.com

REPRINTED FROM

Worth®

Saugatuck Financial is featured in Worth™ 2021 Leading Advisors, a special section in every edition of Worth™ Magazine. All firms appearing in this section have completed questionnaires, have been vetted by an advisory group following submission by Worth™, and thereafter paid the standard fees to Worth™ to be featured in this section. The information contained herein is for informational purposes, and although the list of advisors presented in this section is drawn from sources believed to be reliable and independently reviewed, the accuracy or completeness of this information is not guaranteed. No person or firm listed in this section should be construed as an endorsement by Worth™, and Worth™ will not be responsible for the performance, acts or omissions or any such advisor. It should not be assumed that the past performance of any advisors featured in this special section will equal or be an indicator of future performance. Worth™ a publication owned by Clarim Holdings, is a financial publisher and does not recommend or endorse investment, legal or tax advisors, investment strategies or particular investments. Those seeking specific investment advice should consider a qualified and licensed investment professional. Worth™ is a registered trademark of Worth.