Nowhere to hide: This market correction feels different

This year, stocks, bonds, and even crypto have been falling at the same time. It's an unusual confluence of losses. And the Federal Reserve, its hands tied by inflation, won't be bailing investors out as it has done in recent bear markets.

By Larry Edelman Globe Columnist
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Here's an understatement: It's been a lousy year for investors.

Tech stocks were in a bear market (down 22 percent through Wednesday from their November peak), the broad-based Standard & Poor's 500 index was in correction territory (off by 13 percent from its record high in early January), and government bonds — the tried-and-true haven when stocks are in trouble — were getting clobbered.

And for those who think stocks and bonds are so last century, bitcoin plunged more than 40 percent from its latest high-water mark.

Markets go up, markets go down. Sometimes way down. But this time feels different.

With inflation a serious problem for the first time in 40 years, the Federal Reserve can't ride to the rescue by cutting interest rates as it has done in recent market meltdowns. The Fed will push rates higher until inflation goes lower. Much lower.

Actually, if you're a trader with a strong stomach for risk, rather than a buy-and-hold saver, there are a few market niches where you might find shelter from the storm.

S&P sector indexes tracking agricultural, oil and gas, and steel stocks each posted gains this year approaching 40 percent through Wednesday. Hotel and resort real estate investment trusts added 17 percent. Health care and airline stocks were up by high single-digits. Gold was up, but the single-digit gain looked meager given that the yellow metal has always been touted as a hedge against inflation and geopolitical turmoil.

I'm a buy-hold investor with a low tolerance for risk. But after looking at the latest statement for my conservatively positioned retirement plan — the only funds not in the red were an infrastructure fund and a merger arbitrage fund — even I was wondering whether a portfolio overhaul was in order.

I reached out to three market pros to see if this time is different enough to warrant a strategy shift. The answer from each: Don't do anything drastic.

It's not that investors' fears are overblown. Inflation, China's COVID lockdowns, and the Fed's plans to tighten credit all pose serious threats to economic growth, corporate profits, and the value of stocks and bonds. Gone are the idyllic days when investors could count on easy money from the central bank and its large asset purchases to put a floor under financial markets.

Yet the US economy is hardly barreling toward hell in a handbasket.

“The economy seems pretty strong. Employment is fantastically strong. The housing market is very strong,” said Howard Needle, a portfolio manager at Wellesley Asset Management.

Needle isn’t in denial about the strong headwinds buffeting Wall Street. He notes that a typical portfolio of 60 percent stocks and 40 percent bonds — an allocation model many investors have relied on for decades to smooth out bumpy market rides — is “off to its worst start, ever” this year.

Some market commentators have said the 60/40 approach just won’t work today because stock and bond prices have been moving lower for an extended period, which doesn’t happen frequently. Needle disagrees, especially since there are few surefire alternatives.

“I don’t think 60/40 is dead. I’d stay the course,” he said.

Needle has some suggestions for tweaking a conventional portfolio around the margins if you have money to invest. A convertible bond expert, he thinks these hybrid securities are well suited for the times because they offer a decent yield and the potential for profits if stocks rally. He also said that high-yield bonds could do well as long as we avoid a recession, and with yields rising, shorter-term Treasuries were getting attractive compared with bonds that have longer maturities.

But don’t sell holdings that have dropped in value unless you absolutely need the cash.

“We’ve seen a repricing of the market. It’s probably not the right time to bail,” Needle said.

Over at John Hancock Investment Management in Boston, co-chief investment strategist Matthew Miskin reminds investors to look beyond this year’s selloff: “When you step back . . . the S&P 500 has still provided above average three- and five-year annualized returns north of 10 percent.”

He, too, believes rising bond yields offer an opportunity for savers and fixed-income fans who had suffered through nearly 15 years of super-low interest rates. As for stocks, investors need to be discerning.

“In times when there feels like there is no place to hide, it usually means that there is indiscriminate selling across good companies and bad,” Miskin said. And that means “it can be a good time to seek out some good quality companies on sale.”

Finally, I asked Austin Litvak, director of investment research at O’Brien Wealth Partners in Boston, what questions his firm was hearing most from clients.

“Bonds — what is going on?” he said.

Yes, what sets this stock market correction apart from other recent selloffs is that bonds aren’t providing the same kind of downside protection as they had in the past.

“Bonds are not permanently broken,” Litvak said. If the Fed delivers on its promise to tame inflation, fixed-income investing will return to more normal patterns.

“There is still a role for bonds in a diversified portfolio,” Litvak said.

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