TITAN INVESTMENTS

As We Stand Today:

The S&P 500 is down 13%, the Nasdaq down 24%, the Dow Jones down 11%, and the US Aggregate (bond market) down 12%. Peeling back a layer of the market reveals the only safe spaces that have a avoided a 10% correction or close to is Energy, Consumer Staples, and Utilities.

Ironically, these three sectors of the economy come with commodity overhead, significant leverage, and very low margins. In other words, if inflation is your concern, industries that have high amount of debt with little flexibility on price cause one to wince. This was earmarked by 1Q22 GDP printing -1.4%.

Titan Investments is seeking to be highly tactical going forward by emphasizing the following factors: War/COVID, inflation, consumer, and value.

War/COVID

The war in Ukraine is quickly turning into a war of attrition. Russia has largely stepped back its initial goals of complete Ukrainian demilitarization and has shifted its focus to Donbas and Eastern Ukraine. The Ukrainians have proven to be incredibly resilient against a threat that is 10x larger in military firepower. As a matter of fact, multiple sources have noted the Ukrainians are not simply defending, but countering in portions of the homeland.

The resilience of the Ukrainians and Russia's sheer stubbornness indicate a war that has an indefinite timeline. This timeline is quickly becoming opaque as the sources coming out of that part of the world are few and far between. This does not even consider the quality of the source. Thus, the conflict and elevated price of oil have little catalyst to meaningfully come back down in the short term.

A new concern is China's zero COVID policy and the lockdowns taking place around the country. Despite citizens of Shanghai and Beijing venting their anger over social media, the Chinese Communist Party (CCP) is not changing their policies. In addition, these lockdowns have once again squeezed supply lines as ocean carriers pile up outside Chinese ports.

Fortunately, the number of COVID cases in China is falling at an exponential rate and indicates lockdowns ending sooner rather than later. All this data comes directly from China, thus the reliability of the data provided could easily be called into question, but the good news is that the trend is improving at an accelerated rate.

Inflation

CPI hit 8.5% in March and is projected to be 8.1% for April. Albeit, high, but at least coming down from the high. In addition, Energy, Food, and Used Cars have been the biggest contributors to inflation over the past 12 months, but are deflating as we speak. Corn, cattle, pigs, feed, oil, natural gas, electricity, and used car prices are all decelerating. This deceleration is why the projection is for inflation to take a step back in April. This deceleration will provide the FOMC with some much needed credibility after many have used Jerome Powell and his peers as a punching bag over the past 9 months. In addition to credibility, this will also reset expectations on how fast the FOMC will raise rates. Any sort of decrease in rate hikes will serve as a tailwind to economic growth as it increases liquidity all else equal.

Consumer

Unemployment is back near historic lows while the number of job openings remain at an all-time high. Secondly, wages continue to grow at an accelerated rate relative to history. This paints a robust picture for the variable (that being the consumer) that makes up nearly 70% of US GDP.

This strength in jobs and wages is helping abate the higher price at the pump and grocery store. Possibly more importantly is the balance sheet of the consumer. Housing debt stands at $11.25T (higher than 2008 - $10T) and at first glance raises one's eyebrows. However, net worth is $142T, significantly higher than the amount of debt. In addition, using 2008 as an example net worth was $66T equating debt to equity of 15%. As of year-end 2021, debt to equity was 8% indicating the consumer is not only strong from a debt perspective but can digest the recent correction in the market.

Value

The market is near a 5-year low in terms of valuation (P/E) and well below the average. Secondly Q1 earnings have been outstanding; 87% of S&P 500 firms have reported with 79% and 74% beating bottom- and top-line projections. In addition, earnings have grown 9.1% while the expectation was 4.6%. Thirdly, if you compare this overall earnings strength to any historic period of price weakness earnings were not only coming in below expectations but were shrinking.

Conclusion:

There has been little place to hide in terms of YTD weakness. In fact, the places to hide exhibit some of the worst fundamentals relative to their peers. Titan Investments believes the euphoria and "safety" that has been priced into Energy, Consumer Staples, and Utilities offers little upside. However, industries that have been unfairly punished (low leverage, high margin) are resulting in significant opportunity going forward.

This opportunity is highlighted by inflation showing signs of falling, a robust consumer, Chinese COVID cases falling, and valuation. The price volatility at the pump is unclear going forward, but all other metrics are moving in the right direction.

Going forward, Titan Investments is focusing on some of the names that have been beaten down more than peers for little fundamental reason. As Warren Buffet said, "This combination of a focus on fundamentals and a commitment to the long-term will also save you from the emotional rollercoaster of reading every forecast by an investment "expert.""

Please let us know if you have any questions.

Best,

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