Virtus Strategist Says Private Sector Will Still Need Stimulus in 2010

PRNewswire
HARTFORD, Conn.
(NASDAQ-NMS:VRTS)

HARTFORD, Conn., Feb. 2 /PRNewswire-FirstCall/ -- Are U.S. policymakers prepared to hand the economy back to the private sector? The answer to that question is complicated, according to the latest economic commentary from Max Bublitz, chief strategist at SCM Advisors, a Virtus Investment Partners company.

(Logo: http://www.newscom.com/cgi-bin/prnh/20090105/NEM020LOGO)

"The Great Reflation Experiment" is what Bublitz is calling the unprecedented attempt by U.S. policymakers to stabilize and resuscitate the economy during the worst times since the Great Depression. The question is when will policymakers "actually feel comfortable that the economy is healthy enough to hand back to the private sector, a job made especially tough due to the artificial nature of current economic fundamentals," he asks.

Government stimulus fueled third-quarter 2009 U.S. gross domestic product (GDP) growth, and it looks like inventory restocking will drive much of fourth-quarter growth. Considering that U.S. economic growth should be "volatile" and "very uneven," Bublitz anticipates that U.S. GDP for 2010 will come in around 2 percent.

The annual number "will likely end up being less meaningful because of the risk that several statistically impressive quarters could be offset by a negative one as policymakers struggle to get the balance of the monetary and fiscal porridge just right," he says. "A banking system facing continued loan deterioration and increased regulation, a moribund securitization market, and a badly damaged real estate sector don't help matters either."

The broader macro calls that characterized the market in 2009 will be replaced by an investment environment that favors active money managers who can separate the winners from the losers. This is "opportunity born of change, nurtured by uncertainty, and laid bare by volatility."

Meanwhile, the outlook for the U.S. dollar is that, other than mini flights-to-quality that might occur as a

Meanwhile, the outlook for the U.S. dollar is that, other than mini flights-to-quality that might occur as a result of continued de-leveraging, the slide that has persisted over the last decade will continue. Bublitz adds that investors should see this as a "natural consequence of government stepping in for a retrenching private sector, effectively trading private debt for public debt."

Beyond the frame of the GDP picture, he predicts that the key Fed funds rate will remain unchanged at low levels well into this year and possibly into 2011, but says investors should expect to see a higher, flatter Treasury yield curve a year from now.

"The more important question, for now, will be when the Federal Open Market Committee decides to remove the 'extended period' language from its statements," Bublitz says. At that point, it "could get ugly for the markets."

About Virtus Investment Partners, Inc.

Virtus Investment Partners (NASDAQ: VRTS) is a distinctive partnership of boutique investment managers singularly committed to the long-term success of individual and institutional investors. The company provides investment management products and services through its affiliated managers and select subadvisers, each with a distinct investment style, autonomous investment process and individual brand. Virtus Investment Partners offers access to a variety of investment styles across multiple disciplines to meet a wide array of investor needs. Additional information can be found at www.virtus.com.

Photo: http://www.newscom.com/cgi-bin/prnh/20090105/NEM020LOGO
AP Archive: http://photoarchive.ap.org
PRN Photo Desk, photodesk@prnewswire.com

SOURCE: Virtus Investment Partners

Web site: http://www.virtus.com/
