

Virtus Strategist Says 'Relentless' Secular Headwinds Could Impede Further Economic Gains

HARTFORD, Conn., Feb. 9, 2011 /PRNewswire/ -- As the markets, economy and financial system continue to be buffeted by cyclical tailwinds and secular headwinds, [Max Bublitz](#), chief strategist and portfolio manager at [SCM Advisors](#), an affiliated investment manager of [Virtus Investment Partners](#), warns that "our nation is struggling through the first meaningful detour in the upward arc of our standard of living in decades."

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In his [latest quarterly commentary](#), Bublitz writes that the tailwinds seen in the fourth quarter of 2010 – generated by federal economic stimulus of almost incomprehensible scale – have clearly stiffened. "While we continue to believe the reflation cycle has some life left in it as we head into 2011, we also retain a healthy uncertainty and apprehension about how long it will last given the lessons of history," cautions Bublitz.

Bublitz, a frequent [blogger](#), notes that the remaining secular headwinds are relentless. The private sector has not reaffirmed its place as the driver of the economy; it will take time for labor markets to return to normal levels; and balance sheets require repair. However, Bublitz does indicate that 2011 should see a bottoming of the housing market and for inflation to mark a bottom.

On Capitol Hill, long-term budgetary issues pose a constant threat to the country and the dollar, Bublitz writes, though the near-centering of the political pendulum following mid-term elections was a good thing, fiscally speaking, for the U.S.

Looking at the markets, the S&P 500 index, which gained more than 20% after the announcement of a second round of quantitative easing, could hit 1,400 in the first half of this year given that the Fed has only used about a quarter of its proposed \$600 billion stimulus. The second half of the year could be another story. The cyclical market rally may not be able to continue once that support is removed.

"There can be little argument that the reflationary efforts have helped us heal from the worst financial crisis in generations," Bublitz says. "The U.S. economy is preparing to move from the recovery stage into expansion, modest though it may be."

About SCM Advisors LLC

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