# Economic Headwinds a 'Very Big Deal' to Virtus Strategist

**Jump-starting the economy has been an experiment in reigniting capital markets' risk appetite**

HARTFORD, Conn., April 27 /PRNewswire-FirstCall/ -- The "Great Reflation Experiment" -- or the unprecedented attempt by U.S. policymakers to resuscitate the economy following the recent recession -- has been successful to date, but not because of traditional macroeconomic efforts. Rather, says Max Bublitz, chief strategist and portfolio manager at SCM Advisors LLC, an affiliated investment manager of Virtus Investment Partners (Nasdaq: VRTS), "it has been achieved indirectly through the partial repair of the left side of consumer's badly damaged balance sheets, via higher prices for risk assets."

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"We've often said that there is a significant difference between economic recovery and expansion, and we continue to believe that while we may be in a statistical recovery, many are not -- and won't be -- feeling it," Bublitz says in his latest quarterly commentary. "The financial crisis, deficits as far as the eye can see and a general distrust of Washington are leading the social mood to take a turn for the worse.

It will take bolstered consumer confidence, above all else, for a true economic revival, Bublitz says. Given the lingering weakness in home prices and the expected hike in taxes, a stronger labor market becomes all the more important.

He cites the incremental improvements in the U.S. jobs data, such as the drop in the unemployment rate to 9.7 percent in February from 10.1 percent in October, as a promising sign of restoration. However, since the number of employed has just returned to levels of 11 years ago, "the best you can say about the labor market is that firings are stabilizing, while hiring remains anemic."

Despite reports of continued low and falling consumer inflation, wage gains have been growing at an even slower rate, and Bublitz maintains that "disinflation remains the fact, while inflation remains the fear."

"The inner cogs of the financial system have been so distorted by government intervention that it has become increasingly difficult to grasp the full meaning of such things as negative T-bill rates and negative swap spreads." Having set the expectation that the Treasury yield curve will be higher and flatter in a year's time, it may need to become steeper first, "if only to create a 'pain-trade' and a little more market balance," say Bublitz, who shares his commentary on the bond market in his regular blog on Virtus.com.

"It is not clear to us that the narrative of the financial crisis is being properly written," he concludes. "Yes, the Great Reflation Experiment did stave off financial collapse, but that in no way implies that the U.S. and global economies will be made whole."

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