

Virtus' Terranova Foresees 'Continued Frustration' as Investors Grapple With Latest Market Correction

Sees Investing Opportunities in Strongest Balance Sheets

HARTFORD, Conn., July 22 /PRNewswire-FirstCall/ -- The capital markets are searching for the next fundamental catalyst and until it is identified, "there will be a period of fits and starts" before bullish momentum is reestablished, says [Joe Terranova](#), chief market strategist at [Virtus Investment Partners](#). "The lack of a clear fundamental catalyst will prevent significant gains, and the market could reject what should be viewed as positive."

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In his [quarterly market commentary](#), Terranova, a regular panelist on CNBC's [Fast Money](#) and frequent [blogger](#), says despite early economic data that gave a promising start to the second quarter, investor confidence was shattered by global economic headwinds, the Greek debt crisis, and the May "Flash Crash." The current market correction -- the fifth since financial markets hit lows in March 2009 -- is likely to be deeper and last longer than the previous four, with capital markets laboring in the shadows of uncertainty for the remainder of the summer.

Terranova says the catalysts likely to drive the 2010 market recovery will be those that drove the 2009 recovery: extremely low interest rates; ample liquidity; a favorable yield curve; buoyancy of the Chinese economy as a global growth engine; and the contribution of the "BRIC" countries -- Brazil, Russia, India and China -- to global GDP. He believes these market drivers will spur further growth in the latter half of this year, driving the equities market higher on December 31 than it was on January 1.

Unfortunately, investors may be tempted to deviate from their initial strategic plans because of the uncertainties in the market. "In this current baseball season of frustration," says Terranova, "Investors need to put their money on the team with the deepest bullpen -- the team with the best odds to still be standing in playoff season."

Relative to the capital markets, the "deepest bullpen" is determined by the balance sheet, "on both an individual sector basis and on a global scale." Terranova believes the U.S. has the best balance sheet in the world, thanks to a well-run 2009 capital assistance program which allowed private banks to remain privately funded and not become nationalized. While Europe as a whole failed in this regard, Terranova predicts that the U.K. will emerge from the crisis in better shape than prevailing pessimism suggests. He's also bullish on Russia, noting the country's strong capital inflows and the critical growth component of its "oil card."

Highlighting the importance of strong balance sheets and pricing power, Terranova suggests that within equity sectors, basic materials, natural resources, and energy will retain pricing power because they are tethered to the growth of the emerging world. Technology enjoys similar pricing power. "Quality and balance sheet recognition will be critical to resuming the uptrend in the second half" of the year, he says.

Visit [Virtus.com](#) for Joe Terranova's most recent commentary on his [blog](#).

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