U.S. Markets Ready to Roll After 'Shake, Rattle,' Virtus Strategist Says

Terranova says second half of 2009 echoes 2003 recovery; emerging markets, high-yield bonds and commodities among asset classes in play

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HARTFORD, Conn., July 30 /PRNewswire-FirstCall/ -- The market recovery from the current recession has begun, says Joe Terranova, chief market strategist at Virtus Investment Partners (NASDAQ: VRTS), and panelist on CNBC's Fast Money. In his most recent market commentary, Shake, Rattle, and Roll, Terranova says investors should expect the market to play out much like it did in 2003.

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

At the end of June, Terranova noted that market activity during March and April marked the shake out of the "Armageddon Trade." Despite the pullback caused by government issuance of large amounts of debt, the markets are now poised for a bounce back, which may resemble the market rebound of 2003.

"Right now, we hear the same sort of thing: analysts are once again calling for the deep dive," Terranova says. "I don't see it. I think many of these so-called 'market experts' are still too focused on the headlines of January and February about the challenged economy and the challenged consumer."

He likened the recovery pattern to the Big Joe Turner tune, "Shake, Rattle and Roll," made famous by Bill Haley & His Comets in 1954. "The month of June was highlighted by a rattle after a period of shake, but the roll is coming."

Terranova points out that the Dow Jones Industrial Average hit a low of 7,500 in March 2003, caused in part by the SARS outbreak and the beginning of the Iraq war. Yet by year-end, despite the doom and gloom in analysts' forecasts, the Dow still cracked 10,000.

Today's recovery is being sparked by solid performance in asset classes such as emerging market equities, commodities, high-yield corporate bonds, and currencies.

Terranova notes that emerging market stocks are up more than 40 percent year to date, boosted in part by the stimulus package in China. In addition, India and Brazil, Chile, and other South American countries have been and should continue to be a boon for investors over the next 12-18 months.

"When there's activity in emerging markets, there are commodity plays," Terranova says, adding that investors should expect commodities to be "the backbone of this recovery" for the next four years. China's development, for example, helped drive a bull market from 2004 to 2008 on the heels of a staircase recession recovery in 2003, and Terranova thinks it's time for a repeat from 2010 to 2014.

Terranova favors high-yield corporate bonds, which have returned as much as 35 percent to investors this year, and thinks investment-grade bonds may provide a big opportunity, too. "Clearly, the corporate bond sector is the place to be if some sort of correction actually does transpire this year."

He also suggests more exposure to currencies. He expects the greenback will remain weak and investors who want to trade against the dollar should look to commodity and emerging-market currencies.

Despite these opportunities, Terranova says that the outlook isn't all rosy. While he doesn't foresee inflation as a near-term threat and believes corporate earnings are promising, he considers that the U.S.'s reliance on foreign oil still remains a threat. As long as the government drags its feet on a new energy policy, it will slow the recovery.

"The continued reluctance to designate natural gas as the primary bridge fuel to a more renewable future does not bode well for this recovering economy. Until this administration develops a reasonable strategy, investment in energy -- across the broad energy landscape -- remains one of the top themes for investors," Terranova notes.

Get Terranova's full report here.

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