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UBS Wealth Management Solutions

National Forum

America and The Decade Ahead

Global Investment Strategy—A panel discussion

Moderator:
Mike Ryan
Chief Investment Strategist
Head WMR America

Panelists:
John Maulden
Chief Investment Officer
Nuveen Investments

John Miller
President
Millennium Wave Advisors

Dr. Claus te Wildt
Head of Capital Markets Strategies
Fidelity Financial Advisor Solutions

George Strickland
Co-Portfolio Manager & Managing Director
Thornburg Investments Management

The prospects for markets are traditionally tied to two basic concepts: fundamentals, such as economic growth rates, and valuation, or how securities are priced. More recently, investors have had to concern themselves with politics and policy decisions like never before. Against this backdrop, the panel discussed navigating global markets in search of a strategy that fits today's climate.

John Maulden started off the discussion by attributing the soft recovery from the recession to a historic deleveraging, calling it a "debt super cycle." Maulden argued that this deleveraging would mean lost economic growth, but noted also that any attempts to rush the process could bring on larger negative economic consequences. He believes that this will occur over a three- to four-year cycle, but the country and the world would manage through it. He reminded us that this last recession was unlike most typical business-cycle recessions and requires investors to view their models for interpreting the markets differently as they negotiate this recovery.

When asked about what might be the catalyst to ignite more substantial economic growth, Claus te Wildt pointed to two triggers he saw that would turn the tide. He first described how normal home inventory replacement (i.e., homes lost to old age, fire, etc.) and an increasing population would demand 1.5MM homes each year, even though today we're only building .5MM new homes each year. This hasn't been an issue since we've been working off the excess housing inventory that accumulated over the last three years. However, he believes, once that excess is soaked up, we will have to triple home building to meet demand, sparking substantial economic growth.

Te Wildt also pointed out another important, positive trend—the recovery of manufacturing in the U.S. He added that the combination of falling wages and higher productivity would make the U.S. much more competitive in manufacturing. Already, he observed, we are seeing a repatriation of manufacturing jobs, which American businesses had earlier shipped overseas.

George Strickland agreed and offered an additional catalyst—the U.S. auto sector. The average age of cars in America is a mature 10 years, he said, so American consumers will soon need to buy new cars. The increased demand, he predicted, would spark increased production and hiring. Strickland continued to explain that the U.S. is benefiting from the troubles we see today in Europe, which have brought new capital to America, lowering the cost of Treasury debt. This latter development has lowered money market yields which, in turn, have driven those dollars to banks. He added, these bank deposits might spur banks to lend to businesses, and buy Treasuries, driving down those rates even more.

John Miller did not see another quantitative easing by the Fed, though he thought we might see one next year should economic conditions remain tepid. Maulden added that if quantitative easing does occur, it's likely to happen in 2Q 2012 so it is not done close to upcoming 2012 elections and appear to be political—anathema to the Fed.

The discussion drifted to Europe, where te Wildt made a point of emphasizing what he believes is Germany's strong commitment to the European Union. There was unanimous concern around the sovereign debt issue in Europe.

Moving closer to home, Miller pointed out that state and local governments which were under heavy fiscal pressure over the last couple years have made great progress in working through their difficulties, with the help of higher taxes and recovering economies. Miller and Strickland both agreed that the yield pick up in longer duration bonds might now be worth considering. While they do represent additional risk in securing the higher yield, Strickland felt that now was a good time to take risk.

Te Wildt summed up his overall market views very succinctly: stay away from Japan and Europe; keep what you have in emerging markets and he likes the U.S., especially large caps. He also favors municipal and floating rate bonds. Gold, he believes, will continue its run.

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