



monthly investment overview.

January 2009

The Economy

US Real Gross Domestic Product: 2007 +2.0% 4Q'08 -3.8%
Consumer Price Index: Y/Y +0.1% Dec. 2008 -0.7%

The new year opened with at least some hope of quickly stabilizing the battered economy. Details of Obama's stimulus plan (\$800 billion to \$900 billion of higher spending and tax cuts over 2 years) began to take shape as his inauguration approached, while the Bush Administration successfully lobbied for the second \$350 billion of TARP funds. The cheer was short lived however as more bad news quickly cropped up in the form of deteriorating economic fundamentals and additional problems in the financial system. Bank of America divulged that it needed (and received) more bailout money to complete its merger with Merrill Lynch, and Citigroup posted an \$8.3B loss in 4Q and announced plans for a 'good bank / bad bank' structure. The news of Bernard Madoff's \$50B Ponzi scheme shocked the financial community. The unemployment rate in January jumped to 7.6% from 7.2% in December, while job losses of 598,000 in January marked the first time since records began in 1939 that job cuts exceeded half a million in three consecutive months. The U.S. consumer retrenched further as retail sales accelerated their yr/yr decline to -9.8% in December. Manufacturing activity also took an abrupt decline around year end with companies rapidly cutting production and working to destock excess inventory. Economic conditions also continued to weaken on a global basis as evidenced by the International Monetary Fund's forecast for a paltry 0.5% growth rate in 2009. The global policy response however remains unprecedented. The Bank of England and the European Central Bank both cut benchmark interest rates to record lows while foreign governments from Germany to Japan to Mexico and Australia have all announced stimulus packages. The U.S. dollar resumed its advance in January on the back of foreign rate cuts and economic weakness as well as a perceived flight to quality trade. Inflation expectations remain benign with the CPI index running at a -12.7% annual rate for the three months ending December, which will force policy makers and companies to deal with the frightening prospects of negative nominal growth at least in the short-term.

The Stock Market

Dow Jones Industrial Average YTD Total Return: -8.7%
Standard & Poor's 500 Index YTD Total Return: -8.4%

The 8.4% decline in the S&P 500 Index marked its worst performance ever for the month of January. Stocks were battered as companies slashed earnings forecasts and dramatically reduced capacity. Financial shares were the break-away losers during the month, declining by just over 25% on average as investors dealt with further uncertainty about how the ailing financial system would be fixed. All economic sectors of the market were down, however Healthcare, Utilities, and Information Technology held up relatively well by only posting low single-digit declines.

The Bond Market

Federal Funds Rate: Target 0% - 1/4%
10-Yr US Treasury Yield: 2.84%
Barclays Intermediate-Term US Gov't Bond Index: YTD -1.3%

Treasuries reversed course in January as price declines pushed the 10-year yield up to 2.84% at month end. Liquidity conditions in the fixed income markets have improved somewhat as spreads narrowed from year end on both corporate and high yield debt. The U.S. Federal Reserve made no change to their target of 0% to 1/4% on Fed Funds but did strengthen their statement about being prepared to purchase longer-term Treasury securities. The Federal Reserve has already taken steps to purchase large amounts of agency debt and mortgage backed securities in order to support the housing markets. 30-year fixed mortgage rates remained in the 5.0% to 5.1% range in January.