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monthly investment overview.

July 2009

The Economy

US Real Gross Domestic Product for 2008: +0.4%
US Real Gross Domestic Product for 2Q'09: -1.0%
Consumer Price Index Y/Y: -1.4%
Consumer Price Index June 2009: +0.7%

July economic data showed more evidence that the economy is starting to recover from the sharp contraction experienced over the last three quarters. The index of leading economic indicators increased 0.7% in June, the third month of sequential gains. Housing is finally showing early signs of a recovery. U.S. new home sales were up 11% in June from May, while existing home prices as measured by the Case-Shiller Index, recorded their first improvement in three years with a 0.5% increase in May compared to April. The manufacturing economy is starting to see the benefits of inventory restocking after record high inventory cuts in 2Q. Core capital goods orders were up for a second consecutive month in June, posting a 1.4% increase, and the July PMI reading also moved up to 48.9, close to the 50-level that separates contraction from expansion. But despite these signs of improvement, several areas of economic weakness remain. Commercial and consumer lender CIT Group came to the brink of bankruptcy before getting a temporary bailout from a group of its bondholders. Although continuing unemployment claims are now off their worst levels, most economists expect unemployment to remain a headwind, peaking above 10% in early 2010. Non-residential construction appears set to decline further, as evidenced by the Architecture Billings Index declining sharply in June to 37.7 from 42.9 in May. However, elevated levels of government stimulus should continue to help the economy. The government's "Cash for Clunkers" program was met with great enthusiasm, resulting in better than expected July automobile sales and higher 3Q production forecasts. Overall, economists' consensus GDP estimates are increasing, with most forecasts calling for a U.S. economic growth rate somewhere in the 2% to 4% range for the 2nd half of 2009.

The Stock Market

Dow Jones Industrial Average YTD Total Return: +6.6%
Standard & Poor's 500 Index YTD Total Return: +11.0%

The S&P 500 staged a strong advance from its early July lows and moved to a new high for the current advance (off March lows), posting its best performance for the month of July in 20 years. Strong earnings from Intel and Goldman Sachs ignited the rally. Heavy cost cutting actions helped companies report better than expected earnings for 2Q and resulted in 2Q productivity increasing at an annual rate of 6.4%, the fastest pace in almost six years. More companies beat analysts' earnings estimates for 2Q than during any other time over the last decade. Companies in sectors that benefit from an increase in economic activity, such as materials, consumer discretionary, industrials, and information technology outperformed the market in July. More defensive sectors, such as utilities, telecommunications services, and healthcare underperformed.

The Bond Market

Federal Funds Rate: Target 0% - ¼%
10-Yr US Treasury Yield: 3.48%
Barclays Intermediate-Term US Gov't Bond Index: YTD +3.0%

The ten-year Treasury yield gyrated in the 3.3% to 3.7% range during the month as investors weighed the impact of new economic reports and a jump in the supply of Treasury debt. There has been increased debate about the Federal Reserve's ability to implement an exit strategy from its emergency measures that will not spur inflation or cause other harmful economic disruptions. Through the first nine months of its fiscal year, the U.S. government budget deficit hit an all-time high of $1 trillion, with the full-year deficit projected at $1.8 trillion or 13% of GDP. Corporate bonds continue to perform well, as spreads on both investment quality and junk rated bonds narrowed further in July. Corporate bond issuance hit a record $1.79 trillion in the first half of 2009.