

monthly investment overview.

September 2009

The Economy

US Real Gross Domestic Product for 2008: +0.4%
US Real Gross Domestic Product for 2Q'09: -0.7%
Consumer Price Index Y/Y: -1.5%
Consumer Price Index August 2009: +0.4%

Economic data continued to come in modestly better than expectations in September. The nonmanufacturing ISM or services index moved to 50.9 in September, joining the core manufacturing ISM index, which had already moved above 50. The ISM or Institute of Supply Management uses surveys to construct indexes of activity in the manufacturing and services sectors, where a reading above 50 indicates expansion. U.S. consumer spending has stabilized and is starting to increase again after record declines in the second half of 2008. While still at historically low levels, consumer confidence readings have more than doubled from 1Q (25.3 in February to 53.1 in September). Consumers received a "second wind" from government stimulus and incentive programs and are feeling better thanks to household net worth increasing by \$2 trillion in 2Q, ending its biggest decline on record. After a solid 2.7% jump in U.S. retail sales in August (helped by a boost from the government's Cash for Clunkers program), September retail sales at stores open for more than a year posted a 0.6% rise according to a Thomson Reuters index, the first increase in 13 months. However, the weak employment market combined with consumers paring back debt levels is likely to remain a headwind for the U.S. economic recovery through 2010. September non-farm payrolls fell by a larger than expected 263,000, pushing the unemployment rate up to 9.8%. This marked the 21st consecutive month of job losses, the longest streak since monthly data was first gathered in 1939. Total consumer credit declined by \$12 billion in August, the 7th straight month of contraction. On the political front, President Obama pushed aggressively for an overhaul to the U.S. healthcare system. The government's stimulus (bailout) efforts helped push the estimated budget deficit for fiscal year 2009 ending in September to a record \$1.4 trillion. Concerns about chronic deficit spending and even greater debt levels led the U.S. dollar to continue its decline, reaching its lowest level of the year in September.

The Stock Market

Dow Jones Industrial Average YTD Total Return: +13.5%
Standard & Poor's 500 Index YTD Total Return: +19.3%

Upward market momentum for the stock market continued in September, helped by positive comments from company managements at investor conferences. The Dow Jones Industrial Average posted its best 3Q performance since 1939, rising 15.8% on a total return basis. The strong advance in equity prices this year has resulted in a surge in secondary stock offerings. In addition, the level of acquisition activity has also increased, led by Kraft's \$16.7 billion offer for Cadbury. Sectors leading the stock market advance in September included industrials, consumer discretionary, and energy, while laggards were financials and health care.

The Bond Market

Federal Funds Rate: Target 0% - ¼%
10-Yr US Treasury Yield: 3.3%
Barclays Intermediate-Term US Gov't Bond Index: YTD +4.9%

Treasury yields moved lower in September, ending the month at 3.3% on the 10-Year Treasury. Credit spreads continued to narrow on both investment grade and junk debt as confidence in the financial system and U.S. economic recovery builds. Widely viewed as responsible for getting the financial system functioning again, the U.S. Federal Reserve remains active in supporting credit markets, buying up to 80% of all agency mortgage-backed debt being issued. The Fed announced at its September meeting that the buying of agency mortgage-backed securities would be extended through the end of 1Q 2010, helping the 30-year fixed mortgage rate move back down to 5.0% at the end of September, the lowest level since mortgage rates hit a record low of about 4.8% last spring.