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monthly investment overview.

December 2009

The Economy

US Real Gross Domestic Product for 2008: +0.4%
US Real Gross Domestic Product for 3Q'09: +2.2%
Consumer Price Index Y/Y: +1.8%
Consumer Price Index November 2009: +0.4%

Optimism about a recovering economy continued to rise in December. Although employment has gradually improved, the recovery appears to be primarily led by business spending and exports. Non-farm payrolls posted a disappointing 85,000 decline in December, but the November number was revised higher to a gain of 4,000 jobs. The unemployment rate remains at 10%. The manufacturing side of the economy continues to see a broad based, global recovery. The ISM manufacturing index expanded to 55.9 in December, its highest reading since April 2006. Other international ISM manufacturing readings also improved, with the Euro Zone moving up to 51.6, Japan at 53.8, and China at 56.1. An ISM reading above 50 indicates expanding activity. The government's heavy involvement with the economic recovery became increasingly evident in December. Treasury Secretary Timothy Geithner announced that the Obama Administration would extend the financial bailout program until October 3, 2010. The Treasury lifted the limit on preferred stock credit lines to both Fannie and Freddie, essentially agreeing to backstop any losses over the next few years. And finally, the Treasury injected an additional $3.8 billion into GMAC Financial in order to shore up its home mortgage operations, bringing the government's cumulative investment to $17.2 billion. On the legislative front, the Senate passed its version of health care reform which is expected to be ready for the President's signature sometime in January. Other bills aimed at providing more financial aid to the economy and overhauling the regulation of the financial system were also introduced. The U.S. debt ceiling was raised to a record $12.4 trillion at year end, with more increases inevitable in 2010. Inflation readings are currently benign with the core CPI coming in flat month-over-month in November. After experiencing a steady decline since last March, the U.S. dollar reversed course in December, strengthening to $1.43 dollars-per-Euro from $1.50 at the end of November.

The Stock Market

Dow Jones Industrial Average YTD Total Return: +22.7%
Standard & Poor's 500 Index YTD Total Return: +26.5%

The S&P 500 Index rallied into year-end with a 1.9% advance in the month of December and a 26.5% gain for all of 2010 (total return). December saw a number of large banks do secondary stock offerings in a rush to repay TARP money by year end. Bank of America, Citigroup, and Wells Fargo all tapped the equity market with secondary offerings, raising approximately $19 billion, $17 billion, and $10 billion respectively. The information technology and consumer discretionary sectors, which have been strong performers all year, continued to outperform in December. Telecommunications and utilities were also stronger than the overall market. Financials, energy, and consumer staples underperformed for the month.

The Bond Market

Federal Funds Rate: Target 0% - ¼%
10-Yr US Treasury Yield: 3.8%
Barclays Intermediate-Term US Gov't Bond Index: YTD +5.2%

The 10-year U.S. Treasury yield increased 60 basis points in December to 3.8% as data indicates the economy continues to improve and the Treasury held several very large auctions. It is estimated that the U.S. government will have to issue $2.5 trillion over the next two years in new Treasury debt to fund growing budget deficits. The Federal Reserve will attempt an orderly withdraw from its purchases of mortgage backed securities by the end of 1Q 2010. The Fed is also experimenting with mechanisms aimed at removing liquidity from the financial system including new forms of repurchase agreements and interest bearing term deposits.