

monthly investment overview.

June 2009

The Economy

US Real Gross Domestic Product for 2008: +1.1%
US Real Gross Domestic Product for 1Q'09: -5.5%
Consumer Price Index Y/Y: -1.3%
Consumer Price Index April 2009: +0.1%

The effects of massive global stimulus actions on the economy remained the story in June. The 19 U.S. financial firms that were stress-tested by the U.S. government successfully raised more than \$85 billion in fresh capital. This prompted the Treasury to allow 10 of these firms to repay \$68 billion of government bailout money issued to them under the TARP or Troubled Asset Relief Program. Emerging economies have been some of the fastest to respond due in part to their own massive stimulus efforts. In China, new loans in May more than doubled from the year ago period to 664.5 billion yuan (\$97 billion) and M2 money supply matched April's 26% yr/yr increase. The International Monetary Fund recently raised estimates for emerging economy growth in 2010 to 4.7% while advanced economies are now forecast to expand by 0.6%. After May saw better than expected employment numbers, June non-farm payrolls disappointed with 467,000 lost jobs and an unemployment rate of 9.5%. Employment remains a serious problem for U.S. consumer spending, the housing market, and overall prospects for a U.S. economic recovery. In their first quarter national mortgage delinquency survey, the Mortgage Bankers Association found that the combined percentage of loans that were delinquent (30-days past due) or in foreclosure rose to 12.07%, the highest level since the MBA started keeping records in 1972. On the industrial side of the economy, manufacturing conditions showed further signs of stabilization. The U.S. ISM manufacturing index increased another 2 points to 44.8 in June, from a bottom of 32.9 reported last December, and the J.P. Morgan global manufacturing PMI index added 1.6 points to 46.9 in June, its highest level since August 2008. The Obama administration remains very active on the policy front, which will certainly help shape the future direction of the U.S. economy. In addition to legislation on healthcare reform and climate change, President Obama released an 85-page 'white paper' on proposed regulations and changes to the financial industry and asked lawmakers and officials to submit their own proposals on the subject by October 1st. State budgets are also feeling the impact of the ongoing economic downturn as evidenced by California's decision to issue IOU's as a result of its inability to close the state's \$26 billion budget gap.

The Stock Market

Dow Jones Industrial Average YTD Total Return: -2.0%
Standard & Poor's 500 Index YTD Total Return: +3.2%

The increase in risk taking that investors have embraced since the March 9th low in the S&P 500 started to reverse toward the end of June. The month started out strong with the S&P 500 peaking at 946, a 39.9% gain for this recovery cycle off the March low. However, returns for the month were flat as investors now need to see signs of actual economic recovery and not just data showing that conditions are getting 'less bad'. 2Q earnings reporting season begins in July and should offer a better idea of how companies feel about the economy and their outlook for future growth. Utility stocks led the market during June, followed by information technology and healthcare stocks. Materials, energy, and industrial stocks underperformed.



100 E. WISCONSIN AVE., SUITE 2700
MILWAUKEE, WI 53202
TEL: 414.326.3200 FAX: 414.326.3201

The Bond Market

Federal Funds Rate: Target 0% - ¼%

10-Yr US Treasury Yield: 3.54%

Barclays Intermediate-Term US Gov't Bond Index: YTD +1.6%

Mirroring the stock market advance and investors' growing hope for an economic recovery, U.S. Treasuries continued their sell off in early June, pushing ten-year yields up to 3.95% before closing the month at 3.54%. There has been growing concern about adequate demand to finance all the government debt issuance needed to support U.S. fiscal and monetary policies. Pressure is also starting to be applied to the U.S. Treasury market and the U.S. dollar due to increased rhetoric from several emerging nations, led mainly by China, on moving away from the dollar as the world's reserve currency. Finally, in an effort to sustain liquidity and keep rates low, the Federal Reserve extended a number of its lending facilities through early 2010.