

# monthly investment overview.

## March 2009

### The Economy

US Real Gross Domestic Product for 2008: +1.1%  
US Real Gross Domestic Product for 4Q'08: -6.3%  
Consumer Price Index Y/Y: +0.2%  
Consumer Price Index Feb. 2009: +0.4%

March economic data included a few bright spots amid the gloom. February retail sales posted a better than expected 0.1% month-over-month (m/m) decrease, while January sales were revised higher to +1.8% m/m. New housing starts and existing home sales for February were also above expectations. Low interest rates helped jump-start activity in the housing market as mortgage applications surged 32% for the week ended March 20<sup>th</sup>. With household net worth down by \$11.5 trillion or 18% year-over-year (yr/yr) in 2008 and non-farm payrolls cut another 663,000 in March, however, U.S. consumers still have a long way to go to repair their financial condition. Notably, household debt contracted at a 2% annual rate in 4Q08, the first 3-month decline since the Fed began tracking data in 1952. Manufacturing remains decisively weak, but shows sporadic improvement as factory utilization slumped to an all time low of 70.9 in February while durable goods orders jumped an unexpected 3.4% m/m in the same period (although backlogs continued to shrink). All things considered, the consensus expectation for 1Q GDP growth appears to be around -5.0% quarter-over-quarter (q/q) on an annualized basis. Foreign economies remain under pressure with Euro-zone sentiment falling to an all time low of 64.6 and February exports plunging 26% yr/yr in China and 49% yr/yr in Japan. Government actions focused on solving the economic crisis exploded during March, with the total amount pledged by rescue programs growing to ~\$12.8 trillion. The long awaited Term Asset-Backed Loan Facility (TALF), aimed at getting lending and securitization restarted in the consumer market, got off the ground on March 19<sup>th</sup>. The Fed increased its “quantitative easing” program from \$600 billion to \$1.75 trillion and followed the U.K.’s lead by adding the purchase of longer-term Treasury securities to its arsenal. Further details on Treasury Secretary Geithner’s \$1 trillion Public-Private Investment Program were unveiled, although the backlash over AIG’s \$165 million bonus fiasco and talk of more intense government oversight make private investors skeptical of the plan. The month ended with the government forcing out GM CEO Rick Wagoner and the Detroit auto companies once again facing some form of intervention.

### The Stock Market

Dow Jones Industrial Average YTD Total Return: -12.5%  
Standard & Poor’s 500 Index YTD Total Return: -11.0%

In contrast to February’s relentless decline, the stock market staged a dramatic rally off of the March 6th intraday low. The S&P 500 rose 19.7% from that low point to month end and the Dow Jones rose 7.6%. Further sizable government rescue efforts along with active discussions on easing mark-to-market accounting rules and reinstating the uptick rule for short sales helped fuel the rally. A pickup in merger and acquisition activity (Roche/DNA deal, Merck/Schering Plough, Pfizer/Wyeth, IBM talks with Sun) reignited investors’ appetite for risk. Financial stocks led the rally and were one of the best performing sectors for the month along with materials, consumer discretionary, and information technology. Utilities, staples, and the energy sector lagged for the month.



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The Bond Market

Federal Funds Rate: Target 0% - ¼%

10-Yr US Treasury Yield: 2.67%

Barclays Intermediate-Term US Gov't Bond Index: YTD -0.1%

U.S. Treasury securities jumped in price after the Fed announced its intention to buy \$300 billion in longer-term Treasuries over the next six months. The 10-year Treasury yield dropped almost one half of a percentage point on the announcement, closing the month at 2.67%. Weak global economic conditions should keep inflation muted in the near-term. On the other hand, the Fed's preferred inflation gauge, the core Personal Consumption Expenditures (PCE) deflator, rose 1.8% yr/yr in February, more than forecast.