



monthly investment overview.

October 2009

The Economy

US Real Gross Domestic Product for 2008: +0.4%
US Real Gross Domestic Product for 3Q'09: +3.5%
Consumer Price Index Y/Y: -1.3%
Consumer Price Index September 2009: +0.2%

While the U.S. economy stabilized over the last few months, economic data in October was mixed. The manufacturing sector showed further improvement as total industrial production rose 0.7% in September from the prior month and the ISM manufacturing index rose to 55.7 in October, its third consecutive monthly increase. An ISM reading over 50 indicates expanding activity. U.S. light vehicle sales bounced back in October to 10.5 million units at a seasonally adjusted annual rate up from the 9.2 million sales rate in September, despite the expiration of the government's Cash for Clunkers program. Consumer outlook, however, remained subdued as evidenced by the University of Michigan's consumer sentiment index falling back to 69.4 in the preliminary October survey from 73.5 in September. The employment picture, while becoming less negative, is still a headwind with another 190,000 jobs lost in October and the unemployment rate breaking above the psychological 10% level (10.2% for October) for the first time since 1983. Housing also remains a concern as home foreclosures rose 23% yr/yr in the third quarter to a record high according to RealtyTrac. Government involvement in the U.S. economy appears to be on the rise. The push for healthcare reform continues to move forward, as both the House of Representatives and the Senate offered two versions of a healthcare reform bill that are now being debated. The Treasury Department's pay czar, Kenneth Feinberg, announced plans to slash compensation for the 25 highest-paid employees at seven firms that received large amounts of government aid. Finally, the economy will receive additional government support as lawmakers passed a bill that would extend unemployment benefits by up to 20 weeks and also extend the \$8,000 homebuyer tax credit to the end of April next year.

The Stock Market

Dow Jones Industrial Average YTD Total Return: +13.7%
Standard & Poor's 500 Index YTD Total Return: +17.1%

A late October decline in stock prices caused the S&P 500 Index to post its first negative monthly return since the market started up from its lows last March. The majority of companies posting 3Q earnings during the month reported better than expected results, driven by ongoing cost cutting efforts and a sequential stabilization in sales trends. With the S&P 500 registering a 62% increase off the March low at its October peak, investors are demanding more evidence that the economic recovery is sustainable into 2010 before allocating additional funds to stocks. October returns were negative for most sectors of the market, led by financials, materials, and industrials. Energy was the best performing sector, with consumer staples the only other sector to post positive returns for the month.

The Bond Market

Federal Funds Rate: Target 0% - ¼%
10-Yr US Treasury Yield: 3.4%
Barclays Intermediate-Term US Gov't Bond Index: YTD +5.4%

At its most recent meeting, the Federal Reserve confirmed its near zero interest rate policy, citing "low rates of resource utilization, subdued inflation trends, and stable inflation expectations," as reasons "to warrant exceptionally low levels of the federal funds rate for an extended period." Yield spreads remained well-behaved as companies issued nearly \$90 billion in new debt during October, taking year-to-date issuance over \$1.1 trillion. Government sectors were mixed as markets easily absorbed new Treasury supply while state and local securities posted negative total returns. However, gold broke to a new all-time high during October, approaching \$1,100 per ounce, an indication investors remain concerned over increasing U.S. debt levels and U.S. dollar weakness.