

Matthew Nelson Presents

Quarterly Economic Update for 3Q 2009

Quote of the quarter. “We don’t work for each other, we work with each other.” – Stanley C. Gault

The quarter in brief. The third quarter of 2009 was spectacular for stocks, and it may have included the end of what history will apparently remember as the Great Recession. The S&P 500 gained 14.98% in 3Q 2009 after a 15.22% gain in the second quarter. The Dow just had its best quarter since 4Q 1998.^{1,2} Federal rebates and credits help to stimulate home and auto sales. The data stream from the housing sector was mostly positive. President Obama’s vision of health care reform met with great public and Congressional contention. Watching the nightly news, the average American may have assumed we were still in the midst of the recession; economists, however, saw increasing signals that it was done.

Domestic economic health. As the quarter drew to a close, evidence hinted that the economy was growing. The Institute for Supply Management’s September service-sector index came in at 50.9 for September – that’s right, expansion. (It had contracted in every month since October 2008.) The ISM’s manufacturing index was above 52 in both August and September, another growth signal.³ Consumer spending increased in August by 1.3% after a 0.3% gain in July (credit some of that to the federal government’s C.A.R.S. program, which the Transportation Department estimated led to 690,114 new auto sales).^{4,5} In fact, retail sales jumped 2.7% in August (+1.1% excluding autos) after going -0.2% for July.⁶ As for inflation, the big news was negative news – in September, we learned consumer prices had dropped 1.5% from August 2008 to August 2009. (However, core CPI advanced 1.4% during that stretch.)⁷

The Conference Board’s index of leading economic indicators (signals that are supposed to hint at the state of the economy 6-9 months ahead) rose 0.6% in August, and that was the fifth straight monthly increase.⁸ The Federal Reserve’s September Beige Book found that 11 of 12 Fed banks reported regional economies stabilizing or growing.⁹ The Fed held interest rates steady during the quarter, as expected. The jobless rate was 9.4% in July, 9.7% in August, and 9.8% in September.¹⁰

Major indexes. Don’t you wish stocks behaved like this in every quarter? The Dow and S&P 500 posted coincidental 14.98% quarterly gains and the NASDAQ beat them both. The DJIA, S&P 500, NASDAQ and

Russell 2000 all gained for the second consecutive quarter, and that hadn’t happened in two years.²

% Change	3Q 2009	2Q 2009	Y-T-D
DJIA	+14.98	+11.01	+10.66
NASDAQ	+15.66	+20.05	+34.58
S&P 500	+14.98	+15.22	+17.03

(Source: CNBC.com, ustreas.gov, 9/30/09)^{1,2,11}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

Global economic health. In the Eurozone, the benchmark PMI was climbing, heading north to 48.2 in August and 49.3 in September – edging toward expansion after 16 months of contraction. Industrial output increased for the second consecutive month in September, as business inventories decreased for the second month. The EU administered a stress test to 22 major banks; all got the all clear. The EU jobless rate was 9.6% in August, .1% below the U.S. rate.^{12,13,14}

The International Monetary Fund upped its growth forecast for China and India during the quarter, predicting 2009 growth of 7.5% and 5.4% for those economies. It also raised its 2010 forecast for those nations, foreseeing growth of 9.0% in China and 6.4% for India. Data showed that the economies of Singapore and China respectively grew 20.7% and 7.9% in 2Q 2009. The economies of Brazil and Japan had started growing again – GDP was +0.6% for 2Q 2009 in Japan, and it was +1.9% for 2Q 2009 in Brazil.^{15,16,17,18}

World financial markets. Look at these gains. Germany’s DAX gained 18.02% in 2Q 2009, its second straight 18% quarterly rise. The DJ Stoxx 600 rose 17.80% in the quarter. The FTSE 100 advanced 20.82%. France’s CAC 40 soared 20.86%.¹⁹

Japan’s Nikkei 225 managed the smallest gain among major indexes, affected by uncertainty linked to that nation’s elections; the Nikkei gained just 1.8% in the quarter. There was one index that posted a notable 3Q loss – the Shanghai Composite, which fell 6.1%. Why? Lending slowed down this summer in China. Among emerging markets, Russia’s RTS was up 27%, and Brazil’s Bovespa up 20%. Turkey’s ISE soared 30% and the Sensex gained 18% in India.²⁰

In 3Q 2009, the MSCI World Index rose by 17%. The MSCI Emerging Markets Index climbed 8.9% for September and 20% for the quarter.^{21,22}

Commodities markets. Oil prices - which had risen more than 40% during the second quarter – only increased by 1.03% in 3Q 2009. They settled at \$70.61 per barrel at quarter's end.

Gold, copper and silver all had another strong quarter. Gold was up +8.73% across 3Q 2009, settling at \$1,008.00 per ounce at the quarter's close. Prices rose \$80.90 for the quarter; they rose \$56.30 during September and \$14.90 on September 30. Silver prices rose 22%, the best quarter for that precious metal since 1Q 2006. As for the dollar, it suffered, sliding 4.14% versus the euro and 6.80% versus the yen in 3Q 2009.^{23,24,25,26}

In crops, the most notable news concerned sugar prices, which gained 43% in 3Q 2009 as a consequence of diminishing output in Brazil and India. The Dow Jones-UBS Commodity Index pulled off a 4% gain last quarter, which put it up 9% for 2009.²⁴

Housing & interest rates. What were the home sales numbers in this quarter? Existing home sales increased for the fourth straight month in July (a fantastic +7.2%) but then fell 2.7% in August. (About 30% of the purchases in July were made by first-time buyers, leaving some analysts to wonder what would happen in fall when the federal first-time homebuyer credit expired.)²⁷ New home sales rose by an underwhelming 0.7% in August after a revised 6.5%

jump north in July.²⁸ However, pending home sales were up all quarter – in fact, when the August data (+6.4%) came out, they had increased for seven straight months to a level unseen since March 2007. Residential construction spending rose 0.8% for August to its highest level since August 1993.²⁹

Mortgage rates went even lower. The September 24 Freddie Mac nationwide survey had the average interest rate on a 30-year FRM at 5.04% (and rates would subsequently fall below 5% in early October). Compare that to 5.42% on June 25. The downward trend was evident for other home loan types: in the same time frame, average rates on 1-year ARMs decreased from 4.93% to 4.52%. Averages on 5-year ARMs fell from 4.99% to 4.51%. Rates on 15-year FRMs were averaging 4.87% on June 25, and just 4.46% on September 24.³⁰

Fourth quarter outlook. At the end of the second quarter, a key question was whether the consumer and the business owner would start spending again and back up the rally on Wall Street. At the end of the third quarter, that question still lingers. Some analysts see a shallow U-shaped recovery ahead, others see a W. Ten percent of the country is unemployed, and then you have the underemployed; foreclosure rates have stabilized but are still high. However, the indicators of oncoming growth or at least stability seem to outnumber the negatives lately. While another amazing quarter for stocks might be too much to hope for, we have seen the market do amazing things in its recent history – so let's hope that the quarter ahead will prove nicely positive and add to Wall Street's huge 2009 rebound.

*Please feel free to forward this article to family, friends or colleagues.
If you would like us to add them to our list, please reply with their address
and we will contact them and ask for their permission to be added.*



Matthew Nelson, CFP® | 952 225-0343 direct | 952 591-9770 main | 952 525-8538 fax | mnelson@focusfinancial.com
1000 Shelard Parkway | Suite 300 | Minneapolis, MN 55426 | www.nelson-focusfinancial.com

Securities and investment advisory services offered through Royal Alliance Associates, Inc., member FINRA/SIPC and a registered investment advisor.
Additional investment advisory services offered through Focus Financial Network, Inc. a registered investment advisor not affiliated with Royal Alliance Associates, Inc.

2009-011799A

These views are those of Peter Montoya Inc., and not the presenting Representative or the Representative's Broker/Dealer, and should not be construed as investment advice. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is not possible to invest directly in an index. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. With a fixed number of 600 components, the Dow Jones STOXX 600 Index represents large, mid and small capitalisation companies across 18 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom. The FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The Shanghai Stock Exchange Composite Index is a capitalization-weighted index that tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange. The RTS Index (RTSI) is an index of 50 Russian stocks (as of March 15th, 2007) that trade on the RTS Stock Exchange in Moscow. The Bovespa Index is an index of about 50 stocks that are traded on the São Paulo Stock, Mercantile & Futures Exchange. The Istanbul Stock Exchange (ISE) is the sole securities exchange in Turkey. The Bombay Stock Exchange Sensitive Index (Sensex) is a cap-weighted index of 30 stocks; selection of the index members has been made on the basis of liquidity, depth, and floating-stock-adjustment depth and industry representation. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The Dow Jones—UBS Commodity IndexSM is a highly liquid and diversified benchmark that allows investors to track the commodity futures market. Neither the named Representative nor Broker/Dealer gives tax or legal advice. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. All economic and performance data is historical and not indicative of future results.

The market indices discussed are unmanaged. Investors cannot invest in unmanaged indices. The publisher is not engaged in rendering legal, accounting or other professional services. If other expert assistance is needed, the reader is advised to engage the services of a competent professional. Please consult your Financial Advisor for further information. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. The price of commodities is subject to substantial price fluctuations of short periods of time and may be affected by unpredictable international monetary and political policies. The market for commodities is widely unregulated and concentrated investing may lead to higher price volatility.

Citations.

- 1 cnbc.com/id/31670314 [6/30/09]
- 2 cnbc.com/id/33093233/ [9/30/09]
- 3 bloomberg.com/apps/news?pid=20601087&sid=a.8K3fLThLfk# [10/5/09]
- 4 bea.gov/newsreleases/national/pi/pinewsrelease.htm [10/1/09]
- 5 cnbc.com/id/32571841 [8/26/09]
- 6 bloomberg.com/apps/news?pid=20601087&sid=aRrTo.tR4nY8 [9/15/09]
- 7 google.com/hostednews/ap/article/ALeqM5gNiyJ905Ho0Ur96V2TQhsBX19lGwD9AODN200 [9/16/09]
- 8 npr.org/blogs/thetwo-way/2009/09/leading_indicators_economy_rec.html [9/21/09]
- 9 philly.com/inquirer/business/20090910_Fed_reports_point_upward.html [9/10/09]
- 10 bls.gov/news.release/empsit.nr0.htm [10/2/09]
- 11 marketwatch.com/story/treasuries-up-on-world-bank-outlook-fed-buyback [6/22/09]
- 12 finfacts.ie/irishfinancenews/European_3/article_1018025_printer.shtml [10/1/09]
- 13 msnbc.msn.com/id/33123010/ns/business-world_business/ [10/1/09]
- 14 finfacts.ie/irishfinancenews/article_1018026.shtml [10/1/09]
- 15 chinadaily.com.cn/cndy/2009-07/10/content_8405492.htm [7/10/09]
- 16 marketwatch.com/story/subdued-recovery-ahead-imf-warns-2009-10-01 [10/1/09]
- 17 bloomberg.com/apps/news?pid=20601087&sid=apJX.1EhdKQQ [8/11/09]
- 18 nytimes.com/2009/09/12/business/global/12yen.html [9/11/09]
- 19 reuters.com/article/marketsNews/idUSLU50939220090930 [9/30/09]
- 20 online.wsj.com/article/SB125433939800953373.html [10/2/09]
- 21 reuters.com/article/companyNews/idUSN0114916120091001 [10/1/09]
- 22 online.wsj.com/article/BT-CO-20091002-704755.html [10/2/09]
- 23 blogs.wsj.com/marketbeat/2009/09/30/data-points-energy-metals-133/ [9/30/09]
- 24 online.wsj.com/article/SB125433953507653401.html [10/1/09]
- 25 bloomberg.com/apps/news?pid=newsarchive&sid=anICDbYZ.JVE [9/30/09]
- 26 blogs.wsj.com/marketbeat/2009/09/30/data-points-us-markets-currencies-treasuries-4/ [9/30/09]
- 27 marketwatch.com/story/existing-home-sales-drop-27-to-510-million-2009-09-24 [9/24/09]
- 28 smartmoney.com/breaking-news/on/?story=ON-20090925-000405-1015 [9/25/09]
- 29 marketwatch.com/story/story/print?guid=659EF3D2-CB76-44A5-868D-2F6050041DF2 [10/1/09]
- 30 freddiemac.com/pmms/ [10/2/09]