



Quarterly Economic Update for 4Q 2009

Quote of the quarter. “Life is just a mirror, and what you see out there, you must first see inside of you.” – Wally “Famous” Amos

The quarter in brief. The rally continued, the economy showed definite signs of improvement, and the biggest health care reform in decades inched toward reality. Stocks were hot, with the S&P 500 rising 5.49% for the quarter.¹ Commodities were even hotter. A wave of buyers rushing to take advantage of federal credits helped the real estate market. World economies were growing healthier. By the quarter’s end, even practitioners of the dismal science were largely thinking positive.

Domestic economic health. Let’s look back at some key economic indicators during the quarter. Consumer spending, for one. Personal spending rose 0.6% in October and 0.5% in November; personal incomes rose 0.3% for October and 0.4% for November.² The jobless rate climbed to 10.2% for October, then declined to 10.0% with only 11,000 jobs lost in November, the tiniest payroll decline since the start of the recession.³

The key U.S. manufacturing index (the ISM) went 55.7, 53.6 and 55.9 across October, November and December – victories three, four and five, if you will, in a five-month winning streak.⁴ Its sibling, the ISM service sector index, went from 50.6 in October to 48.7 for November (the new orders gauge came in at 55.6 and 55.1 those successive months).⁵ Durable goods orders rebounded from a 0.6% decline in October to a 0.2% gain the ensuing month.⁶

The Consumer Price Index rose 0.3% in October and advanced 0.4% for November. For November, there was actually a year-over-year rise in CPI (+1.8%).⁷ PPI rose shockingly in November (+1.8%) after a 0.3% gain the previous month; the shock was mostly due to a 6.9% month-over-month jump in the price of energy goods.⁸

The Federal Reserve kept interest rates at record lows while dropping occasional hints that rates might necessarily rise in coming quarters. After much contention, the House and Senate passed differing versions of health care reform legislation, with the bills yet to be reconciled as 2009 drew to a close.

Major indexes. 4Q 2009 was not as amazing for the market as the preceding quarter, but we’ll take it just the same. The fourth quarter also brought a big descent in the CBOE VIX (the “fear index” fell 14.92%). With a strong concluding quarter, the Dow gained 59.28% from the March 9 close to the end of the year. The S&P 500 and NASDAQ respectively gained 64.83% and 78.87% in the same time frame.¹

% Change	4Q 2009	3Q 2009	All 2009
DJIA	+7.37	+14.98	+18.82
NASDAQ	+6.91	+15.66	+43.89
S&P 500	+5.49	+14.98	+23.45

(Source: CNBC.com, 12/31/09)^{9,10}

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

Global economic health. The data suggested a global recovery in full swing, with Asia’s economies leading the way. By December, manufacturing indices in China, South Korea, India and Taiwan all showed growth (though Australia’s actually showed contraction).¹¹ The PMIs in Europe followed suit. The Eurozone PMI was 51.2 in November and 51.6 in December. PMIs in Germany, Italy, England and France were all above 50 for December, with France’s index the highest at 54.7. At the quarter’s end, manufacturing in the U.K. was growing at the fastest rate in two years.¹²

The IMF and the OECD respectively predict 3.1% and 3.4% growth for the global economy in 2010, with the bulk of emerging and developing economies heating up to 5% growth or better. In this quarter, we learned that China’s economy grew 9.0% in 3Q 2009 as India’s economy grew 7.9%.¹³

World financial markets. Investors cheered worldwide as stock indices made further impressive gains. Would you have guessed the Nikkei 225 would have climbed 4.08% in the fourth quarter? It did, and that index climbed 19.04% in 2009 – its first positive year since 2006. Hong Kong’s Hang Seng gained 4.38% in 4Q 2009, and the Shanghai Composite advanced 17.91%. The U.K. FTSE 100 rose 5.43%.¹⁴ The MSCI World Index rose 4.11% in the quarter. The MSCI Emerging Markets Index rose 6.88%.¹⁵

Commodities markets. The hottest commodity of 4Q 2009 was orange juice: prices rose 41.04% in three months. Palladium prices rose 36.65%. Corn prices were up 20.49%. Many other commodities gained between 10-20% last quarter: sugar (+11.73%), copper (+18.71%), platinum (+13.54%), crude oil (+12.39%), heating oil (+17.97%), oats (+18.88%), natural gas (+15.10%), milk (+19.08%), wheat (+18.36%), gasoline (+15.15%) and diesel fuel (+13.63%). In fact, only two widely traded commodities went negative during the fourth quarter: coal (-4.64%) and cattle (-0.39%). Gold? Silver? Well, gold was +8.61% for the quarter and silver was +1.12%. Gold finished the quarter at \$1096.20 per ounce. The U.S. Dollar Index gained 1.70% last quarter.¹⁶

Housing & interest rates. New home sales were down 11.3% for November after rising (a greatly revised) 1.8% for October; the numbers are up and down because first-time buyers thought federal housing credits geared to help them would expire this fall. Existing home sales rose (a revised) 9.9% for October and 7.4% for November.^{17,18} Pending home sales, which had risen for nine straight months, raised eyebrows by slipping 16.0% in December.¹⁹ Housing starts reversed, diving 10.1% for October but rising 8.9% a month later.²⁰

Mortgage rates of 30-year FRMs touched record lows but eventually climbed above 5% again. From the last 3Q Freddie Mac survey to the last 4Q Freddie Mac survey, the average interest rate on a 30-year FRM went from 5.04% to 5.14%. Across the quarter, averages on 15-year FRMs inched north from 4.46% to 4.54%. However, averages on 5-year ARMs moved south from 4.51% to 4.44%, and rates on 1-year ARMs went from 4.52% on September 24 to 4.33% on December 31.²¹

1st quarter outlook. For the first time in a long time, the mood is upbeat. Many analysts think we are just two or three quarters into a U-shaped recovery that will play itself out across the next few years. Of course, there are concerns to watch: how the Fed and the Obama administration choose to wind down the stimulus effort, when and how the Fed finally makes a move with interest rates, and the indicators in the housing market. But barring a major geopolitical or economic event, much of the optimism (and federal support for the economy) will likely be sustained through the coming quarter and perhaps the next two. The Great Recession is slowly becoming a memory, and a classic "January effect" may kick off a fine winter on Wall Street.

***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.***

Securities and Advisory Services offered through Royal Alliance Associates, Inc., member FINRA/ SIPC. Advisory services offered through Focus Financial Network, Inc., a registered investment advisor.

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. 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 Hang Seng Index is a freefloat-adjusted market capitalization-weighted stock market index and is the main indicator of the overall market performance in Hong Kong. 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 FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. 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 Broker/Dealer does not give 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.

Citations.

- 1 cnbc.com/id/34645043 [12/31/09]
- 2 bea.gov/newsreleases/national/pi/pinewsrelease.htm [12/23/09]
- 3 news.briefing.com/GeneralContent/Investor/Active/ArticlePopup/ArticlePopup.aspx?ArticleId=NS20091204092343HeadlineHits [12/4/09]
- 4 briefing.com/Investor/Public/Calendars/EconomicReleases/napm.htm [1/4/1]
- 5 ism.ws/ISMReport/NonMfgROB.cfm [12/3/09]
- 6 dailyfinance.com/story/durable-goods-orders-post-strong-november-on-business-investment/19293387 [12/24/09]
- 7 bls.gov/CPI/ [12/16/09]
- 8 bls.gov/news.release/ppi.nr0.htm [12/15/09]
- 9 ustreas.gov/offices/domestic-finance/debt-management/interest-rate/real_yield_historical.shtml [12/31/09]
- 10 ustreas.gov/offices/domestic-finance/debt-management/interest-rate/real_yield_historical.shtml [12/31/09]
- 11 online.wsj.com/article/SB126258183197614541.html?mod=article-outset-box [6/22/09]
- 12 online.wsj.com/article/SB126259679782614631.html [1/4/10]
- 13 koreaherald.co.kr/NEWKHSITE/data/html_dir/2010/01/01/201001010062.asp [1/4/10]
- 14 blogs.wsj.com/marketbeat/2009/12/31/data-points-asia-europe-182/ [12/31/09]
- 15 mscibarra.com/products/indices/international_equity_indices/gimi/stdindex/performance.html [12/31/09]
- 16 cnbc.com/id/34645043/page/2/ [12/31/09]
- 17 smartmoney.com/news/ON/?story=ON-20091223-000437& [12/23/09]
- 18 online.wsj.com/article/BT-CO-20091222-706155.html [11/23/09]
- 19 bloomberg.com/apps/news?pid=20601068&sid=aEd91kIePdG [11/25/09]
- 20 marketwatch.com/story/housing-starts-rebound-in-nov-2009-12-16?reflink=MW_news_stmp [12/16/09]
- 21 freddiemac.com/pmms/ [12/31/09]