

## **Market Commentary Fourth Quarter 2009**

**The economic recovery is entering a new stage so the removal of the massive global stimulus efforts could prove key to market prospects in 2010.** The gains off the market bottoms may be largely past, and stimulus measures in the United States are likely to continue to be scaled back. The timing of those moves and how the economy reacts will be key to market performance. Similarly, global monetary policies are likely to be reined in, potentially creating some heightened volatility.

The market drifted modestly higher in muted action to end 2009. The market, as a forward-looking mechanism, has many issues to consider in determining whether the upward momentum is going to continue. The fourth quarter of 2009 may produce a much healthier GDP report. At the same time, employment conditions are improving and look more like historically strong recoveries vs. the last two cycles' "jobless" recoveries.

### **Stimulus removal key in 2010**

Removal of stimulus by both the Federal Reserve and the US government are likely key to the market's prospects. The Fed has already started the process by ending its purchases of Treasury securities, which coincided with a rise in the 10-year yield of over 50 basis points in December. The plan is also to end the government's purchases of mortgage backed securities in the first quarter. The concern is whether these modest efforts will short-circuit the nascent housing recovery. The timing of the removal of these programs, combined with the ending of the government's home-buyer credits in 2010, could stall the housing recovery. New home sales dropped off sharply (-11.3% month-over-month) in November as the first-time homebuyer credit was set to expire.

### **US government**

Congress continues to discuss the possibility of new programs designed to help boost job growth, while also working toward a massive new health care package and financial system regulatory structure.

### **Economic improvement**

The economy maintains its upward momentum: Manufacturing surveys continue to show expansion, although they've flattened some, and retail sales continue to improve, as well. As has been the case in recent months, economists and investors seem most interested in reports concerning payrolls and the unemployment rate. The unemployment rate is a lagging economic indicator, typically peaking at least six months into an economic recovery. Initial jobless claims, temporary employment and layoff announcements, all of which have improved substantially, are leading indicators and point to actual job creation.

### **Payrolls and jobless claim**

Even a modest uptick in demand—personal spending rose 0.5% in November and new orders components of various business surveys continue to be positive—will quickly exhaust exceedingly low inventories. As new jobs are created, consumers become more confident and demand rises even more—leading to a self-enforcing positive cycle.

### **International Scene**

There are five main issues for the international markets: The trend in the US dollar, the favored carry-trade: borrowing funds in a low-yielding currency in order to invest in higher yielding assets, Chinese monetary and fiscal policy and government debt globally.