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*Presents*

## **Quarterly Economic Update for 1Q 2009**

I'd like to present a recap of a quarter with a very happy ending - a great March for stocks, and a sense that maybe, just maybe, the recession is ebbing. Here are major developments and statistics from the last three months.

**The quarter in brief.** The first quarter of 2009 saw a new bear market low, but also an impressive March rally and a real sense of optimism as spring started. During the first 100 days of the Obama administration, we saw revisions to the bank rescue plan, efforts to heal the consumer credit market and ailing U.S. automakers, and new federal aid for AIG and Citigroup. The key interest rate was untouched; mortgage rates remained low. Overseas markets soared in March but struggled for the quarter, and the commodities sector improved a bit after two bad quarters.

**Domestic economic health.** January saw a new President, and a new optimism in the land ... but it wasn't prevalent on Wall Street. Unemployment jumped 0.4% from December to 7.2%.<sup>1</sup> Other December indicators were pretty depressing: consumer spending down 1%, personal incomes down 0.2%.<sup>2</sup> Retail sales fell 2.7% in December, consumer prices fell 0.7%, and producer prices fell 1.9%.<sup>3,4</sup> We also got word that fourth-quarter durable goods purchases had declined 22%.<sup>5</sup> House Democrats worked to craft a massive stimulus plan for President Obama, and there was talk of creating an aggregator bank to buy up toxic securities. Rescue efforts were clearly getting underway, but they would take some time to have an impact.

In February, these plans were further implemented or articulated, as investors worried anew over the stability of major thrifts. The \$787 billion stimulus package became law, including payroll tax cuts of \$400 for individuals and \$800 for couples.<sup>6</sup> The White House also dedicated \$75 billion to help homeowners without equity and homeowners who couldn't make mortgage payments (and another \$200 billion to Fannie Mae and Freddie Mac to get the program started).<sup>7</sup> The President proposed a federal budget designed to cut the \$1+ trillion deficit to \$533 billion by 2013, including a \$634 billion health care reserve fund ... and the restoration of the highest tax brackets back to 36.0% and 39.6% and the capital gains tax rate to 20.0% in 2011.<sup>8</sup> Investors anticipated big news from Treasury Secretary Tim Geithner, but his proposed revision to the bank rescue plan presented few details and inspired little confidence. The federal government devoted another \$30 billion to shoring up AIG in exchange for preferred stock shares, and rescued Citigroup in a deal that gave Uncle Sam 36% of the bank's common stock.<sup>9</sup>

Things turned brighter in March, and the markets had an outstanding month. Treasury Secretary Geithner introduced the Public-Private Investment Program, in which pension funds, insurance firms and other long-term investors could buy up illiquid securities with a combination of private money and federal loans awarded through auctions.<sup>10</sup> The Federal Reserve said it would buy up to \$300 billion in Treasuries and \$750 billion more in mortgage-linked bonds.<sup>11</sup> CEOs of Bank of America, Citigroup and JPMorgan Chase informed the press that their thrifts were profitable in January and February.<sup>12</sup> The Financial Accounting Standards Board talked seriously about relaxing the mark-to-market rule, another good sign for the banks. Indicators improved in the housing and manufacturing sector (see below) and the Conference Board and Reuters/University of Michigan consumer confidence indexes rose slightly.<sup>13</sup>

The drama of the month: the future of General Motors and Chrysler. At month's end, President Obama gave GM 60 days and Chrysler 30 days to severely restructure or lose their chance for further federal money. Chrysler was given 30 days to partner with Fiat. Could GM and Chrysler avoid bankruptcy in the coming months? Americans hoped so.<sup>14</sup>

**Major indexes.** It was a poor quarter, but we had a great March. Last month left investors hopeful about the second quarter and improved the 1Q numbers.<sup>15</sup>

% Change	March	1Q 2009
<b>DJIA</b>	<b>+7.73</b>	<b>-13.30</b>
<b>NASDAQ</b>	<b>+10.94</b>	<b>-3.07</b>
<b>S&amp;P 500</b>	<b>+8.54</b>	<b>-11.67</b>

Source: online.wsj.com, 3/31/09<sup>16, 17, 18</sup>

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

**Global economic health.** Let's look at the latest statistics from the European Union. Eurozone unemployment hit 8.5% in February, nearly hit a three-year high; in March, the Eurozone manufacturing sector contracted for the tenth month in a row. February factory orders in Germany, the EU's top economy, were down 49% year-over-year from 2008 levels - and that economy is heavily export-driven. Some analysts think EU unemployment could hit 11% by 2010.<sup>19</sup> While some economists expected the European Central Bank to cut interest rates by half a percentage point at the start of April, the ECB chose only a quarter-point cut to 1.25% and delayed decisions on other tactics.<sup>20</sup>

New data from Asia suggested major economies were a long way from recovery. In March, the Bank of Japan's monthly survey of business confidence hit its lowest level since the survey's inception in 1974. Exports fell each month of the quarter in South Korea, making it five straight months without a gain. A key purchasing manufacturers index in China was under 50 (showing contraction) for the eight month in a row.<sup>21</sup> In March, the Asian Development Bank forecast only 3.4% growth in developing Asia for 2009, compared with 6.3% in 2008. The ADB's chief economist believes the recession may make Asian nations expand their economic bases and reduce dependence on exports.<sup>22</sup>

**World financial markets.** A fine March didn't quite erase quarterly losses for most major indices. The MSCI World Index and MSCI Emerging Markets Index were respectively down 13.9% and 1.0% in the first quarter. Indeed, the emerging markets performed the best: the Shanghai Composite Index soared 30.3% in the quarter, Russia's RTSI gained 25.8%, and Venezuela's Caracas Stock Exchange gained 22.2%. The Nikkei 225 was down 8.5% even after gaining 7.1% in March. The Hang Seng lost 5.6% in 1Q 2009, while India's Sensex eked out a 0.6% quarterly gain. And how did major European indices fare? The FTSE 100 went down 11.5% for the quarter; the DAX and CAC 40 each fell 12.7%.<sup>23</sup>

**Commodities markets.** It was a strong quarter for some metals. Copper led the charge, gaining 31% in the quarter; lead gained 27%, platinum 20%, and zinc 9.3%. Silver went north 15%, and gold gained 4.6%. On the other hand, nickel prices fell 16% in 1Q 2009, and aluminum prices fell 9.6%.<sup>24</sup> Most crop futures had a tougher time in the quarter. Rice was down 19%, wheat down 13%, soybeans 2.1% and corn futures 0.6%. Oil futures gained roughly 11% for the quarter, closing March 31 at \$49.66 a barrel - and gasoline futures gained 39% in 1Q 2009.<sup>24, 2</sup>

**Housing & interest rates.** As sales slowed, prices fell. As prices fell, buyers appeared. That, in a nutshell, could be the housing story of the first quarter. The Commerce Department said new home sales went up 4.7% in February after falling to a record low for January.<sup>26</sup> The National Association of Realtors had pending home sales up 2.1% in February, after a 7.7% decline for January.<sup>27</sup> The NAR also announced existing home sales were up 5.1% for February, making it the best month for residential resales since July 2003.<sup>28</sup>

Interest rates fell further. Compare the numbers in Freddie Mac's last survey for March with the numbers in its last survey for December. In the last week of December, 30-year FRMs were averaging 5.10%; in late March, that average was 4.85%. 15-year FRMs averaged 4.83% in late December, and 4.58% in late March. 5-year ARMs fell from 5.57% in the last week of 2008 to 4.96% in late March; average interest rates on 1-year ARMs were flat over three months, staying at 4.85%.<sup>29,30</sup>

**Second quarter outlook.** The mood seems to be brightening: at the top of April, the recession is entering its seventeenth month, making it long in the tooth by post-WWII standards. The stock market had a spectacular March, and April started with a bundle of good news. U.S. factory orders rose 1.8% for February - the first increase in 6 months. Durable goods orders rose 3.5% in February, orders for computers and electronic products rose 7.3%, and machinery orders jumped 12.7% (the largest increase since March 1994).<sup>31</sup> The Financial Accounting Standards Board voted to relax the mark-to-market rule, which could have the effect of boosting the net income of banks by 20% or higher.<sup>32</sup> Recent increases in home sales and decreasing mortgage rates bode well for the real estate sector. Even as unemployment figures presumably continue to rise, there is more and more evidence that the economy is pointed toward stabilization. Correspondingly, the second quarter of 2009 may be much sunnier for the investor.

At the start of July, a second-quarter recap will be sent to you. If you would like to get in touch with me, or if you have any financial issues you need to address, simply give me call at 919-968-8675, or send an e-mail to [tim@risingtideinc.com](mailto:tim@risingtideinc.com).

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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 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 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 Caracas Stock Exchange, or Bolsa de Valores de Caracas (BVC), is the only securities exchange operating in Venezuela. 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 free-float capitalization-weighted index of selection of companies from the Stock Exchange of Hong Kong. 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 FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. These are the views of Peter Montoya Inc., not the named Representative nor Broker/Dealer, and should not be construed as investment advice. 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. 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.

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