First Trust — TALKING POINTS

A Recap of September 2008

The Economy

This month's focus is on commodity prices. While commodities enjoyed a good run over the last 12 months, most of the major groups were thumped in Q3'08 , leading some pundits to wonder if we are in the midst of a global economic slowdown. The S&P GSCI Index declined 28.6% in Q3'08, according to Standard & Poor's. Here are the Q3 returns for the major commodity markets: S&P GSCI Energy (-30.4%); S&P GSCI Agriculture (-27.6%); S&P GSCI Industrial Metals (-22.6%); S&P GSCI Softs (-16.8%); S&P GSCI Precious Metals (-8.7%); and S&P GSCI Livestock (-8.0%).

Consumer Confidence	**59.8** (Sep)	56.9 (Aug)	↑
Crude Oil (Mo.-End)	**$100.64** (Sep)	$115.46 (Aug)	↓
Nonfarm Payrolls	**-159,000** (Sep)	-84,000 (Aug)	↓
ISM Manufacturing	**43.5** (Sep)	49.9 (Aug)	↓
ISM Non-Manufacturing	**50.2** (Sep)	50.6 (Aug)	↓
Gold (Mo.-End)	**$874.20** (Sep)	$831.20 (Aug)	↑
Natural Gas (Mo.-End)	**$7.44** (Sep)	$7.94 (Aug)	↓
Factory Orders	**-4.0%** (Aug)	1.3% (Jul)	↓
New Home Sales	**460,000** (Aug)	515,000 (Jul)	↓
Existing Home Sales	**4.91M** (Aug)	5.00M (Jul)	↓

The Stock Market

Indices (Source: Bloomberg)	**Sept.**	**Y-T-D**
S&P 500	-8.90%	-19.27%
DJIA	-5.82%	-16.57%
Nasdaq 100	-14.83%	-23.25%
S&P 400	-10.70%	-14.34%
Russell 2000	-7.96%	-10.37%
MSCI World (ex U.S.)	-14.46%	-28.07%
MSCI Emerging Markets	-17.52%	-35.63%

Top Sector/Subs (Source: S&P)	**Sept.**	**Y-T-D**
Consumer Staples	-1.6%	-4.8%
Soft Drinks	2.7%	-17.6%
Packaged Foods & Meats	0.8%	3.4%
Household Products	0.4%	-5.0%
Agriculture Products	-13.9%	-52.8%

Eighteen out of the 130 subsectors that comprise the S&P 500 posted gains, down from 91 last month. In September, the dividend-payers (380) in the S&P 500 (equal weight) posted a total return of -9.20%, vs. -14.81% for the non-payers (120), according to Standard & Poor's. Year-to-date, the payers declined 18.00%, vs. a loss of 21.70% for the non-payers. For the 12-month period ended September '08, payers fell 22.09%, vs. a decline of 27.47% for the non-payers. The number of dividend increases (S&P 500) year-to-date totaled 203. That lagged the 224 increases over the same period in 2007. The number of financial companies cutting or suspending their dividends is on the rise, according to data from S&P. Year-to-date through 9/26, 27 financials in the S&P 500 Index reduced or suspended their dividends, versus just five nonfinancial companies. From 2003 through 2007, only 12 financial firms cut their payouts. Stocks tend to perform well during the transition period at the end of a two-term presidency. The S&P 500 rallied in 4 out of the 5 most recent instances, with the one exception being 2000, according to Markethistory.com. The S&P 500 gained an average of 10.5% in the 58 days following the four elections where results were not disputed, but declined 4% in 2000.

U.S. Dollar (U.S. Trade-Weighted Basket)	**1.4%** (Sep); 3.9% (Y-T-D); $ was down 10.0% in '07	↑
CBOE Total Equity Options (# of contracts in millions)	**58.0** (9/30); 45.3 (8/29); *Record 7/08: 67.2 million*	↑
Short Interest (NYSE)	Sep 15: **17.70B** (-0.56%); Aug 15: 17.80B (-4.35%); *Record 7/08: 18.61 billion shares*	↓
S&P 500 P-E Ratio (Trailing 12-mo. earnings)	**23.40** (9/30); 24.75 (8/29)	↓

The Bond Market

Index (Source: Lehman)	**Sept.**	**Y-T-D**	**Yield**
U.S. Treasury: Intermediate	0.67%	4.61%	2.62%
GNMA 30 Year	0.48%	3.59%	5.56%
Municipal Bond (22+)	-8.01%	-9.92%	6.01%
U.S. Aggregate	-1.34%	0.63%	5.27%
Intermediate Corporate	-7.14%	-7.08%	7.77%
U.S. Corporate High Yield	-7.98%	-10.08%	13.91%
Global Aggregate	-2.35%	-0.44%	4.44%
Global Emerging Markets	-7.42%	-7.00%	8.51%

The yield on the 10-Yr. T-Note rose 2 basis points in September closing at 3.83% – 76 basis points below the close on September 28, '07. As the chart to the left shows, any pocket of the debt market not backed by the full faith and credit of the U.S. government was shunned by investors in September. Speculative-grade companies have raised just $37 billion from 101 debt issues so far in '08, down significantly from the $107 billion raised (247 debt issues) over the same span in '07, according to Diane Vazza at Standard & Poor's. As noted below, the spread between high yield corporates and Treasuries is nearly 10 percentage points. Historically, a spread that wide would be accompanied by an industry default rate approaching 10%. The U.S. speculative-grade default rate stood at just 3.3% in August, according to Moody's.

Key Rates as of September 30

Fed Funds	2.00%
2-Yr. T-Note	1.96%
10-Yr. T-Note	3.83%
30-Yr. Mortgage	5.84%
Bond Buyer 40	5.97%

Key Yield Spread

The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 990 basis points on 9/30/08. It was 411 on 9/28/07 and 757 on 8/31/08. *(Source: Bloomberg)*

2008 Debt Issuance through August
(Source: Thomson Financial)

Debt Category	$ Amount	% change over '07
Corporate	$608.7 Billion	-22.3%
Convertible	$32.3 Billion	-43.3%
Asset-Backed	$146.9 Billion	-80.4%
Municipal	$296.7 Billion	+1.5%

The Investment Climate

Net cash outflows from equity funds totaled $19.5 billion in 8/08, vs. outflows totaling $27.4 billion in 7/08, according to the Investment Company Institute. Bond funds took in $7.8 billion, up from $1.9 billion in 7/08. Money Market funds reported inflows totaling $28.2 billion, down from $79.5 billion in 7/08. Y-T-D thru 8/08, equity fund outflows totaled $67.7B, vs. $93.9B in bond fund inflows and $343.2B in MMF inflows.