

## The Economy

A survey of 45 top economists by USA TODAY was completed on October 23. The economists expect real GDP growth to be negative in Q3 (-0.5%), Q4 (-2.0%) and Q1'09 (-0.7%), but show positive in Q2 (1.0%), Q3 (2.0%) and Q4 (2.3%) of 2009. They expect the federal funds rate to rise from 1.00% today to 1.75% by Q4'09. They see inflation (CPI) declining from 4.9% (Q3'08) to 1.7% (Q3'09) and the unemployment rate rising from 6.1% (Q3'08) to 7.2% (Q3'09). The one silver lining in the economy is the plunge in the price of oil, which, if sustained, could provide a needed boost to discretionary spending.

<b>Consumer Confidence</b> <b>38.0</b> (Oct) 59.8 (Sep)	<b>Crude Oil (Mo.-End)</b> <b>\$70.53</b> (Oct) \$100.64 (Sep)	<b>Personal Spending</b> <b>-0.3%</b> (Sep) 0.0% (Aug)	<b>ISM Manufacturing</b> <b>38.9</b> (Oct) 43.5 (Sep)	<b>ISM Non-Manufacturing</b> <b>44.4</b> (Oct) 50.2 (Sep)
<b>Gold (Mo.-End)</b> <b>\$718.20</b> (Oct) \$874.20 (Sep)	<b>Natural Gas (Mo.-End)</b> <b>\$6.78</b> (Oct) \$7.44 (Sep)	<b>Factory Orders</b> <b>-2.5%</b> (Sep) -4.0% (Aug)	<b>New Home Sales</b> <b>464,000</b> (Sep) 460,000 (Aug)	<b>Existing Home Sales</b> <b>5.18M</b> (Sep) 4.91M (Aug)

## The Stock Market

### Indices (Source: Bloomberg)

	Oct.	Y-T-D
S&P 500	-16.79%	-32.83%
DJIA	-13.88%	-28.16%
Nasdaq 100	-16.28%	-35.74%
S&P 400	-21.74%	-32.96%
Russell 2000	-20.81%	-29.02%
MSCI World (ex U.S.)	-20.80%	-43.03%
MSCI Emerging Markets	-27.38%	-53.25%

### Top Subsectors (Source: S&P)

	Oct.	Y-T-D
Educational Services	17.2%	-0.9%
Biotechnology	-1.8%	11.4%
Regional Banks	-4.1%	-29.1%
Agriculture Products	-5.4%	-55.4%
Brewers	-6.5%	10.9%

Only 1 out of the 130 subsectors that comprise the S&P 500 posted a gain, down from 18 last month. In October, the dividend-payers (377) in the S&P 500 (equal weight) posted a total return of -20.39%, vs. -21.87% for the non-payers (123), according to Standard & Poor's. Year-to-date, the payers declined 34.72%, vs. a loss of 38.82% for the non-payers. For the 12-month period ended October '08, payers fell 38.57%, vs. a decline of 44.86% for the non-payers. The number of dividend increases (S&P 500) year-to-date totaled 213. That lagged the 239 increases over the same period in 2007. The dividend yield on the index stood at 2.81% at the end of October – almost as high as the yield on a 5-yr. T-Note (2.83%). In the 1990s, the S&P 500 posted an average annual total return of 18.2%, well above its 10.4% average gain since 1926, according to data from Ibbotson Associates. So far this decade, the S&P 500 has posted an annualized return of -0.94% through September 2008. However, when you put the two decades together (12/89-12/07) the average annual total return for the index adjusts to 10.5%, right in line with its historical norm. So far in 2008, the index is off 32.8%, which is in the vicinity of the average bear market return (since 1926) of -33.5%, according to Jim Stack, president of InvesTech Research.

<b>U.S. Dollar (U.S. Trade-Weighted Basket)</b> <b>8.5%</b> (Oct) 12.7% (Y-T-D) \$ was down 10.0% in '07	<b>CBOE Total Equity Options (# of contracts in millions)</b> Oct 31: <b>60.1</b> (+3.62%) Sep 30: 58.0 (+28.04%) Record 7/08: 67.2 million	<b>Short Interest (NYSE)</b> Oct 15: <b>13.61B</b> (-23.11%) Sep 15: 17.70B (-0.56%) Record 7/08: 18.61 billion shares	<b>S&amp;P 500 P-E Ratio (Trailing 12-mo. earnings)</b> <b>18.86</b> (10/31) 23.40 (9/30)
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## The Bond Market

### Index (Source: Lehman)

	Oct.	Y-T-D	Yield
U.S. Treasury: Intermediate	0.67%	5.31%	2.38%
GNMA 30 Year	-1.32%	2.22%	5.91%
Municipal Bond (22+)	-4.12%	-13.64%	6.31%
U.S. Aggregate	-2.36%	-1.74%	5.67%
Intermediate Corporate	-4.89%	-11.62%	9.03%
U.S. Corporate High Yield	-15.91%	-24.38%	18.67%
Global Aggregate	-3.69%	-4.11%	4.44%
Global Emerging Markets	-20.56%	-26.12%	12.73%

The yield on the 10-Yr. T-Note rose 14 basis points in October closing at 3.97% – 50 basis points below the close on 10/31/07. The global credit crunch has frozen the system to such an extent that the only debt group sought by investors were the ones “backed by the full faith and credit of the U.S. government.” Speculative-grade debt, while trading at attractive spreads, may be facing more headwind due to the recessionary-like climate. The global speculative-grade default rate stood at 2.8% in September, up from 2.7% in August, according to Moody's. The rate was 1.3% a year ago. Moody's is now forecasting the rate will rise to 7.9% by 9/09. The U.S. speculative-grade default rate stood at 3.4% in September, up from 3.3% in August. Moody's is now forecasting the rate will rise to 5.1% by the end of 2008.

Key Rates as of October 31		Key Yield Spread		2008 Debt Issuance through September (Source: Thomson Financial)		
Fed Funds	1.00%	The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 1,481 basis points on 10/31/08. It was 429 on 10/31/07 and 990 on 9/30/08. (Source: Bloomberg)		Debt Category	\$ Amount	% change over '07
2-Yr. T-Note	1.57%			Corporate	\$628.8 Billion	-29.1%
10-Yr. T-Note	3.97%			Convertible	\$33.0 Billion	-43.8%
30-Yr. Mortgage	6.53%			Asset-Backed	\$153.0 Billion	-80.7%
Bond Buyer 40	6.08%			Municipal	\$319.9 Billion	-1.4%

## The Investment Climate

Net cash outflows from equity funds totaled \$56.2 billion in 9/08, vs. outflows totaling \$19.7 billion in 8/08, according to the Investment Company Institute. Bond funds had outflows totaling \$898 million, down from \$3.0 billion in 8/08. Money Market funds had outflows totaling \$145.2 billion, compared to inflows totaling \$28.4 billion in 8/08. Y-T-D thru 9/08, equity fund outflows totaled \$124.2B, vs. \$93.2B in bond fund inflows and \$198.2B in MMF inflows.