First Trust

TALKING POINTS

A Recap of January 2009

The Economy

The Blue Chip Economic Indicators survey in January called for GDP in the U.S. to decline by 1.6% in 2009, a bit gloomier than the -1.1% estimate it offered in December 2008, according to Reuters. If so, it would be the worst annual showing for the economy since 1982. The consensus of the 52 economists polled called for the recession to end at some point in Q3'09, which would make this the longest recession since World War II. The survey also revealed that economists expect inflation to fall 0.4% in 2009, the first year-over-year decrease since 1955.

Indicator	Latest	Prior	Direction
Consumer Confidence	**37.7** (Jan)	38.0 (Dec)	↓
Crude Oil (Mo.-End)	**$41.68** (Jan)	$44.60 (Dec)	↓
Personal Spending	**-1.0%** (Dec)	-0.6% (Nov)	↓
ISM Manufacturing	**35.6** (Jan)	32.4 (Dec)	↑
ISM Non-Manufacturing	**42.9** (Jan)	40.6 (Dec)	↑
Gold (Mo.-End)	**$927.30** (Jan)	$884.30 (Dec)	↑
Natural Gas (Mo.-End)	**$4.42** (Jan)	$5.62 (Dec)	↓
Factory Orders	**-3.9%** (Dec)	-4.6% (Nov)	↓
New Home Sales	**331,000** (Dec)	407,000 (Nov)	↓
Existing Home Sales	**4.74M** (Dec)	4.49M (Nov)	↑

The Stock Market

Indices (Source: Bloomberg)	**Jan.**	**12-mo.**
S&P 500	-8.4%	-38.6%
DJIA	-8.6%	-34.9%
Nasdaq 100	-2.6%	-35.6%
S&P 400	-7.3%	-37.0%
Russell 2000	-11.1%	-36.7%
MSCI World (ex U.S.) (USD)	-9.3%	-43.5%
MSCI Emerging Markets (USD)	-6.6%	-50.3%

Growth/Value (Source: Bloomberg)	**Jan.**	**12-mo.**
S&P 500 Citigroup Growth	-4.9%	-32.4%
S&P 500 Citigroup Value	-12.1%	-44.6%
S&P Midcap 400/Citigroup Growth	-5.9%	-36.7%
S&P Midcap 400/Citigroup Value	-8.5%	-37.2%
Russell 2000 Growth	-7.6%	-37.5%
Russell 2000 Value	-14.3%	-36.5%

Twenty-seven out of the 134 subsectors that comprise the S&P 500 posted a gain in January, down from 81 last month. In January, the dividend-payers (369) in the S&P 500 (equal weight) posted a total return of -9.40%, vs. -3.39% for the non-payers (131), according to Standard & Poor's. For the 12-month period ended January '09, payers fell 42.40%, vs. a decline of 43.85% for the non-payers. The number of dividend increases in January totaled 17. That significantly lagged the 31 increases registered in January 2007. The number of companies that decreased their dividend totaled 10, up from five a year ago. The dividend yield on the S&P 500 was 3.03% on January 30. Standard & Poor's Index Services announced that it expects dividend payouts from the constituents in the S&P 500 to fall by 13.3% in 2009, the worst showing since 1942 when dividends fell 16.9%, according to S&P. Data shows that 62 companies decreased their dividends in 2008 and 48 of them were Financials. Over the previous five years (2003-2007), there were just 12 dividend reductions in the Financials sector. There have been no IPOs priced so far in 2009, according to Renaissance Capital's IPOHome.com. Only one IPO has been filed. At this point in 2008, nine IPOs had been priced worth a combined $2.9 billion. The number of IPOs launched in 2008 totaled 43 ($28.0 billion).

U.S. Dollar
(U.S. Trade-Weighted Basket)
3.8% (Jan)
-4.4% (Dec)
$ was up 7.8% in '08
↑

CBOE Total Equity Options
(# of contracts in millions)
Jan: **46.9** (+24.4%)
Dec: 37.7 (-11.3%)
Record 7/08: 67.2 million
↑

Short Interest (NYSE)
Jan 15: **13.38B** (-2.41%)
Dec 15: 13.71B (+0.96%)
Record 7/08: 18.61 billion shares
↓

VIX Volatility Index
(S&P 500)
44.84 (1/30)
40.00 (12/31)
Record 11/20/08: 80.86
↑

The Bond Market

Index (Source: Barclays)	**Jan.**	**12-mo.**	**Yield**
U.S. Treasury: Intermediate	-1.47%	7.03%	1.55%
GNMA 30 Year	-0.08%	5.98%	4.62%
Municipal Bond (22+)	4.61%	-10.66%	6.12%
U.S. Aggregate	-0.88%	2.59%	4.27%
Intermediate Corporate	1.69%	-4.77%	7.11%
U.S. Corporate High Yield	5.99%	-20.67%	17.87%
Global Aggregate	-3.27%	-1.38%	3.52%
Global Emerging Markets	1.22%	-15.79%	10.32%

The yield on the 10-Yr. T-Bond rose 63 basis points in January closing at 2.84% – 76 basis points below its close (3.60%) on 1/31/08. Wall Street's largest bond firms (17 primary government security dealers) are predicting that 10-yr. T-Bonds could lose 3.5% in 2009, the first loss since an 8.3% decline in 1999, according to Bloomberg. In 1999, the yield on the 10-yr. T-Bond rose from 4.65% to 6.44%. This was the year following the 1998 bailout of Long-Term Capital Management LP and the Russian default. Firms are anticipating record debt sales in 2009 to help finance the government's initiatives to stimulate the economy. Investors flocked to oversold speculative-grade debt, both here and abroad, and municipals in January. Yield spreads remain wide in these areas. A second-half economic recovery would provide a nice boost.

Key Rates as of January 30

Fed Funds	0-0.25%
2-Yr. T-Note	0.94%
10-Yr. T-Bond	2.84%
30-Yr. Mortgage	5.34%
Bond Buyer 40	5.73%

Key Yield Spread

The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Bond was 1,506 basis points on 1/30/09, down from 1,732 on 12/31/08. It was 644 on 1/31/08. *(Source: Bloomberg)*

2008 Debt Issuance
(Source: Thomson Financial)

Debt Category	$ Amount	% change over '07
Corporate	$703.2 Billion	-37.7%
Convertible	$34.8 Billion	-54.4%
Asset-Backed	$158.9 Billion	-82.4%
Municipal	$391.5 Billion	-8.8%

The Investment Climate

Net cash outflows from equity funds totaled $20.3 billion in 12/08, vs. outflows totaling $20.0 billion in 11/08, according to the Investment Company Institute. Bond funds had outflows totaling $6.8 billion, vs. outflows totaling $14.6 billion in 11/08. Money Market funds had inflows totaling $108.7 billion, vs. inflows totaling $122.2 billion in 11/08. In 2008, equity fund outflows totaled $234.3B, vs. $31.1B in bond fund inflows & $636.4B in MMF inflows.