

# TALKING POINTS

A Recap of April 2009

## The Economy

The Blue Chip Economic Indicators survey in April called for GDP in the U.S. to decline by 2.6% in '09, no change from last month. The good news is economists are predicting positive growth in Q3'09 (+0.4%) and Q4'09 (+1.6%). The survey is forecasting the following annualized growth rates for 2010: 2.3% (Q1); 2.7% (Q2); 2.9% (Q3); and 3.1% (Q4). Despite the fact that economists see more job losses moving forward (over 5 million jobs lost since start of recession) 86% of the economists polled (52) believe the recession will end at some point in the second half of '09, according to Reuters.





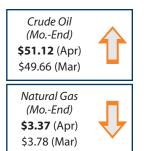
U.S. Dollar

(U.S. Trade-Weighted Basket)

**-2.2%** (Apr)

2.0% (Y-T-D)

\$ was up 7.8% in '08









One hundred and twenty-one out of the 134 subsectors that comprise the S&P 500 posted a gain



# The Stock Market

**Indices** (Source: Bloomberg) Apr. 12-mo. S&P 500 9.6% -35.3% DJIA 7.6% -34.2% Nasdaq 100 12.8% -26.8% S&P 400 14.9% -31.9% Russell 2000 15.5% -30.8% MSCI World (ex U.S.) (USD) -42.4% 13.0% -43.2% MSCI Emerging Markets (USD) 16.6% **Growth/Value** (Source: Bloomberg) Apr. 12-mo. S&P 500 Citigroup Growth 8.3% -30.7% S&P 500 Citigroup Value 11.0% -40.0% S&P Midcap 400/Citigroup Growth 14.1% -31.3% S&P Midcap 400/Citigroup Value -32.4% 15.7% Russell 2000 Growth -30.4% 15.1% Russell 2000 Value 15.9% -31.4%

-35.3% in April, up from 114 last month. In April, the dividend-payers (362) in the S&P 500 (equal weight) posted a total return of 17.87%, vs. 20.21% for the non-payers (138), according to Standard & Poor's. Year-to-date, the payers are down 7.08%, vs. a gain of 15.87% for the non-payers. For the 12-month period ended April '09, payers fell 41.20%, vs. a decline of 33.41% for the non-payers. The number of dividend increases so far in 2009 totaled 68. That significantly lagged the 114 increases registered at this point in 2008. The number of companies that decreased their dividend totaled 50, up from 12 a year ago. Dividend-paying stocks have outperformed the non-payers throughout this decade with one notable exception – 2003. Remember, the last bear market in stocks ended on October 9, 2002, and 2003 was the start of the next bull. In 2003, the non-payers in the S&P 500 were up 61.7% (equal weight), while the payers (equal weight) gained 33.5%. Investors had a stronger appetite for beaten-down growth stocks than for value stocks. IMS Health expects pharmaceutical sales to be \$750-760 billion in 2009. Sales totaled \$773 billion in 2008. If this forecast proves correct it would be the first time in 25 years that sales (measured in dollars) failed to grow on a year-over-year basis.



Short Interest (NYSE)
Apr 15: **15.7B** (-3.1%)
Mar 13: 16.2B (+14.1%)
Record 7/08: 18.61 billion shares



The yield on the 10-Yr.T-Bond jumped 45 basis points in April closing at 3.12% - 61 basis points

below its close (3.73%) on 4/08. The numbers at the bottom of this page (The Investment

Climate) indicate that retail investors are still moving billions into bond funds despite the

strong showing by stocks since their bottom on 3/9/09. The returns for April show that

VIX Volatility Index (S&P 500) **36.50** (4/30) 44.1 (3/31) Record 11/20/08: 80.86



### The Bond Market

Yield **Index (Source: Barclays)** Apr. 12-mo. 6.80% 1.69% U.S. Treasury: Intermediate -1.10% GNMA 30 Year 0.26% 7.82% 4.06% Municipal Bond (22+) 3.63% -3.95% 5.70% U.S. Aggregate 0.48% 3.84% 4.06% Intermediate Corporate 3.38% -2.91% 6.75% U.S. Corporate High Yield 12.10% -13.28% 15.13% 3.42% Global Aggregate 0.90% -2.20% **Global Emerging Markets** 5.57% -9.81% 9.18%

Key Rates as of April 30
Fed Funds 0-0.25%
2-Yr.T-Note 0.90%
10-Yr.T-Bond 3.12%
30-Yr. Mortgage 4.94%
Bond Buyer 40 5.44%
(Source: Bloomberg)

investors were willing to accept additional credit risk as corporate debt, both investment grade and speculative-grade, dominated the other groups. The global speculative-grade default rate stood at 7.00% in March, up from 5.28% in February, according to Moody's. There were 35 defaults in March and a total of 79 in '09 (thru 4/7). There were just 16 defaults in Q1'08. The next big hurdle is the upcoming release of the findings from the stress tests on the 19 banks.

\*\*Key Yield Spread\*\*

Spread\*\*

Spread\*\*

\*\*Debt Category\*\*

Spread\*\*

Spre

The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Bond was 1,251 basis points on 4/30/09, down from 1,596 on 3/31/09. It was 637 on 4/30/08. (Source: Bloomberg)

2009 Debt Issuance thru 3/09 (Source: Thomson Financial) **Debt Category** % change over '08 \$ Amount \$215.1 Billion Corporate 1.0% Convertible \$2.6 Billion -67.4% Asset-Backed \$14.7 Billion -71.3% \$85.0 Billion -0.4% Municipal

#### The Investment Climate

Net cash outflows from equity funds totaled \$27.5 billion in 3/09, vs. outflows totaling \$24.9 billion in 2/09, according to the Investment Company Institute. Bond funds had inflows totaling \$21.0 billion, vs. inflows totaling \$17.0 billion in 2/09. Money Market funds had outflows totaling \$77.0 billion, vs. outflows totaling \$6.3 billion in 2/09. Y-T-D thru March, equity fund outflows totaled \$43.5B, vs. \$54.6B in bond fund inflows & \$23.9B in MMF outflows.