



December 28, 2009

In a holiday shortened week marked by light trading, the three major stock market indexes all rose to highs for 2009, setting the stage, with just four trading days left, for a festive finish to what began as a bleak year. As the market opens today, the Dow is up 19.87% in 2009 and at its highest point since October 1, 2008; the S&P 500 has risen 24.71% and is likewise at its highest mark since October 1, 2008; and the NASDAQ has surged 44.95% to its best close since September 3, 2008.

| | Key Market Data | | |
|------------------------------------|-----------------|-----------|------------------|
| | Week ending... | | |
| | 12/24/09 | 12/18/09 | Change |
| Dow Jones Industrial Average Index | 10,520.10 | 10,328.89 | +1.85% |
| S&P 500 Index | 1,126.48 | 1,102.47 | +2.18% |
| NASDAQ Composite Index | 2,285.69 | 2,211.69 | +3.35% |
| 10-Year Treasury Note Rate | 3.806% | 3.548% | +0.258 pct. pts. |
| NYMEX Crude Future (Barrel) | \$78.05 | \$73.36 | +4.88% |
| Euro/U.S. Dollar | \$1.4373 | \$1.4335 | -\$0.0038 |

One of the most trusted indicators of the economic recovery that has been driving the stock market's rebound is gross domestic product (GDP) growth, though last week the Commerce Department again revised its number for third-quarter GDP, this time down to 2.2% from 2.8%, mainly as a result of lower estimates for business spending and business inventories. GDP growth was first announced at 3.5% and the expectation had been for a second revision down to only 2.7%. Still, as the optimists have pointed out, any upturn represents much-needed forward progress as it brings to an end the longest losing streak for the GDP since World War II (four quarters). Also, as the result of improved corporate earnings reports (last week third-quarter earnings were revised upward from 10.6% to a five-year high of 10.8%), a recently narrowed trade gap (as the result of increased exports thanks to a weaker dollar), and signs of improved holiday spending, the forecasts for fourth quarter GDP growth have risen as high as 4.8%.

The Commerce Department also said that orders for durable goods, those built to last at least three years, rose 0.2% in November to \$166.87 billion after having fallen 0.6% in October. Leaving out the volatile commercial aircraft and defense sectors, orders rose 2.9%, spurred by a 3.7% increase in orders for consumer and electronic products. Consumer spending improved in November for the sixth time in seven months, up 0.5% (a modest 0.2% after being adjusted for inflation). Personal income was up 0.4% as a result of fewer jobs being lost and a slight uptick in the number of hours worked.

The Labor Department reported that initial unemployment claims, seasonally adjusted, fell by 28,000 to 452,000 for the week ending December 19th, the fewest claims since September of 2008, just before Lehman Brothers fell. The four-week moving average dropped 2,750 to 465,250, reaching its lowest level since September 20, 2008. On the down side, 25 states no longer have the money to pay unemployment benefits and have been forced to take loans

(at a total of \$24 billion and counting) from the federal government to avoid cutting benefits.

Convening to vote on Christmas Eve for the first time since 1895, the Senate took two major steps, passing the president's health-care legislation proposal and approving a short-term increase of the federal debt limit by \$290 billion. The health care package, with an estimated price tag of \$871 billion over the next ten years, passed on a strict – and divisive – party line vote, with no Republican voting for it (only one Republican voted for the House version that also passed). After the holiday break, the two chambers will meet and begin to smooth out the differences between the two bills.

The Treasury Department had pressed for a higher debt limit from the current \$12.1 trillion, hoping to add enough to get the government through 2010. Instead, a compromise figure of \$290 billion was agreed upon. That's projected to last for about the next two months, after which there will be a new and undoubtedly partisan debate about federal spending and the deficit. In the unlikely event that our federal government defaulted by borrowing beyond its limit, our nation's credit rating could be lowered and we would have to offer higher interest rates to attract borrowers.

The broader view

Not for the first time, there were mixed reports on the state of the housing market. On Tuesday, the National Association of Realtors (NAR) said that existing home sales rose 7.4% in November, well above expectations, to a seasonally adjusted rate of 6.54 million, the best clip since February of 2007. Nonetheless, the median price of a home was all but flat, inching up to \$172,600 from \$172,200 in October, and was down 4.3% from a year ago, while fully one-third of those sales were foreclosures or other "distressed" sales.

The flip side was the precipitous 11.3% drop in new one-family home sales reported by the Census Bureau as the unit annual rate fell to 355,000. Coming on the heels of a 7.4% increase (and a unit rate of 400,000) in October, it was the biggest monthly drop since January of this year as the rate fell to its lowest mark since April; expectations had been for a fall of just 1.2%. (The NAR's number for existing home sales is based on closings, whereas the Census Bureau's total for new home sales is based on the date that the contract is signed.) On a more positive note, new home sales make up less than 15% of the total and the number of new homes that remained unsold fell for the 31st month in a row. Overall, there are currently fewer new homes on the market than at any time since 1971.

Just as poorer numbers in the housing market of late, such as the 11.3% decline, have been attributed to concern over the first-time homebuyer's tax credit that had been set to expire on November 30, the gaudier numbers, such as the 7.4% rise, have been somewhat discounted by the fact that the credit was extended and expanded through next April, encouraging buyers to act sooner rather than later. In fact, first-time home buyers accounted for 51% of the November existing home sales. In any case, once the tax credit does expire next year, some analysts believe that the houses remaining on the market, both new and old, will be the more expensive ones, which will be less likely to sell, possibly driving the housing market down again.

A look ahead

This is usually one of the stock market's quietest weeks and there will be very little economic news to stir investors, though the S&P/Case Shiller index of home price composite index will be released on Tuesday and the Treasury Department will auction \$118 billion in notes. Instead, investors and analysts will continue to ponder the issues that will grab the headlines in 2010 and try to gauge how they will impact the stock

market as the economy continues its march, however fitful, from recession to a full recovery. Those issues will be: unemployment, the federal deficit, the direction of the dollar, new regulations for

the financial industry, and when the Federal Reserve will begin to raise rates.

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All index references and performance calculations are based on information provided through Bloomberg. Bloomberg is a provider of real-time and archived financial and market data, pricing, trading, analytics, and news.

The Dow Jones Industrial Average Index[®] is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Standard and Poor's 500 Index[®] (S&P 500[®]) is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Standard & Poor's offers sector indices on the S&P 500 based upon the Global Industry Classification Standard (GICS[®]). This standard is jointly maintained by Standard & Poor's and MSCI. Each stock is classified into one of 10 sectors, 24 industry groups, 67 industries and 147 sub-industries according to their largest source of revenue. Standard & Poor's and MSCI jointly determine all classifications. The 10 sectors are Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Telecommunication Services, and Utilities.

The NASDAQ Composite Index[®]. Stocks traded on the NASDAQ stock market are usually the smaller, more volatile corporations and include many start up companies.

NASDAQ - National Association of Security Dealers Automated Quotations. The NASDAQ is a computer operated system owned by FINRA that provides dealers with price quotations for over the counter stocks.

Bear market calculations and interpretations are derived from data supplied by Ned Davis Research, Inc.

The S&P/Case-Shiller Home Price Indices are designed to be a reliable and consistent benchmark of housing prices in the United States. Their purpose is to measure the average change in home prices in a particular geographic market. They are calculated monthly and cover 20 major metropolitan areas (Metropolitan Statistical Areas or MSAs), which are also aggregated to form two composites – one comprising 10 of the metro areas, the other comprising all 20.