

# Market Update

## November 2009 Review

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### Dow & S&P Advance – But Dubai Debt Problem Ends Month on Sour Note

The capital markets moved higher in November, with the blue chip S&P 500 and the Dow Jones Industrial Average posting 6.0% and 6.9% gains, respectively. Growth stocks edged out value stocks as the materials and health care sectors rallied and financials were only modestly higher. Large cap stocks bested small and mid cap stocks, while domestic equities fared better than international stocks and the dollar finished the month higher against the Euro.

Fixed income markets were positive for the month of November as well, with the broad based Barclays Capital Aggregate returning 1.3% for the month, while the Barclays Capital U.S. Corporate High Yield Index advanced 1.0%. Treasury prices rallied during the month, most notably during the last few trading days, as investors sought safety in U.S. debt following the announcement from the Dubai government concerning debt obligations of Dubai World. The 10-year Treasury yield fell from 3.39% at the beginning of the month to 3.21% as of the end of November. As a result, the Barclays Capital U.S. Treasury Index rose 1.3% for the month.

	Nov	YTD
DJIA	6.9%	21.5%
S&P 500	6.0%	24.0%
NASDAQ	-3.6%	30.7%
MSCI EAFE	1.8%	26.0%
Barclays Aggregate	1.3%	7.6%
Barclays U.S. Corp. High Yield	1.0%	53.2%

While November's overall results were favorable, worries about Dubai World's reluctance to pay off its debt rattled markets worldwide during the last few trading sessions in November. The Dubai government shocked global investors by saying it needed at least a six-month deferment on the \$60 billion in debt owed by Dubai World and Nakheel, much of that run up during the global real estate boom. Dubai World is the government-owned holding company for Dubai, the most populous of the seven Emirates that make up the United Arab Emirates, and Nakheel is the real estate arm. The unexpected event sheds further light on an underlying real estate weakness worldwide and associated outstanding debt. While major banks in the U.S. are believed to have little direct exposure, the ripple effect could be more crippling. At this point, the concern is the uncertainty related to counter party derivative exposure (guarantees that transfer default risk from lenders to other financial institutions). It is unknown how much of Dubai World's debt guarantee is held by U.S. banks. Could this event be the catalyst for a market correction given the sizeable run up in stocks this year, especially the stocks of financial institutions? Perhaps. If the Dubai crisis spreads further and results in financial institutions setting aside more reserve funds to cover default risk leaving less cash to lend out, investors could shun stocks for safe-haven strategies such as U.S. Treasury bonds. Should contagion fears ease, then the market could prove resilient with financials stocks and investment grade debt likely to extend the 13-month rally.

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Outside of the Dubai announcement, here in the U.S., third quarter Gross Domestic Product ("GDP") was revised down to +2.8% from +3.5%, while the magnitude of the revision was not surprising, the composition was weaker, as consumer spending posted a much smaller increase than most had anticipated. Initial indications suggest that although Black Friday appears to be milder than in recent years, consumers are indeed out in droves to take advantage of discounts on toys, clothing, games and entertainment. Black Friday, the first shopping day of the holiday retail period, is seen as a key barometer of how the next six weeks will play out. In a year fraught with rising joblessness (the unemployment rate is at a 26-year high of 10.2%), Black Friday is also being dissected for clues on the health of the consumer. However, the November manufacturing index pulled back slightly in November to 53.6 (any reading over 50 implies expansion in the sector). Existing home sales rose sharply as many buyers rushed to beat the deadline for the home buyer tax credit on November 30, 2009 (which has since been extended to April, 2010). However, given the home buyer tax credit and loan modification efforts, the recent stabilization in home prices may prove transitory as the effect of these temporary measures wears off.

As we enter the last month of 2009, the approach of the end of the tax season for mutual funds will put money in motion and potentially add to further market volatility. Major stock indexes are still vulnerable to a sell-off after touching 13-month highs recently. Investors will look for assurances from global governments that the Dubai crisis will be contained and will not pose an immediate threat to the global economic recovery.

## *Definitions & Disclosures:*

An index is a measure of value changes in a representative grouping of stocks, bonds, or other securities. Indexes are used primarily for comparative performance measurement and as a gauge of movements in financial markets. You can not invest directly in an index and, for comparative purposes; they do not reflect the effect of the various fees inherent in actual investment vehicles.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Barclays Capital U.S. High-Yield Corporate Index is a market value-weighted index which covers dollar-denominated, fixed-rate, below-investment-grade debt securities.

The Barclays Capital U.S. Treasury Index is a market value-weighted index of public obligations of the U.S. Treasury with maturities of one year or more.