

CAPITAL INVESTMENT MANAGEMENT

Registered Investment Advisor

BOSTON • DENVER • SAN FRANCISCO

April 2009 Economic Outlook

The Economy

- Consumer confidence moved higher as data points signaled firming in the housing markets. Demand for big-ticket manufactured goods and new home sales were better than expected in March, raising hopes that the long slides in manufacturing and housing are slowly coming to an end.
- Thus far into the earnings season, 70% of companies have come in with better-than-expected numbers, supporting the view that we may be in a bottoming process. There is some speculation, however, as to whether these earnings are purely “stimulus related.”
- While the U.S. Economy contracted at a rate of 6.1% in the first quarter, inventories declined and consumer spending increased.
- Despite encouraging signs, the Department of labor announced that unemployment rates for eighteen U.S. metropolitan areas were estimated at 15% or higher.
- The Federal Open Market Committee (FOMC) concluded its two-day meeting last Wednesday and, as expected, the Committee left the lending rate unchanged, holding it in the range of 0-25 basis points.
- FOMC stated that, at this point in time, it was not going to expand its purchases in Treasury, agency, or mortgage-backed securities. The Committee also touched on inflation and “expects that inflation will remain subdued.”
- Bank stress test results were expected to be released on May 4th, but have been delayed while bank executives and examiners debate results.

Our Positioning

- Most economists are looking for a recovery in this year’s second half, although the forecasted strength of the recovery has been downgraded. There are a number of developments that could prolong the recession into 2010, including delays or failures of key policy initiatives, adverse commodity price trends, or further increases in the savings rate.
- We are cautiously optimistic, noting that the risks to recovery remain considerable.
- Reports should be regarded carefully, especially as further write-downs seem inevitable and unsubstantiated statements from bank officials remain suspect.
- Until we see some firmer evidence of this recovery, we continue to position our actively managed accounts at CIMCO in a hedged and/or cash position.