

CAPITAL INVESTMENT MANAGEMENT

Registered Investment Advisor

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December 2008 Outlook – Market Update

Recession official, consumers reluctant

On Monday, stocks dropped precipitously as the National Bureau of Economic Research officially declared a recession in the U.S., indicating that the contraction most likely began in December of 2007. Meanwhile, worries persisted about the U.S. consumer, following lackluster post-Thanksgiving day sales at major retailers. Both the Dow and S&P lost more than 7.0% for the day.

Manufacturing, construction slide

Also on Monday, December 15, 2008, the Institute for Supply Management announced that its purchasing managers index (PMI) had dropped to a 26-year low in November. At 36.2, the index reflected severe contraction in the manufacturing sector. Construction spending also declined, falling 1.2% for the October-November period. Both data points indicate a significant slowdown in U.S. economic activity during the fourth quarter.

Job losses accelerate

U.S. employers continued to shed jobs at a dramatic rate in November, eliminating some 533,000 positions and bringing the overall unemployment rate to 6.7%. The loss of more than half a million jobs during the month was the worst figure since December of 1974, when the U.S. was also in the midst of a deep recession. Still, stocks rallied late Friday as investors sought bargains among discounted shares in financials, consumer staples, and technology.

Auto bailout plan still uncertain

Despite support from the White House and Congressional Democrats, Senate Republicans refused to endorse a final version of the bill. Shares of Ford and GM fell for the week of December 12th as it appeared likely that the White House would be forced to utilize funds from the Emergency Economic Stabilization Act of 2008 in order to fund any potential bailout. With the announcement this morning of factory production shut-down (temporary they say), the drama around this will likely accelerate.

Treasury yields hit record lows

The yield on the 10-year Treasury tied a record low this week, finishing Friday at 2.57%. Meanwhile, the yield on the 2-year bill slipped to 0.76% as nervous investors continued to seek the relative safety of U.S. government issues on the back of continued economic worries. Short-term Treasury instruments sold at government auctions also garnered historically high prices, pushing their yields down to 0.0% in some cases.

Interest Rates

On Tuesday, the Federal Reserve dropped the Fed-funds rate to 0 – 0.25%. The impact of this on consumer borrowing should be to (eventually) lower borrowing rates. This also should create an opportunity for consumers to accelerate the deleveraging of their own balance sheets.

Our Positioning

We continue to position our actively managed accounts at CIMCO in a hedged and/or cash position. Call if you would like to get specific information regarding your account, or if you would like a second opinion on current allocations.