

Spring Forward Fall Back

Market Summary

November 2007

As Americans performed the annual ritual of resetting their clocks back one hour in preparation for the beginning of winter and the earlier onset of darkness the markets experienced a pull back of their own.

Domestic Markets

The first trading day of the month opened on an ominous note with the S&P 500 declining nearly 41 points or 2.64% to 1508.44. For the month, the S&P was down 4.2%, the worst monthly decline since December 2002 when it dropped nearly 6%.

	Nov	YTD	1 Yr	3 Yrs	5 Yrs
Domestic Equities/Fixed					
S&P 500	(4.2)	6.2	7.7	10.1	11.6
Russell 1000 Growth	(3.7)	12.2	12.6	10.2	10.6
Russell 1000 Value	(4.9)	0.8	3.1	10.9	13.8
Russell 2000	(7.2)	(1.5)	(1.2)	7.9	14.9
Dow Jones Wilshire REIT Index	(9.7)	(12.9)	(14.9)	12.3	19.9
Lehman Aggregate	1.8	6.7	6.0	4.8	4.8
TIPs	3.6	11.3	9.6	5.1	6.3
International Equities					
MSCI EAFE	(3.3)	13.7	17.3	19.4	21.3
S&P/Citigroup EMI-EPAC	(6.6)	9.5	13.6	22.3	27.5
MSCI Emerging Markets	(7.1)	38.9	45.2	37.1	36.0
Alternative Assets					
GS Natural Resources Index	(6.2)	25.7	22.4	25.1	27.5
Dow Jones/AIG Commodity Index	(3.1)	11.1	6.0	9.4	14.3
HFR Fund of Funds Index	(1.6)	9.7	11.6	9.7	9.3

Volatility continued to be the theme in November. The tone set by losses early in the month continued for most of November punctuated with brief rebounds of buying by bargain hunters.

The S&P 500 experienced five trading days with moves of 2% or more in the index. This was second only to the highly volatile month of August which experienced six days of 2% or greater movement. The S&P also dipped briefly into a technical correction, defined as a decline of 10%, on November 26th, as measured from its October 9th high. The correction lasted less than a day as the S&P rebounded gaining nearly 6% in the last four trading sessions of the month.

Small-cap stocks tumbled even more, declining 7.2% during the month. The November decline puts the Russell 2000 index into negative territory for the year to date period. For the twelve months ending November the index is slightly in the red down 1.2%.

REITs suffered the largest decline for the month, off 9.7%. For the year, REITs are down nearly 13%.

The continued uncertainty surrounding the fallout from subprime related exposure led to a flight to safety. Treasury prices climbed in November. The 10-year Treasury gained nearly 4.0%. The yield on the Treasury note which moves inversely to price, declined from 4.36% to 3.97%. Inflation protected bonds gained 3.6%. For the year through November, TIPs have gained an impressive 11.3%.

International Equities

Fears of a global slow down were reflected in the international equity market returns. Like their domestic market counterparts, large capitalization stocks fared better than their small-cap brethren. The MSCI-EAFE index was down 3.3%, while emerging markets lost 7.1%.

Despite the loss, emerging markets are still ahead nearly 39% for the year and continue to be the best performing asset class over the 1-, 3- and 5-year periods. The gain in emerging markets can partially be explained by the performance in natural resources as a large share of the indexes are in energy and basic materials stocks.

Economic Summary

The housing market collapse which prompted the current crisis does not appear to have found a bottom yet. New home sales posted a 24% year over year decline in October. Existing-home sales also declined 1.2% in October, notching its eighth consecutive monthly decline. Existing

home inventories crept up 1.2% to 4.45 million, which represents a 10.8 month supply at current sales levels.

However, there appear to be few signs that the continued problems in the housing market are impacting other areas of the economy. Third quarter GDP was revised significantly higher from the initial 3.9% annualized growth rate to 4.9%. Nevertheless, most economists expect fourth quarter growth to come in well below 2%.

The propensity of consumers to spend will largely decide whether the economy slides into recession or not. Indicators of payroll growth and employment support the argument for continued strength in spending. According to the Labor Department, employers added 166,000 jobs in October, the most in five months. The unemployment rate remains low at 4.7%.

More directly, initial estimates for consumer spending on the day after Thanksgiving, “Black Friday”, indicated an 8% increase in total sales over last year. The Monday after the holiday weekend has quickly become the kick-off day for online shopping. “Cyber Monday” has showed consumers spent a record \$733 million online, a 21% gain over last year.

Federal Funds

Investors are eagerly anticipating that the Fed will cut the federal funds rate at their next meeting on December 11th. Fed Funds futures, a good indicator of investor sentiment regarding the Fed’s policy changes, are fully pricing in a 25 basis point reduction, and a very high probability of a 50 basis point reduction. It is obviously difficult to speculate on what the Fed will ultimately decide, but it appears that investors have added a 25 basis point cut to their Christmas wish list and may be disappointed if it doesn’t turn out to be 50 basis points.



Jerry Rueckert, CFA, CAIA
Senior Consultant

Hammond Associates
101 S. Hanley Rd, 3rd Floor
St. Louis, MO 63105
314-746-1600

www.hammondassociates.com

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