



January: In With the Old

Market Summary January 2009

January, named for the double-visaged god Janus, who looks both forward and back, is a month that often resembles the past year more than it portends the coming one. Investors should hope that this is the case this year, for 2009 launched itself with an unsettling degree of similarity to the late and unlamented 2008. The good news would be that the market low point established on the dismal day of November 20 has remained intact. The market's waxing and waning since that date therefore can be viewed, perhaps a bit wishfully, as grudging progress.

That would be in keeping with action following the last market cataclysm, in October 1974. Recovery from that event did not begin with a joyous bounce, as if from a trampoline, but in a slow limp, as from a battle ground. In the final 12 weeks of the year, the S&P 500 painstakingly gained 6.28 points (10%) to close at 68.56.

That progress, though unspectacular, was solid. The S&P Index has never revisited its low, or even its close, from 1974. This time around, the index, perhaps riding an updraft of post-election optimism, ventured too far too fast, rising by more than 150 points (20%) to surpass 900 on New Year's Eve, and then moved up to 934 on January 5. The market promptly clawed back all of the post-New Year's gains and half of the advance posted before year's end, making for a very rough January for big-cap (and other) stocks. The S&P 500 Index lost 8.43% in January, and the Russell 3000 8.39%. The Dow Jones Industrial Average, which had closed above 9015 on January 6, fell to just over 8000 by the end of the month, for an overall loss of 8.84% — the worst January in its 113-year history.

The January smack-down cut across all categories of U.S. equities, with value-oriented issues taking the harder hit. The constituent indices to the Russell 3000 all fell: the 1000 Growth by 4.8%; 1000 Value by 11.5%; MidCap Growth by 4.5%; MidCap Value

by 10.3%. The small-cap Russell 2000 fell by an overall 11.2%, the Growth component dropping 7.6%, and Value 14.3%

International issues fell across size categories and across the globe. The MSCI EAFE Index dropped 9.81%; the MSCI Emerging Markets Free Index fell 6.62%.

Debt markets also generally suffered in January, though some categories managed to buck the trend. The Barclays (formerly Lehman Brothers) Aggregate Bond Index fell 0.9%. The Barclays U.S. Treasury Long Bond Index fell 8.65%, a striking reversal for what had been the safest of safe havens in a treacherous market environment. Through 2008, long Treasury bonds gained 22.7%, highest of any asset category.

Completing a reversal of fortunes, the Lehman High Yield Index, which had lost 20.67% over the previous 12 months, gained a noteworthy 5.99% in January.

The key to the fixed income returns in January might have been exposure to long-term increases in taxes or inflation. In contrast to the drubbing taken by the long bond, Treasury Bills were flat for the month (0.0%), and 1-10-year TIPS gained 3.0%. Tax-free issues generally rose; Barclay's Capital Broad Municipal Bond Index increased 3.66%.

Despite late rallies in metals futures, commodities as a whole fared poorly in January. The Goldman Sachs Commodities Index took a nasty fall of 8.94%; the Dow Jones AIG Commodities Index dropped 5.38%. For the

trailing 12 months, the Goldman Sachs Commodities Index had fallen 51.2% at the end of January, most of the damage coming in the fourth quarter (-47.0%). The Dow-AIG index dropped 41.58% in the 12 months ending in January — 30% in the fourth quarter.

Real Estate Investment Trusts also found January to be still more time in purgatory. The Dow Jones- Wilshire REIT Index lost



Any Resemblance?



18.1%, and was down 50.0% over the trailing 12 months. In 2008, the index fell 39.2%, all of it in the fourth quarter.

It's the Economy

With such dismal market performance must come equally grim economic news, the outstanding example being the Commerce Department's announcement that GDP fell by 3.8% during the fourth quarter of 2008, the largest economic contraction since a 6.4% drop in first quarter of 1982. Given the 0.5% fall in GDP in the third quarter last year, this marked the first back-to-back quarterly contractions since the winter of 1990 and spring of 1991. That spell was broken only by the resounding success of Operation Desert Storm and liberation of Kuwait.

The ugly GDP number actually was improved — deceptively — by a \$6.2 billion rise in inventories. These goods must be sold off before any rise in demand (if and when it should come) can create new orders for suppliers. The backlog of goods for sale means that final sales of domestic product, (GDP adjusted for changes in inventory) contracted by 5.1% in the fourth quarter of 2008.

The Institute of Supply Management reported its index of manufacturing activity registered 35.6 in January, up 2.7 points from December. However, the improvement merely indicates somewhat slower contraction, as a reading of 50.0 is the breakeven point. New orders to manufacturers also contracted at a slower rate in January, registering 33.2 versus 23.1 in December.

The institute's index for service providers registered 42.9 in January, versus 40.1 in December. New orders for services registered 44.2, versus 28.9.

The institute reported that consumers spent 1% less in December than in November, choosing to save rather than shop for gifts, thus and making for a very grey Christmas for retailers. The bad news continued in January, as retailers filled the air with announcements of payroll cuts, sales slumps and earnings disappointments. Wal-Mart, however, said its same-store sales had risen 2.1% in January, and it expects a 1 to 3% increase for the full quarter. The discount chain apparently has succeeded in wooing bargain-hunting shoppers away from other chain operations.

Jobs

The U.S. economy shed 522,000 jobs in January, according to an estimate by Automatic Data Processing, a large processor of payrolls. This comes atop 3.6 million jobs lost in 2008, and an end-of-year unemployment rate of 7.2%, as reported by the Department of Labor. ADP estimates that 659,000 jobs were lost in December, which is 125,000 more than were officially counted by the Department of Labor.

Consumers

Reflecting the worrisome jobs data, the Conference Board's

Consumer Confidence Index dropped to 37.7 (1985=100), down from an already horrific 38.6 in December. The number was described by the board as "an historic low." The Expectations Index, in which surveyed consumers are asked to forecast economic conditions, fell from 44.2 in December to 43.0.

Housing

Sales of existing homes have begun to show a faint sign of responding to the drastic drop in prices in recent months, the National Association of Realtors reported. The group said contracts for home sales rose 8.6% in December, and its "affordability" index for housing (prices/ interest rates/income) is the highest since the statistic was invented in 1970.

Dennis Hannon
Market Correspondent