



# April: Two in a Row

Market Summary April 2009

As any baseball fan knows, the minimum requirement for a winning streak is two in a row. Just in time for the baseball season, the stock market did precisely that in April, closing with a gain for the second successive month. And this streak, while at the temporal minimum, must be respected for its size: The S&P 500 added 9.6% to the 8.8% it gained in March, a compounded return of nearly 19.2%.

The vigor of the advance gives some encouragement that this is not a mere feint, as was the last two-month “winning streak” in April-May, 2008. The rather peaked gains posted in those two months turned out to be a prelude to a very nasty stretch during which a weak market turned into a meta-destructive super bear. This time, the two monthly gains are larger, and there is a slight rise, rather than a fall-off, from the first to the second.

Drawing a trend line between two data points surely is nothing more than grasping at straws, but, after a bitter winter, the market was in a mood to grab. What’s more, there were other graspable strands of vegetation in the April wind, at least according to the testimony before Congress by Fed Chairman Ben Bernanke. The recession is losing steam, he said, and the deflation in the housing market and the inventory liquidation by vendors appear to be bottoming out. The Chairman also declared the banking sector to be in far better shape than it was just a few months ago, and the economy to be poised to launch a recovery sometime this year – the collapse of the Chrysler Corp. and continued high unemployment notwithstanding.

## *Manufacturers Pessimistic*

Members of the Institute for Supply Management (ISM) did not reflect such optimism when surveyed in April. They expect the recession to continue throughout the year, and their firms’ revenues to contract by an aggregate 14.7%.

The ISM reported that manufacturing activity registered at 40.1% in its April survey, an improvement of 3.8 percentage points from March, but nevertheless a contractionary number (<50%), for the

15th consecutive month. Manufacturers reported operating at 67% capacity, the lowest level found since the Institute began tracking this datum in 1985. In April 2008, manufacturers were working at 78.6% of capacity.

## *Worst Half Year in Half Century*

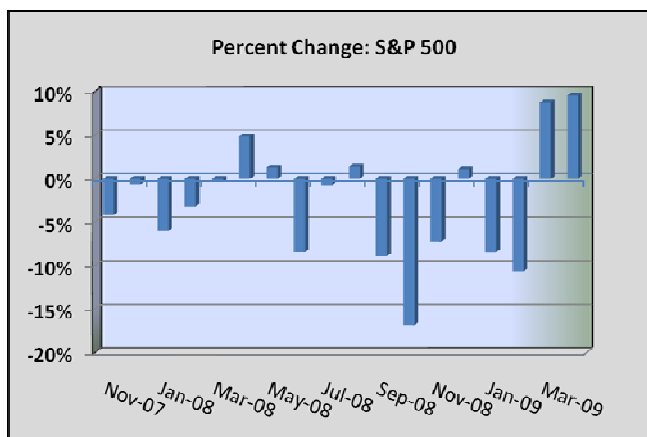
Real Gross Domestic Product for the first quarter of the year was -6.1%, annualized, the Commerce Department reported in April. Taken with the 6.3% drop reported for the fourth quarter of 2008, these represent the worst six-month period for the economy in 50 years. However, markets reacted with a brisk rally when the report was released, as “portents of recovery,” as the Wall Street Journal called them, were found in the data.

First among these portents was a modest revival in consumer spending (+2.2%), which prompted jubilation because it followed declines of 3.8% and 4.3% in the two preceding quarters. Secondly, private businesses slashed inventories by \$103.7 billion during the first quarter, four times the \$25.8 billion they shed in the fourth

quarter last year, according to the Commerce report. That presumably augurs well for future purchases of manufactured products, as vendors exhaust their stores of goods and are forced to restock. Another twist to inventory reduction: It is responsible for 2.8 percentage points of the 6.1% contraction in GDP, according to the Commerce Report. In other words, nearly half of the loss in GDP was due to something markets construe as good news, and therefore can be ignored. Make sense?

## *Other Glimmers*

Other data providing “glimmers of hope” included a slight decline (14,000) in new jobless claims, to 631,000 in the last full week of April. Unemployment, however, remains at 8.5%, its highest level in 25 years, and is expected to rise when new data is reported in early May.



### ***Improvement in ISM Survey ‘Internals’***

Amid the negative data in the ISM’s April survey were scattered “green shoots” amenable to hopeful interpretation. Although every number, with the potentially important exception of customers’ inventories, indicated continued contraction in manufacturing, all – including several usually interpreted as leading indicators – improved notably; some robustly.

For example, activity based on new orders spiked 6.0 points, to 47.2%. Employment rose 6.3 points, to 34.4% – still decidedly recessionary, but up from an abysmal 28.1% in March and the all-time, 61-year, low of 26.1% in February.

The ISM’s survey on customers’ inventories corroborated the Commerce Department’s findings: A reading of 49.5% meant slightly more than half of customers, for the first time since July 2008, consider their inventories to be too low.

The Conference Board’s Consumer Confidence Survey also showed improvement, rising to 39.2 from 26.9 in March. That’s hardly cause for jubilation, but respondents were far more optimistic about coming months than they said they were in March: The Expectations Index rose an extraordinary 19.3 points, to 49.5.

### ***The Numbers***

Stocks roared in April, along with junk bonds and REITS – just like the good old days. Smaller capitalizations were favored slightly, and value was marginally preferred to growth. Essentially, all groups did very well.

Among the indices we track, the S&P SmallCap 600/Citigroup Value benchmark led with a return of 18.4%. The similarly constituted Russell 2000 Value Index gained 15.9%.

Mid-caps prospered in precisely the same way, with the leaders swapping places: The Russell Midcap Value Index led with a 15.9% return; the S&P MidCap 400/Citigroup Value Index followed closely with 15.7%.

As remarked upon previously, large-cap stocks fattened up, as the S&P 500 Index advanced 9.6% and the Dow Jones Industrial Average 7.6%.

International issues very much followed suit; the MSCI World (ex-US) Value Index leading the way with a 17.45% gain. The MSCI Emerging Markets Index advanced 16.5%.

REITS made a gaudy display reminiscent of the early years of the decade. The Dow-Jones Wilshire REIT index gained 32.8%; The S&P U.S. REIT Index rose 31.3%. For the trailing 12 months, the two indices have lost 50.8% and 49.6%, respectively.

### ***Bonds Gain According to Risk***

Government and other high quality bonds – with the exception of long government bonds – generally were flat to slightly down in April, whereas junkier high-yield issues escalated their winter rally into a spring surge.

The Barclay’s Capital US Aggregate Index gained 0.5%; the 1-3 Year US Government Index gained 0.6%. The US Government Long Index fell 4.8%.

The Merrill Lynch US High Yield Index gained 11.5%, and the Merrill Lynch Global High Yield Index, 11.2%. These indices now have handsome gains for the year-to-date (17.1% and 17.0%), and are within shouting distance of respectability for the trailing 12 months (-14.7% and -15.2%).

The DJ-AIG Commodity Index gained 0.7%; the Goldman Sachs Commodity Index dropped 0.9%. Their respective 12-month returns remain gruesome: -46.5% and -60.1%.

Dennis Hannon  
Market Correspondent