



# September Serenade

## Market Summary September 2009

September was a demure month this year, minding its manners on entry, on exit, and lyrically quiescent for the weeks in between. If there were anything particularly noteworthy about September, it would be that its 3.7% advance in the S&P 500 concluded the second successive time a quarter had concluded with the index moving up in all three constituent months (see chart). Adding the gain registered in March to the six months of the second and third quarters, the index has advanced for seven consecutive months, suggesting that an economic recovery clearly is being anticipated in the equity markets.

This sort of steady, if unspectacular, progress might be the kernel of meaning in the phrase “new normal,” which has gained currency among the cognoscenti of the financial world – particularly, says *The Economist*, with Mohamed El-Erian, CEO of PIMCO and author of a best-selling book on the just concluded (?) financial crisis, *When Markets Collide*.

If an economic “new normal” truly is emerging, it by definition will need time to establish itself. However, a “sense of normalcy” is already among us, according to a communiqué issued by the Group of 20 Nations (G20) after its September 24-25 meeting in Pittsburgh. While crediting this nascent sense of security to decisive intervention and massive infusions of stimulus capital by its member governments, the statement cautions that this success “should not lead to complacency.”

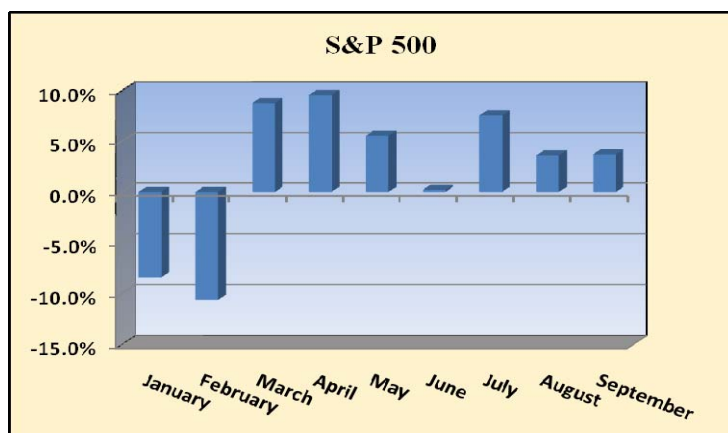
Keeping the ball rolling was in fact a dominant theme of the G20 meeting. Statements stressed repeatedly that aggressive monetary, fiscal and regulatory action will continue as long as deemed necessary. The group set up a “Financial Stability Board” (FSB) composed of central bankers and regulators to monitor and strengthen financial regulation. The members also asked the International Monetary Fund (IMF) to work with central bankers and finance ministers to establish a procedure for reviewing and assessing national economic policies, with a view toward fostering coordination and suppressing the “reckless behavior and lack of responsibility” that fueled the economic crisis.

The G20’s self-congratulation about economic policy might be justified. The IMF now forecasts that global GDP will expand by 3.1% next year – 1.2 points higher than it reckoned in April.

### Manufacturing Expands

The manufacturing sector expanded for the second consecutive month in September, registering 52.6% in the activity survey conducted by the Institute for Supply Management (ISM). A result higher than 50% represents expanding activity; the figure was 52.9% in August. New orders continued to be robust, though slightly down from August: 60.8% vs. 64.9%. Customer inventories continued to shrink (good news), registering 39%, the same as in August. Backlogged orders rose to 53.5% from 52.5% in August.

In the non-manufacturing sector, a succession of 11 consecutive contractionary months at last was broken, as the ISM survey reported an activity level of 50.9% in September, vs. 48.4% in August. Respondents in the construction industry declared they now had “seen the bottom” in their industry, the ISM reported. Renewed (but cautious) optimism also came from the financial services and insurance sectors, the report said. New orders among non-manufacturers rose to 54.2% from 49.9%; backlogged orders spiked to 51.5% from 41% in August.



### Housing Improving

A note of encouragement about the housing market came from an unexpected source in September, as Robert Schiller, the Yale professor who developed the S&P/Case Schiller Home Price Index, told the Wall Street Journal that the recent upsurge in the benchmark “looks like a major turnaround.” Schiller immediately qualified his remark, saying the upward move could be an aberration, as the economy is too weak to support a major boom and federal support mechanisms, such as the \$8,000 federal tax credit for new home buyers, soon will expire. But, he acknowledged, the index has moved up “in just about every city in the U.S. That suggests it’s real.”

### **BUT...Unemployment Festers**

The fly in the oatmeal, and no small one, is unemployment, as the economy continues to shed jobs, even as it begins to expand.

The unemployment rate ticked up one-tenth point to 9.8%, twice as high as in December, 2007, which was the launching date for what some economists now call The Great Recession. An unexpectedly high 263,000 jobs were lost during September, bringing the number of persons put out of work during the recession to 7.6 million, and the total number of jobless to 15.1 million, according to the Bureau of Labor Statistics.

### **Markets Happy**

If not exuberant, the capital markets were mooing contentedly in September, as every index we track, across all asset categories, produced a positive monthly return.

Among equities, growth issues generally outperformed value, and small-caps were preferred to large. Accordingly, among large-caps, the Russell 1000 Growth Index nudged-out its Value twin, 4.3% to 3.9%. However, over the span of the third quarter, Value prevailed, 18.2% vs. 14.0%. The Dow Jones Industrial Average gained 2.4% in September, and 15.8% for the quarter; the S&P 500, as noted gained 3.7% for September; it gained 15.6% for the quarter.

The S&P 400 mid-cap benchmark moved up 5.7% for the month; 20.0% for the quarter. Among U.S. small-caps, the Russell 2000 Growth had the highest monthly gain, with a 6.6%; its quarterly gain was 16.0%. The Russell 2000 Value gained 5.0% for the month and led all our common stock indices for the quarter with a gain of 22.7%.

The Russell 2000 index, which combines the Growth and Value indices, rose 5.8% for the month; 19.3% for the quarter.

International large-caps did marginally better than their U.S. counterparts in September, but not nearly so well as emerging market stocks, which generally are lower in capitalization and have higher growth rates. The large-cap MSCI EAFE Index gained 3.8% for the month, and 19.5% for the quarter. The MSCI ACWI ex-U.S. Index gained 5.1% for the month and 19.7% for the quarter. The MSCI Emerging Markets Index rose 9.1% for the month and 20.9% for the quarter.

### **Bonds Thriving**

The markets smiled upon fixed income instruments in September, particularly those with higher yields. The Barclays Capital Index for U.S. Treasury Bonds rose 0.8% for the month; 2.1% for the quarter. The U.S. High Yield Index rose 5.7% for the month; 14.2% for the quarter. U.S. Treasury Inflation-Protected Securities (TIPS), 1-10 year, rose 1.7% for the month; 3.0% for the quarter; U.S. TIPS of 10+ years rose 3.1% for the month and 3.3% for the quarter.

The J.P. Morgan Non-U.S. Global Unhedged Index rose 2.8% for the month; 7.3% for the quarter. The JPM Emerging Markets Bond Index rose 5.2% for the month; 10.2% for the quarter.

The Dow-Jones Wilshire REIT Index rose 7.0% for September and 35.4% for the third quarter. The S&P Natural Resources Index rose 8.4% for the month and 17.3% for the quarter. The Goldman Sachs Commodity Index rose 0.2% for the month and fell 1.8% for the quarter.

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