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Weekly Market Wrap December 7, 2009

Review - Week Ending 12/04/2009

Stocks posted gains again last week as economic data continued to firm and Dubai panic subsided. Gold speculation subsided, falling for the week, as the dollar rallied, temporarily halting its slide. In other news, the healthcare reform continues to move to vote, Afghanistan gets 40,000 more US and Ally troops, and Fed chairman Bernanke defended his record during confirmation hearings.

Commentary/Highlights

- **Job Picture Improving:** The big surprise last week was the improving jobs report. The report was much better than expected, helped by the improved trends in both manufacturing and commercial construction. Payrolls declined by only 11,000 in November, in addition losses in September and October were revised downward. Perhaps even more important, average hours worked increased, temp hiring increased, and productivity growth remains high at an unsustainable 8.1%. These all point to more permanent hiring down the road. **It is too early to call a peak in unemployment, but the trends are good.**
- **TARP Repayments:** The billions in TARP funds invested in banks to stabilize the financial system last year are being repaid. Last week Bank of America, one of the major recipients, announced it was repaying its TARP funds in full with interest. It now appears all nine major recipients of TARP will repay at no loss to taxpayers, perhaps even a \$20 billion profit. AIG, GM and Chrysler, as well as the situation at Fannie Mae and Freddie Mac remain unclear. Kuwait's sovereign wealth fund also announced it sold its \$4 billion stake in Citigroup, with a gain of 37% from its crisis low.
- **Bank Failures Still Happening:** Meanwhile, AmTrust Bank in Cleveland became one of the biggest bank failures of the year, despite pleas from local politicians. The \$12 billion, century old bank, was operating under regulatory orders and failed to raise capital, after being denied access to TARP funds last year. The bank took a large, ill-advised and ill-timed leap into to mortgage securities, essentially wiping out its capital.
- **TCW and Metropolitan West Merger and Star Manager Ouster:** TCW announced it was merging with Metropolitan West, another fund company specializing in bond management. At the same time it announced the firing of its CIO and star fund manager Jeff Gundlach, an ex-Morningstar manager of the year, and who managed \$60 billion of the \$110 billion in management. Staff resignations followed Saturday, so it remains unclear how long the assets will stay.
- **BlackRock Acquires Barclays Global Investors:** In other major fund news, BlackRock completed its acquisition of Barclays Global Investors, which manages the iShares exchange-traded funds (ETFs). The iShares brand will remain, and the new BlackRock will become a global asset manager with \$3.2 trillion in assets under management.
- **Inflation is showing signs of returning:** The ECRI monthly gauge of US inflation pressures (US Future Inflation Gauge) continued in November to a 14-month high, pushed up by inflationary moves in job activity and commodity prices.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Barclays Aggregate Bond	-0.53%	+0.92%	+6.69%
Barclays High Yield	+0.57%	+3.59%	+54.32%
Dow Jones Industrial	+0.82%	+7.49%	+21.91%
S&P 500 Index	+1.37%	+4.99%	+25.29%
Russell 3000	+1.73%	+4.35%	+26.46%
MSCI EAFE Index	+3.05%	+3.08%	+29.36%
MSCI EAFE Small Cap	+2.38%	+0.49%	+49.55%
NASDAQ Composite	+2.61%	+3.39%	+39.14%
Russell 2000	+4.44%	-0.03%	+22.39%