

# MEMORANDUM

To: **Wurts & Associates Clients**  
 From: **Curtis Yasutake, Research Analyst**  
 Date: **December 9, 2009**  
 Re: **November 2009 Market Commentary**

## MARKET PERFORMANCE REVIEW

Asset Class	Benchmark	Nov.	YTD	1-Year	3-Year	5-Year
Domestic Stocks	S & P 500	6.0%	24.1%	25.4%	-5.8%	0.7%
International Stocks	MSCI EAFE	2.0%	30.6%	38.4%	-5.1%	4.6%
Emerging Market Stocks	MSCI EM	4.3%	72.2%	85.7%	5.6%	16.1%
Aggregate Bonds	BC Aggregate	1.3%	7.6%	11.6%	6.4%	5.5%
Treasury Bonds	BC Treasury	1.4%	-1.0%	2.4%	6.8%	5.6%
High Yield Bonds	BC High Yield	1.0%	53.2%	65.0%	5.2%	6.1%
Real Estate	FTSE NAREIT All	6.8%	19.8%	38.8%	-55.2%	-1.2%
Commodities	Dow Jones - UBS	3.5%	16.6%	11.4%	-6.0%	0.5%

Periods longer than one year are annualized.

**MACRO COMMENTARY.** After a brief pause last month, capital markets resumed their steady climb with all major asset classes recording gains in November. Over the last few months, the rally has been sustained by global commitment to stimulative government policy, particularly low central bank rates. This low interest rate environment is a vital reason markets continue to rally in the face of a weak economy and valuations that have reached or surpassed historic average levels. We currently remain in a sweet spot where economic data is gradually improving yet still weak enough to warrant low central bank rates in most countries. As the economic situation changes and governments adjust fiscal and monetary policy, sentiment could quickly change course for risky assets. But for now, investors continue to embrace risk across the board.

Global markets were shaken by news that Dubai World, one of the largest conglomerates in the United Arab Emirates, asked to freeze payments on a significant portion of its \$60 billion in debt for six months. The shock was not that Dubai World was in trouble, but that the government did not step in to fulfill what most believed were implicit guarantees on its debt. Major markets slid anywhere from 1% to 6% worldwide as investors worried about financial institutions' exposure and the potential of a global relapse into financial crisis. However, while Middle East markets and some speculators have been devastated, the company is not nearly as vital to the worldwide financial system as the big U.S. firms that went down in 2008. Most markets quickly recovered and ended the month in positive territory.

U.S. data were mixed, with employment numbers surprising to the upside. The Bureau of Labor Statistics reported unemployment unexpectedly fell from 10.2% in October to 10% in November. Further, nonfarm payroll employment fell by a much less than expected 11,000, the smallest decline in 2 years. The business and professional service sector actually added 86,000 jobs last month.

While most of these jobs were temporary positions, the hiring of temps indicates potential future permanent hiring. Positive employment news was tempered by an unexpected decrease in the ISM non-manufacturing index, which tracks business activity in the service sector (almost 90% of the U.S. economy). Decreasing activity suggests companies will not need to hire employees anytime soon. This damaged the outlook for improvement in employment and hope for increased consumer spending.

Heading into next year, governments will begin looking to cut back on stimulus and increase central bank rates to tame inflation and avoid potential asset bubbles. Some countries (Austria and Norway) have already begun hiking rates while other harder hit countries (Japan and the Euro Area) may not raise rates until 2011. Experts believe the U.S. may begin considering rate increases sometime mid next year. Increasing rates before the economy is on solid footing could be devastating for the markets and the economy. Investors will pay close attention to any changes in language regarding rate hikes in the minutes from the Federal Open Market Committee's mid-December meeting. ■

**ASSET CLASS COMMENTARY.** All major asset classes posted strong numbers in November. Domestic equities outperformed international as the S&P 500 reached levels not seen since October 2008. Materials and industrials led the S&P 500 while consumer staples and energy lagged. Developed international and emerging markets turned in solid positive performance. International markets were hit slightly harder by the Dubai World debt incident, but were bolstered by improving economic fundamentals and, for U.S. investors, the continued decline of the dollar.

Treasuries and credit both moved slightly higher as demand remains high for fixed income. A low inflationary environment and excess government supplied liquidity have provided positive forces for fixed income. Also, Fed asset purchasing programs have contributed to government debt performance.

REITs outperformed all other asset classes as investors took advantage of some attractive opportunities in the sector, but remain well off their 2007 peak. Commodities rose as gold hit record highs above \$1,200 per ounce and the dollar fell.

The key takeaway from November is persistent low central bank rates continue to serve as the proverbial rising tide to all risk-bearing assets. As long as the government continues to provide cheap money the risk-rally will likely continue. ■