

June 2009 Economic Outlook

The Economy

- The theme of “less bad” news is good news has, ultimately, been powering this rally.
- Better-than-expected existing home sales, the largest monthly gain in durable goods orders since the start of the recession, lower jobless claims, and a second consecutive rise in consumer confidence, has started to paint a picture of better days ahead.
- The initial revision to first-Quarter GDP from a 6.1% to a 5.7% decline also led to an increased appetite for risk and a continued rally in equities.
- Global markets and oil prices followed suit. China has shown signs of better growth, but Europe continues to lag other regions in its response to the global recession.
- The stimulus plan continues to work its way through the economy, but there’s a growing sentiment among investors that the government may have overreached, resulting in concerns about increasing growth-stifling regulation and growing debt levels.
- Debt levels remain elevated, and consumers have only just begun the long process of deleveraging.

Summary

- Things are settling down a bit as we enter into the typically slower summer trading season. First quarter earnings are largely complete, and the Fed and the government are relatively content to watch the progress of the initiatives they’ve already instituted.
- Our concerns are growing that government actions could go too far and short-circuit a recovery. The Fed is seeing some improvements; however, we remain skeptical about a rapid return to full growth potential.
- Despite geopolitical tensions with North Korea, the bankruptcy of General Motors, and a rise in mortgage delinquencies in the news this month, the market has generally remained strong, furthering our belief that a correction is overdue.
- While the pace of decline is slowing in some indicators listed above, other areas continue to deteriorate, making the road to recovery a bumpy one.
- Due to the tenuous nature of our current economic conditions, we remain cautiously optimistic that we are seeing some signs of recovery.