CAPITAL INVESTMENT MANAGEMENT

Registered Investment Advisor

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March 2009 Outlook

The Economy

- US Treasury Secretary Geithner delivered a huge boost to investor confidence as he unveiled plans to rid banks of their toxic assets on Monday, triggering a rally of over 7% in the S&P 500 in one day. Global markets followed suit.
- US new home sales rebounded in February, and durable goods came in stronger than expected, further boosting investor sentiment. However, all the news on the economy was not rosy and investors turned more cautious toward the end of the week. US consumer spending declined, with personal income also slumping. Fourth- quarter growth in gross domestic product (GDP) was also revised down at an annualized rate of 6.3%; the worst decline in 26 years.
- In Canada, Ontario's 2009 Provincial Budget added $27.5 billion in infrastructure spending to the $5 billion federal job creation effort, as February's Leading Indicator report saw 9 of 10 components decline.
- The UK saw an unexpected rise in the CPI, as currency declines offset deflationary pressures. This left policy makers little room for maneuver, as any subsequent fiscal stimulus could put further downward pressure on the currency. A weaker currency would lower real disposable income and provide no real stimulus.
- UK retail sales fell faster than expected, indicating deepening troubles. GDP was also revised down more than expected.
- While German business sentiment, as reported by the Ifo Institute, fell to its lowest level since 1982, consumers have been more resilient. German CPI came in well below expectations, creating more room for the European Central Bank to cut rates and increase money supply.

Stocks

- The global equity market rally continued, fueled by increasing appetite for risk, with value stocks outperforming growth stocks and defensive sectors lagging.
- Financials led in the US and UK, followed by a strong US industrial sector and another week of gains for miners in the UK as investors bought real assets as an inflation hedge.
- The technology and industrial sectors led in Canada.
- Small caps bested large caps in America, while the reverse was true in the UK.

Bonds

- Spreads, or the difference in yields compared to Treasuries for many non-government sectors, narrowed substantially following the positive reaction to the US Treasury's plan for dealing with toxic assets. However, the rally in these spread sectors faded toward the end of the week.
- For the first time in decades, the UK government couldn't attract enough bidders for its new debt issuance. The failed auction of gilts showed the potential negative effect of excessive borrowing.
- The US Treasury's 5-year auction also showed signs of weakness, causing the yield to increase in order to attract interest. Thursday's auction of 7-year Treasuries received a more positive reaction.
- Concerns that deficit funding could push rates higher over the next few months tempered hopes for a near term economic recovery.