First Trust

TALKING POINTS

A Recap of December 2008

The Economy

The Blue Chip Economic Indicators survey in December called for GDP in the U.S. to decline by 1.1% in 2009, according to Reuters. The economists polled expect the unemployment rate to rise from 6.7% (15-year high) to 7.8% by the end of 2009. Consumer Confidence levels set an all-time low in Dec. posting an index reading of 38, according to The Conference Board. One silver lining is the plunge in the price of gasoline. Gas, which topped $4 a gallon not long ago, is now around $1.70. The savings could boost discretionary spending by over $200 billion, according to the Center for Econometric Model Research.

Consumer Confidence **38.0** (Dec) 44.9 (Nov)	*Crude Oil (Mo.-End)* **$44.60** (Dec) $54.43 (Nov)	*Personal Spending* **-0.6%** (Nov) -1.0% (Oct)	*ISM Manufacturing* **32.4** (Dec) 36.2 (Nov)	*ISM Non-Manufacturing* **40.6** (Dec) 37.3 (Nov)
Gold (Mo.-End) **$884.30** (Dec) $816.20 (Nov)	*Natural Gas (Mo.-End)* **$5.62** (Dec) $6.51 (Nov)	*Factory Orders* **-4.6%** (Nov) -5.1% (Oct)	*New Home Sales* **407,000** (Nov) 433,000 (Oct)	*Existing Home Sales* **4.49M** (Nov) 4.98M (Oct)

The Stock Market

Indices (Source: Bloomberg)	**Dec.**	**Y-T-D**
S&P 500	1.1%	-37.0%
DJIA	-0.4%	-31.9%
Nasdaq 100	2.2%	-41.6%
S&P 400	4.8%	-36.2%
Russell 2000	5.8%	-33.8%
MSCI World (ex U.S.) (USD)	5.2%	-43.3%
MSCI Emerging Markets (USD)	7.7%	-53.5%

Growth/Value (Source: Bloomberg)	**Dec.**	**Y-T-D**
S&P 500 Citigroup Growth	1.2%	-34.9%
S&P 500 Citigroup Value	1.0%	-39.2%
S&P Midcap 400/Citigroup Growth	4.7%	-37.6%
S&P Midcap 400/Citigroup Value	5.0%	-34.8%
Russell 2000 Growth	5.4%	-38.5%
Russell 2000 Value	6.1%	-28.9%

Eighty-one out of the 134 subsectors that comprise the S&P 500 posted a gain, up from 20 last month. In 2008, the dividend-payers (372) in the S&P 500 (equal weight) posted a total return of -39.01%, vs. -45.35% for the non-payers (128), according to Standard & Poor's. The dividend-payers have outperformed the non-payers in 8 of the 9 calendar years this decade. The exception was 2003, just after the bear market bottomed. The VIX Volatility Index reached an all-time high of 80.86 on 11/20/08. The VIX stood at 40.00 on 12/31, down 50% from the high. So far this decade, the average reading for the VIX has been 21.02, according to Bloomberg. If the VIX can manage to work its way down into the 30s we should see higher stock prices, according to Bespoke Investment Group. The Q4'08 edition of the *Investment Manager Outlook*, a survey of investment managers conducted by Russell Investment Group, says that money managers continue to be most bullish on U.S. Large-Cap Growth stocks over all other asset classes (including debt groups). Sixty-seven percent of those managers polled are bullish, up from 62% in Q3'08. Rounding out the top five are U.S. Mid-Cap Growth and U.S. Large-Cap Value (both at 61%), Corporate Bonds (60%) and U.S. Small-Cap Growth (56%).

U.S. Dollar (U.S. Trade-Weighted Basket) **-4.4%** (Dec) 7.8% (2008) $ was down 10.0% in '07	*CBOE Total Equity Options* *(# of contracts in millions)* Dec: **37.7** (-11.3%) Nov: 42.5 (-29.3%) *Record 7/08: 67.2 million*	*Short Interest (NYSE)* Dec 15: **13.71B** (+0.96%) Nov 14: 13.58B (-0.22%) *Record 7/08: 18.61 billion shares*	*S&P 500 P-E Ratio* *(Trailing 12-mo. earnings)* **18.93** (12/31) 19.44 (11/28)

The Bond Market

Index (Source: Barclays)	**Dec.**	**Y-T-D**	**Yield**
U.S. Treasury: Intermediate	1.97%	11.35%	1.20%
GNMA 30 Year	1.87%	7.86%	4.12%
Municipal Bond (22+)	0.51%	-14.68%	6.42%
U.S. Aggregate	3.73%	5.24%	3.99%
Intermediate Corporate	4.49%	-4.82%	7.54%
U.S. Corporate High Yield	7.68%	-26.16%	19.50%
Global Aggregate	6.21%	4.79%	3.41%
Global Emerging Markets	9.42%	-16.16%	10.64%

The yield on the 10-Yr. T-Bond fell 71 basis points in December closing at 2.21% – 182 basis points below its close (4.03%) on 12/31/07. The Fed cut the federal funds target rate from 1.00% to 0-0.25% on December 16. The steep cut is one means of staving off a potentially deflationary environment. The aggressive move may have helped inspire investors to assume some additional risk. High yield corporate bonds enjoyed a nice rebound in December (see chart) as did emerging markets debt. Municipal bonds continue to struggle. It was the worst showing for tax-frees since 1999. It is estimated that 41 states are facing budget shortfalls heading into 2009, according to Bloomberg. The Center on Budget and Policy Priorities in Washington reported that states are in the red by a combined $42 billion this fiscal year.

Key Rates as of December 31

Fed Funds	0-0.25%
2-Yr. T-Note	0.77%
10-Yr. T-Bond	2.21%
30-Yr. Mortgage	5.30%
Bond Buyer 40	5.89%

Key Yield Spread

The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 1,732 basis points on 12/31/08, down from 1,831 on 11/28/08. It was 557 on 12/31/07. *(Source: Bloomberg)*

2008 Debt Issuance through November
(Source: Thomson Financial)

Debt Category	$ Amount	% change over '07
Corporate	$680.1 Billion	-36.3%
Convertible	$34.7 Billion	-45.6%
Asset-Backed	$155.0 Billion	-82.5%
Municipal	$366.7 Billion	-8.3%

The Investment Climate

Net cash outflows from equity funds totaled $21.7 billion in 11/08, vs. outflows totaling $72.4 billion in 10/08, according to the Investment Company Institute. Bond funds had outflows totaling $14.5 billion, vs. outflows totaling $40.7 billion in 10/08. Money Market funds had inflows totaling $122.4 billion, vs. inflows totaling $143.5 billion in 10/08. Y-T-D thru 11/08, equity fund outflows totaled $215.7B, vs. $38.0B in bond fund inflows & $521.8B in MMF inflows.