



Good news on the economy has been pervasive over the past month. The economy is picking up steam in the final months of this decade and the recession is now most certainly over.

The November employment report took everyone by surprise when it was reported that the unemployment rate fell 0.2% to 10.0%. The expectation was for a further 100,000 plus jobs to disappear, but the data released showed a gain of 149,000 jobs when including upward revisions for the preceding two months. The actual November report showed a loss of just 11,000 jobs, the best such report in two years.

We have previously mentioned that the unemployment rate is a lagging indicator to when the economy actually starts growing. Over the past six months, every bit of good economic news has been met with the refrain “but when are we going to see job growth”. Not only did jobs stop hemorrhaging in November, but the leading indicators of the report were also very positive. The two points of data that economists look at are the manufacturing work week, which rose for the sixth straight month, and temporary employment, which increased by 52 thousand jobs. It should be noted that these are not Christmas retail jobs, as those are seasonally adjusted and actually fell by 14,000.

On the heels of the better than expected employment report, we received a very good retail sales report. Overall November retail sales grew 1.3% from October and 1.9% from last November. This marked the first time in 15 months that retail sales grew on a year-to-year basis. Although it is true that one month does not make a trend, the much better than expected retail sales report adds to the belief that the economy has made a turn.

Recognizing that spending is closely associated with jobs, we have confidence that consumer spending will continue to grow in the coming year. The jobs picture is brightening as jobs recover and manufacturing hours increase with the expectation that income growth will follow. With household balance sheets improving, we should see retail sales rise throughout the coming year. As consumer spending represents approximately 70% of our Gross Domestic Product, we should expect a continued pick-up in economic activity.

We recognize that the stock market is already up over 50% from the lows reached in March. We continue to believe, however, that this asset class represents the best risk/reward of any asset class. Corporations have slashed input costs and have delivered very good earnings through the economic downturn. Now that revenues are poised to grow, we should expect significant profit growth into the coming year.

We continue to be concerned with longer dated bonds, as we believe current interest rates are not sufficiently compensating investors for the risk of future inflation. Money market funds continue to pay close to zero -- not an attractive alternative in a growing economy.

As has been our tradition, we will more fully develop our themes for 2010 in January's *Investment Outlook*. As this is our last issue for 2009, we wish everyone a very Happy New Year.

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