THE CONROY REPORT

Quarterly Outlook
As of January 1, 2010

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Summary

Economic Outlook

GDP grew by 2.2% in the third quarter of 2009, further brightening the picture for the U.S. economy. However, the risk of depression or slower growth remains and unemployment is still very high.

Investment Recommendations

We continue to recommend money market instruments and short term Treasury and Corporate bonds. However, longer term bond yields are looking attractive now.

Economic Forecast

The U.S. economy grew in the third quarter of 2009 with an annualized rate of growth of 2.2%. This follows two quarters of contraction and leaves the annualized rate of growth for the year at negative 5%. While the results for the quarter are encouraging, we remain concerned about the U.S. unemployment rate which is still at 10%.

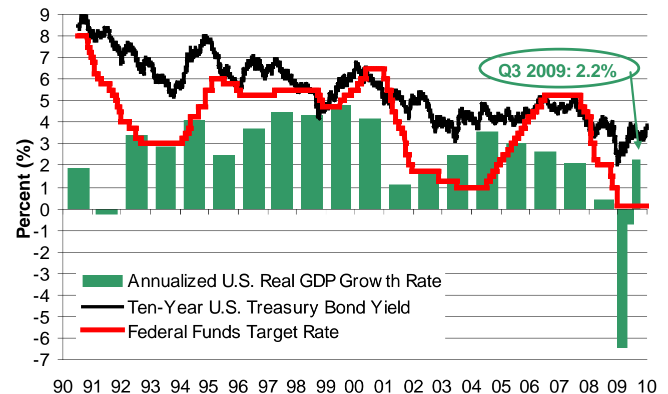
We continue to recommend that investors play it safe with their investments. Recommended securities include Treasury and Corporate bonds up to two years in maturity, bank certificates of deposits, money market instruments and, if nothing else, cash in the bank. However, longer term bond yields are looking attractive.

The U.S. economy grew in the third quarter of 2009 by an annualized change of 2.2% (see **Green** bar in Chart 1). This is encouraging when compared to contractions in the fourth quarter of 2008 and first quarter of 2009, which were around negative 5-6%. It is too early to say whether or not the economy will avert a recession, but markets took the news well and moved in anticipation of brighter prospects. Stock markets continued to rise and bond yields also moved higher (see **Black** line in Chart 1). **For the year, stock markets ended 2009 about 15% higher, but are still 20-30% lower than two year years ago.** This market activity can often be interpreted as there being an improved sentiment towards U.S. economic prospects. While government stimulus is playing a major role, the Federal Reserve can not lend much assistance in adjusting its benchmark borrowing rate (see **Red** line in Chart 1).

"The increase in real GDP in the third quarter primarily reflected positive contributions from personal consumption expenditures (PCE), exports, private inventory investment, federal government spending, and residential fixed investment that were partly offset by a negative contribution from nonresidential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased. The upturn in real GDP in the third quarter primarily reflected upturns in PCE, in exports, in private inventory investment, and in residential fixed investment and a smaller decrease in nonresidential fixed investment that were partly offset by an upturn in imports, a downturn in state and local government spending, and a deceleration in federal government spending" – Bureau of Economic Analysis, 12/2/09 news release.

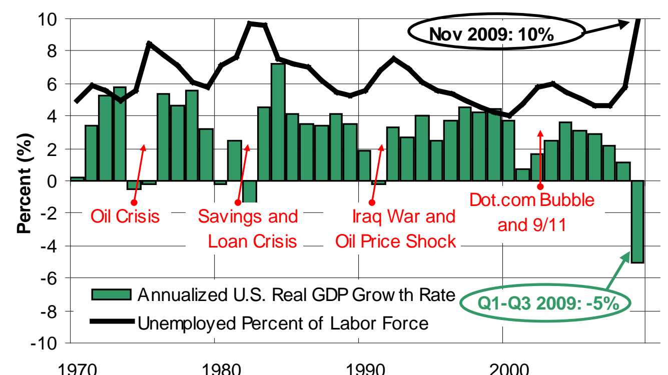
Consumers are again providing the impetus for U.S. economic growth, for example car sales contributed to 0.8% of the 2.2% GDP growth for the quarter. While this speaks well for an indomitable spirit of the U.S. consumer, we are very much concerned about the fact that unemployment is at 10% and 2009 will most likely be a year of negative growth. Yes, the stock market did well in 2009, but in the context of what has happened during the current financial crisis, we are still have a long way to go to recover.

Chart 1. The U.S. Economy Continued to Contract in the Second Quarter of 2009, But at a Slower Rate



Sources: Federal Reserve, U.S. Department of Commerce Bureau of Economic Analysis, Yahoo! Finance. U.S. Real GDP Growth Rate in chained 2005 dollars.

Chart 2. Unemployment Rate is Rising as Growth Slows



Sources: U.S. Department of Commerce Bureau of Economic Analysis, U.S. Department of Labor, Bureau of Labor and Statistics. Seasonal unemployment rate.

We continue to prefer money market instruments. Interest rates are back on the rise and we believe they will continue to rise along with inflation, government spending and regulatory stimulus. When rates rise, better investment returns will be found in short term securities, so this is where we advocate investors to stay. We do note, however, that higher rates signal greater confidence in the future prospects of the U.S. economy and stock markets have done better recently. In addition, yields offered by some relatively safe 5, 10 and even 30 year bonds are considerably higher now and look more attractive.

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