United Methodist Foundation of New England

INVESTOR UPDATE

Issue 47 April 2009

First Quarter 2009 Investment Commentary

The instability of the economy and capital markets of last year continued into the first quarter of 2009, in spite of large scale efforts by the U.S. government to shore up our financial system and inspire confidence. Rising unemployment (now at 8.5%), weakness in our housing and commercial real estate markets, sagging corporate profits and mushrooming federal budget deficits loom large as pressing concerns for all economic participants. Gross Domestic Product contracted at a -6.2% annual rate in the fourth quarter of 2008, the sharpest decline since the recession of 1982, and it is likely that the first quarter of 2009 will be similar.

Worries about the quality of loan portfolios at financial institutions along with rising panic about the prospect of greater government ownership and involvement in these institutions led to a sharp sell off in all equities (and especially financial stocks) before they began to rebound in mid-March. Markets then reacted favorably to the Treasury's Public-Private Investment Program to buy troubled assets from banks, which theoretically would enable them to begin to lend again. Stocks rallied further with the announcement by the Financial Accounting Standards Board (FASB) of a relaxation of the "mark to market" rule which forced the rapid write-down of impaired assets, even if it was not the intention of the holder to sell the asset at the current, distressed price. Reflecting the volatility of the quarter, the S&P 500 finished down -11.0% for the first quarter but well above the -25% of the early March lows. Developed international markets of Europe and Japan also rebounded in March but posted a relatively weak result as the MSCI EAFE Index fell -13.8% for the quarter. In contrast, global investors differentiated amongst markets by recognizing the strong balance sheets and more dynamic growth prospects of emerging markets. The MSCI Emerging Markets Index was up 1.2% for the first three months of 2009, the only major global equity index to post a positive first quarter.

Market Outlook

While there is plenty of well-documented gloom, there are also small signs of improvement worth noting. Referred to as "green shoots" by our Federal Reserve Chairman, Ben Bernanke, in a 60 Minutes interview last month, there have been a number of data points that inspire hope that the worst of the decline may be behind us. Improvements in our credit markets have meant that companies with investment grade balance sheets have been able to replace short term debt with longer term bonds as investor appetite for some corporate bonds has improved since the worst days of the credit crisis. A surprising 3.4% increase in durable goods orders in February, the largest gain in over a year, and the 5.1% increase from January in total existing home sales are also hopeful signs. Finally, auto sales stopped declining in March and production schedules have been increased as inventories were finally being drawn down. Further government incentives, such as the recently announced warrantee program, as well as incentives to trade in old, inefficient vehicles, could act as a further catalyst to spring auto sales.

10 Bricketts Mill Rd ◆ Suite 5 ◆ PO Box 370 ◆ Hampstead, NH 03841-0370
Phone: 603-329-4444 ◆ 800-595-4347 ◆ Fax: 866-231-5921
Website: www.umfne.org

Our economy is driven largely by the actions of its citizens: about two-thirds of our GDP is comprised of consumer spending. One natural result of the turmoil in our economy is that consumer savings rates have gone from -0.6% in 2006 to 7.1% in 2008. After years of taking on debt to fund consumption, many individuals curtailed their expenditures to pay off high cost debt and shore up their personal balance sheets. While this behavior is appropriate and rational for those individuals, it has caused sales of big ticket purchases, such as automobiles, to decline drastically. The consensus expectation for this year among auto industry insiders is for a 13% drop in sales, following an 18% plunge in 2008. The average age of a car on the road has climbed from 9.3 years in 2001 to 10.1 years in 2007, and is likely to go higher. The deferral of car purchases by so many will likely create substantial pent up demand for new automobiles once the economy becomes more stable and economic growth resumes. An expected restructuring of the American auto industry and new technological innovations should provide this industry with the opportunity to return to profitability.

While the de-leveraging of the consumer and U.S. financial system will constrain the pace of the economic recovery, we think patient investors will be rewarded. The UMFNE Stock Fund offers excellent diversification benefits through exposure to thousands of socially screened companies from around the world. Although diversification did not help portfolio performance in 2008, we believe that it is essential to long-term investment success. We appreciate your loyalty to the United Methodist Foundation of New England and we welcome your feedback on our correspondence.

Kimberly D. Gluck CFA
UMFNE Investment Committee
April 13, 2009

Now is the time for Improvement

This is a good time to make improvements to your church facility or parsonage because contractors are looking for work and loan interest rates are low. UMFNE commercial loan rates for church improvements are very competitive and rates for parsonage improvements are even lower. If you have put off work or you are growing out of your space, this could be a great time to act!

Call UMFNE at 1 800-595-4347 x 100, email info@umfne.org or visit www.umfne.org and click on Loan Program for information on how to proceed with your UMFNE loan request.

Foundation phone extensions

Knowing whom you need to contact will expedite your call. You may dial an extension at any time during the automated message.

Ext: 100 – Leanne Mentzer – new loans, general account information
Ext: 101 – Judy Vining – account information, stock transfers, quarterly statements
Ext: 102 – Chris McGuire – publications, newsletters, web site
Ext: 103 – Gary Melville – planned giving, endowment policies, stewardship
Ext: 104 – Wee-Li Tan, President
Ext: 105 – Doris Connors – accounts payable, existing loans
Ext: 106 – Bonnie Marden – stewardship education & planned giving
Ext: 112 – Pam DiMartino, Director of Finance & Administration