



## Weekly Commentary November 15, 2011

### The Markets

Some signs of the potential for progress in Europe just came with the resignation of Prime Minister Silvio Berlusconi in Italy. Then, over the weekend, a former European Union competition commissioner was asked by Italy's President to step into the position (subject to confidence votes from both houses of Parliament). This news, coming behind news of a new government in Greece, represents another move abroad that the EU is taking their sovereign debt issues seriously. Overall, the appearance of progress in the EU should further lift investor sentiment.

Looking toward the future, our work suggests a continuing decline in initial unemployment claims (a leading indicator for job growth). While job growth has continued at a slower pace than necessary to cut the unemployment rate materially, the initial claims data is at a similar point as in the summer of 2003, after the 2001 recession. We foresee additional declines in claims through August 2012 which should bode well for job growth over the next 18 months.

We also note a continuation of expansion in U.S. industrial production through the summer of 2012. While we have seen runs of growth in sales at retail stores, consumers have demonstrated some periods of spending at a faster pace than income growth. For that reason, in part, we expect real GDP will run at a below-average rate next year as consumers continue to deleverage.

Of course, we anticipate continuing volatility in the equity markets as both favorable and unfavorable information passes to us, daily, from a changing European Union. In addition, investors are likely to look a great deal this month to the activity of the U.S. Super Committee charged to propose an additional \$1.5 trillion in deficit reductions. Overcoming weeks, discussions between the Democrats (seeking tax increases) and the Republicans will likely become a hot topic in the media. To the extent that the Super Committee is making progress toward its goal, investor sentiment may experience a lift. However, signs of little or poor progress is likely to put more pressure on stocks in the near-term. We continue to maintain our 1250-1300 S&P target range for year-end, and see mostly the potential for continuing moderate economic growth next year, alongside additional moderate gains in stocks in 2012.

### Index Performance Statistics –November 15

Index	Close	Day Change	Day % Change	% YTD Change	52 Wk % Change
DJIA	12096.16	17.18	0.14	4.48	9.73
NASDAQ	2686.20	28.98	1.09	1.26	8.76
S&P 500	1257.81	6.03	0.48	0.01	6.74

Source: Bloomberg

\*Price return — does not include dividends

## Global Demand for U.S. Assets Rises

Global demand for U.S. stocks, bonds and other financial assets rose the most in 10 months in September as investors sought the safety of Treasury securities amid Europe's sovereign-debt crisis. Net buying of long-term equities, notes and bonds totaled \$68.6 billion, the highest since November 2010, compared with net buying of \$58 billion in August, the Treasury Department said in Washington today. Including short-term securities such as stock swaps, foreigners purchased a net \$57.4 billion in September, compared with net buying of \$89.3 billion the previous month.

Treasuries rose in September, extending their biggest quarterly advance since the depths of the financial crisis in 2008, on concern Europe's sovereign-debt turmoil and a sluggish U.S. economy would undermine the global recovery. The rally repudiated Standard & Poor's Aug. 5 downgrade of the U.S. AAA credit rating and drove yields to record lows. "Despite problems we have here, problems elsewhere are worse," Mike Englund, chief economist at Action Economics LLC in Boulder, Colorado, said after the report. "People seem willing to take on American risk."

## Last Week

Stormy skies across the pond have been casting long shadows over the corner of Broad and Wall, but the bulls have been trying their best to avoid the rain. Heightened uncertainty in Europe led to manic trading across the capital markets. There were plenty of plot twists in soap operas from Greece and Italy—resignations from Papandreou and Berlusconi kept markets on edge amid how the new governments would deal with the bitter pills of austerity. Risk-off trades led to a dumping of sovereign debt that sent Italian yields soaring, prompting fears of contagion. The crescendo of risk aversion brought on a global rout, producing 3%+ losses for equities around the globe on Wednesday.

The weather improved later in the week after Greece named ex-central banker Lucas Papandemos as Prime Minister. Italy passed austerity measures to deal with its debt burden, prompting expectations for a transition to a bailout friendly technocrat government led by Mario Monti. Here on our shores, economic data was encouraging at week's end—weekly initial jobless claims hit a seven month low and University of Michigan Consumer Confidence hit its best level since June. Heading into Friday afternoon's session the S&P 500 index was looking at a slight gain for the week.

Despite a short week due to observance of Veterans Day, it was busy week over in bondland. Treasuries were held captive by the news from the euro zone. The shifting winds out of Europe pushed the yield on the 10-year yield down as low as 1.96% before moving back up to 2.06% as fears over the debt crisis eased. Given the uncertainty out of Europe, it was interesting to see this week's bond auctions produce mixed results.

Next week's data could help the bulls stage a comeback in November. Releases on producer and consumer prices are expected to show tame inflation. Tuesday's retail sales report will grab attention as we head into the holiday season. Positive updates on manufacturing and housing would help improve investor sentiment on the condition of the economy. Friday's leading indicators index report is expected to show improved economic activity in October. Investors also will look for encouraging words from speeches from regional Fed Presidents Bullard, Evans, Williams, Lacker, Fisher, Rosengren, and Pianalto.

The downpour of earnings releases ends next week with Wal-Mart (WMT \$58.13) report on Tuesday. Overall results have been generally positive with about 70% of companies in the S&P 500 index posting earnings ahead of forecasts by Wall Street meteorologists, according to Bloomberg. Retailers will headline next week's releases. In addition to Wal-Mart, earnings are expected from Lowe's (LOW \$22.46), Home Depot (HD \$37.20), Target (TGT \$51.77) and Saks (SKS \$10.02). Following Cisco's (CSCO \$18.61) positive outlook this week, profit tallies by Autodesk (ADSK \$32.71), Dell (DELL \$14.96), NetApp (NTAP \$41.91), Salesforce.com (CRM \$127.81), Marvell (MRVL \$14.48) and Intuit (INTU \$52.79) will be under the microscope of tech investors.

## **Weekly Focus – Think about it**

"Farmers only worry during the growing season, but townspeople worry all the time."  
~ Edger Watson Howe

Best Regards,

Jim, Aaron & Angela  
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- \* The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.
- \* The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.
- \* Bloomberg is the source for any reference to the performance of an index between two specific periods.
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- \* You cannot invest directly in an index.
- \* Past performance does not guarantee future results.
- \* The Markets prepared by Gary Thayer, Chief Macro Strategist, Wells Fargo 11/14/11
- \* Global Demand for U.S.: Vincent Del Giudice, Bloomberg 11/16/11
- \* Last Week cited from Dean Meehan, Market Analyst, Wells Fargo Advisors 11/11/11.
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