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AND THAT'S THE WEEK THAT WAS…
For the Week Ended January 13, 2012

Market Matters…

Market/Index	Year Close (2011)	Qtr Close (12/31/11)	Previous Week (01/06/12)	Current Week (01/13/12)	YTD Change
Dow Jones Industrial	12,217.56	12,217.56	12,359.92	**12,422.06**	**1.67%**
NASDAQ	2,605.15	2,605.15	2,674.22	**2,710.67**	**4.05%**
S&P 500	1,257.60	1,257.60	1,277.81	**1,289.09**	**2.50%**
Russell 2000	740.92	740.92	749.71	**764.20**	**3.14%**
Global Dow	1,801.60	1,801.60	1,812.76	**1,841.21**	**2.20%**
Fed Funds	0.25%	0.25%	0.25%	**0.25%**	**0 bps**
10 yr Treasury (Yield)	1.87%	1.87%	1.96%	**1.85%**	**-2 bps**

The new year brings the hype of a presidential election season which often proves telling for the markets. Will "tax and spend" liberals and their "excessive" regulations continue to reside in the White House? Or will tax-cutting, free market capitalistic conservatives take government out of our pocketbooks and get the country rolling again? Then again, can free enterprise be good for the economy when it means slashing jobs and profiting the greedy, self-serving "vulture capital" predators like those who once ran **Bain Capital**? (Be careful about your political messages, Reps?) While Mitt Romney remained solidly the front-runner for the nomination, his rivals may be giving Dems plenty of ammunition for the future. Meanwhile, Prez O seems to be distancing himself further from the Wall Street crowd as his Chief of Staff (and former **JP Morgan-Chase** exec) William Daley unexpectedly resigned. Investors will watch all of these developments closely to predict what the election may mean for the markets. Since 1928, 18 of the 21 presidential election years have proven positive for the S&P 500. Let's make it 19 out of 22.

As earnings season approached, analysts were growing less optimistic. **Thomson Reuters** estimated a 7.8% growth rate from last year's levels for S&P 500 companies, a decline from the 15% forecast earlier in October. **Alcoa** kicked off the season and confirmed the pessimism by posting a loss, mainly on lower aluminum prices. Later in the week, JP Morgan-Chase reported a disappointing drop in earnings as investment banking profits fell on stagnant M&A activity. On a positive note, management pointed to loan growth as a favorable sign for a rebounding economy. Many analysts expected a down quarter for financials and next week's reports (**Citigroup**, **Wells Fargo**, **Bank of America**) will go along way to proving them right (or hopefully wrong). In other news, Bank of America seems open to curtailing operations in certain regions of the country. **AMR** (American Airlines) may be on the chopping blocks as **Delta**, **TPG Capital**, and other "vultures" see new opportunities for industry consolidations (and would-be layoffs?).

Equities traded relatively flat for the week as investors focused on earnings reports and continued to obsess over Europe. While an S&P ratings cut for France has been among the worst kept secrets over the past few weeks (months), the ultimate move was met with little fanfare. The start to earnings season was considered lackluster at best, though some analysts hope that the sudden "doom and gloom" mood will be met with some nice surprises in the weeks to come. Oil prices enjoyed a roller coaster ride as threats of additional Iranian sanctions pushed prices above the $102/barrel level early in the week. A mid-week inventory report depicted much higher-than-expected supplies and prospects for an even weaker Europe (if that is possible) helped drop prices back below $100/barrel. Treasury yields plummeted (below 1.9% on the benchmark 10-year) on the Euro-zone downgrades as fixed income investors sought the safe-haven of (previously downgraded) US debt. (That's such old news.) Stocks stayed in positive territory for the year as a favorable January Effect (or is it the January Barometer?) remains on track. Two weeks down, two to go. Hey Mitt…from past experiences, should AMR employees be worried?

Economic Calendar

Date	Release	Comments
January 9	Consumer Credit (11/11)	Fastest monthly increase since November 2001
January 11	Fed Beige Book	Growth in all regions due to holidays sales
January 12	Jobless Claims (01/07/12)	Larger-than-expected jump, but still below 400k
	Retail Sales (12/11)	Increase mainly due to auto sales
January 13	Balance of Trade (11/11)	Widened for the first time in five months
The Week Ahead		
January 18	PPI (12/11)	
	Industrial Production (12/11)	
January 19	Jobless Claims (01/14/12)	
	CPI (12/11)	
	Housing Starts (12/11)	
January 20	Existing Home Sales (12/11)	

Once upon a time, progress on debt restructuring (or lack thereof) out of Greece would have made international headlines. But that was before the "big boys" joined the news brigade and pushed tiny Greece off of the front page. Now the world remains focused on Italy's bond yields, which early in the week seemed to be moving in the right direction (lower) before reversing course and pushing higher (toward seven percent) on ratings news from France. After threatening for weeks, S&P finally downgraded Europe's second largest economy below its coveted AAA, despite a decent manufacturing release early in the week that showed a surprising increase in France's industrial production last month.

Despite the ongoing challenges throughout the region, the European Central Bank (ECB) kept its benchmark borrowing rate unchanged at 0.5% (after two prior drops), though the policymakers hinted that additional stimulus moves could be in the works. Meanwhile, China's trade surplus plunged to its lowest level since 2005 as the new Superpower becomes less reliant on its (faltering) developed nation trading partners and better rebalanced with growing domestic demand. China also reported the fifth consecutive month of benign inflation, giving the government more wiggle room in controlling its economy.

Closer the home, despite reports of a highly successful holiday shopping season, retail sales in December rose by a mere 0.1% and actually declined when strong (yet volatile) auto sales were removed from the equation. Interestingly, sales within the electronic sector dropped over three percent and even online biz turned negative. (Just where does the government get its data as it certainly contradicts several private studies released last month?) Jobless claims rose last week and pushed ever-so-close to the dreaded 400k level again as investors try to figure out whether companies are indeed hiring (or, at least, firing less). The Fed Beige Book depicted moderate growth across all regions of the country and credited solid holiday activity as a reason for the gains. (Don't the policymakers look at the government's retail sales data?) With inflation no where in sight (for the time being), Fed watchers believe more stimulus moves could be in order.

On the Horizon…So will France's borrowing costs start tumbling now that the S&P has cut its rating below AAA? Illogically, that's what happened in the US. Now that the news is finally out in the open, investors can go back to monitoring Greece as it hopes to finally make a debt restructuring deal with private creditors. What say you, Germany? Earnings season moves forward and the banks look to reverse the pessimism initiated from JP Morgan's disappointing report. **Intel** pushes some of the earnings attention over to the tech world and **GE** provides profit news from one of the nation's key economic bellwethers. The economic calendar heats up with reports from manufacturing (industrial production) and housing (housing starts, existing home sales). Though PPI and CPI used to make major splashes, few analysts even highlight these reports as inflation remains off the radar for the foreseeable future (at least, that's been the story).