



POTOMAC
STRATEGIC INVESTMENT

CAPITOL MARKET REVIEW

In This Edition: As Predicted, No Resolution for European Bank Crisis Announced...Stocks Still Rally...

At Mid-Day: SPX 1250 US10Y 2.22% Gold \$650 Oil \$90.35

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The overnight news flow out of Asia was positive. 2012 economic projections calling for 3% global growth, 9% China growth and 1.7% US growth gave stocks a boost in all three major regions.

Investors shook-off Eurozone fears and stocks moved higher, though still within technical ranges disclosed in earlier CMR notes. What is remarkable about the Eurozone rally is that in yet another lost weekend, the rescue package from the ECB and leading Eurozone Member-States still is far short of the multi-trillion euro hole many economists have detailed.

The only positive on the horizon appears to be the belief that, in exchange for more control/input in IMF lending, emerging powerhouse economies China and Brazil may be willing to provide capital.

In the US, this week will be the most important for 3rd quarter earnings reports. Today's numbers were positive. Caterpillar announced positive earnings and issued strong guidance for 2012. In earlier research notes, Caterpillar had been highly critical of US economic policy. In addition, Federal Express announced that it would be hiring more seasonal workers for this holiday season. Fedex, (and UPS,) are increasingly seen as important components of the Dow Jones Transportation Index. Taken with recent strong reports from several railroads, Wall Street now believes that the Christmas season may not be as disappointing as some had feared.

Here in the US, new initiatives are going to be announced by the Obama Administration relating to mortgage assistance. And perhaps in a gesture to the restless youth of America, the Administration is also announcing measures to relieve the burden of student loans. However, as is the case with what has been announced in Europe; or perhaps what hasn't been announced regarding Europe, Wall Street economists are already saying that the housing and student loan relief programs are not sufficient enough to solve the problem.

CMR continues to believe stocks will rally a bit, and at least for a few sessions, trade above the recent tight technical range. However, the fundamental global economic headwinds remain too strong to propel stocks much higher from current levels.

In addition, recent macro economic news and relative stability in Europe has led to a decreased valuation for the US Dollar, which in turn, has moved oil again above \$90/bbl. Regardless of what major global companies and government officials proclaim, US consumers understand housing values remain depressed, employment is tenuous. Almost instantly, higher oil prices will lead to higher gasoline at the pump and a cautious consumer.