



POTOMAC
STRATEGIC INVESTMENT

CAPITOL MARKET REVIEW

In This Issue: 3M Misses Earnings and Provides Cautious Guidance...Markets *Again* Await European Policymakers.

At the Open: SDPY 1250 US10Y 2.26% Gold \$1661 Oil \$94.11 Oct. 25, 2011

Once again, global investors cast a weary eye towards Europe. That's not accurate, it's actually one *wary* eye and one *weary* eye. The days pass and Europe fails to act. Yet away from the policy realm, economics and markets continue to evolve.

Markets have concluded that in spite of German fears the only answer for Europe is Euro-TARP. Inflating the Euro currency; (by printing money.) Unfortunately, the one country opposed to this singular resolution is Germany, hence the delay.

Increasingly, the world has priced-in a European recession. And in addition to printing euros, investors are also assuming Member-States will enact a series of austerity programs further limiting European GDP.

However, the inability of European policymakers to enact a plan, or even agree on a plan, is negatively impacting some corporate planning. Today is an example as global giant 3M reported a disappointing quarter. In addition, 3M also guided lower citing policy headwinds. 3M is not alone. Cummins also announced conflicted news. On one hand, profits were 60% higher. On the other, inflation in key emerging economies, led by China, have forced Cummins to lower its forecast. Strong earnings and weak guidance leads to a sharply lower stock price.

Policymakers on two continents are conflicted over fiscal stimulus and credit-crisis management. The longer these global issues remain unresolved the more likely a market event will force political action.

Today's market was an example. Holding at the upper end of a technical trading range US stocks sold-off sharply in the final thirty minutes of trading. Wednesday had been a day investors were hoping for some positive news out of Europe, but another delay in the negotiations was announced. This will flip the "risk-on" trade to "risk-off." Stocks will again slump, but within a new technical range.

Away from stocks, both oil and gold are signaling that global macro investors expect additional currency intervention on the part of central banks who are doing their part to hold the global markets together awaiting fiscal policy action.