



POTOMAC  
STRATEGIC INVESTMENT

# CAPITOL MARKET REVIEW

In This Issue: **All Europe, All the Time**

At Mid-Day: SPX 1217 US10Y 1.91% Gold \$1586 Oil \$95.29

Dec. 14, 2011

---

---

The Eurozone, in total is a larger economic market than the United States. Yet it has no central taxing authority to back its currency and its *union*. For months, Capitol Markets Report has been warning about the ongoing credit crisis in Europe and its impact on both emerging economies in Europe and Asia as well as ramifications for the US.

Today, global markets have witnessed another sell-off in multiple asset classes. Institutional investors are pulling funds out of Europe...its banks, its investment markets, its currency and its sovereign debt, and placing these assets in the US, Japan, Switzerland, and to a lesser extent, Eurozone countries including Norway and England.

Global macro trades are unwinding and there is strong global demand for US Dollars. This global flight to safety, (and to cash/equivalents,) is a function of days of rumors that have been sweeping through trading floors in Asia, Europe and the US.

In no particular order these rumors include...Greece re-structuring, Eurozone credit downgrades, (for both banks and sovereigns,) Asia growth contracting, bank runs, additional fallout from the MF Global bankruptcy, Iranian saber rattling.

Considering the level of political risk on the tape, it's remarkable that US stocks are holding current levels. However, CMR continues to caution drawing any macro conclusions from the price action in US stock indexes. In a credit crisis, bonds, and currencies are what matter most. And these markets continue to flash very serious warning signals.

The steady flow of negative news from Europe has re-defined the term "Chinese water torture." The European version is proving to be worse. Europe's inability to address its monetary and fiscal policies is not only destroying multiple European markets, its also cooling Asia and US growth. The inter-connectivity of global markets, (consuming and producing, established and emerging,) means all nations share some common needs. These include definable demands for goods and services and a financial system to support global commerce. When one-third of the global system become dysfunctional, (Europe,) and another third is in a tenuous recovery, (US,) it is naïve to assume that the remaining economies can sustain global growth.

Slowly, global investors are beginning to realize how bad the problem is. And as it laments the inability for Europe, or anyone else for that matter, to force a solution for Europe's woes, the only prudent action that can be taken is to further reduce capital expenditures and risk assets.