| Market Index | November Change | Year to Date |
|---|---|---|
| Standard & Poor's 500 | 0.0% | 7.9% |
| Dow Jones Industrial Average | -0.6% | 8.3% |
| Russell 2000 (small company) | 3.5% | 17.5% |
| MSCI EAFE (international) | -5.0% | -2.9% |
| Barclays Intermediate Gov/Credit Index | -0.7% | 7.2% |
| 3-Month Treasury Bill | 0.0% | 0.1% |

## Market Pauses In November As Global Political Winds Shift

November started off with a bang as stocks surged 3.5% during the first week. Enthusiasm about the outcome of the mid-term elections and the much-anticipated announcement of a second round of quantitative easing from the Federal Reserve (Fed) removed some uncertainty for investors. Also, economic data releases were strong, raising hopes that a sustained recovery was developing. But after that initial pop, stocks sputtered and attention turned to international concerns again, including China's inflation-fighting plans, renewed sovereign debt worries in some of Europe's weaker countries (i.e., Ireland, Portugal, Spain), and rising tensions in Korea. After the ups and downs, the S&P 500 Index ended the month where it started. The bond market lost a little ground, falling less than a percent, as positive economic news led to slightly higher interest rates.

Washington continues to capture the market's attention. As a result of the mid-term elections, Republicans will take majority control in the House of Representatives in the biggest swing since 1948. Democrats retained a slim majority in the Senate, though, and the stage has been set for a period of either gridlock or compromise. Early indications suggest compromise on the most urgent issues at hand, as the recently proposed deal on taxes demonstrates. The proposal includes an extension of the Bush-era tax cuts for two years, a temporary reinstatement of the estate tax with a $5 million exclusion amount, extension of the unemployment benefits and other measures to bolster the economy. Further negotiations will take place, but the increased visibility on these important issues is encouraging.

A tougher compromise will be needed to tackle some of the bigger fiscal issues, many of which were addressed in the surprisingly ambitious draft of a deficit reduction plan released by the bi-partisan National Commission on Fiscal Responsibility and Reform, which quickly was labeled as a plan with little chance of full adoption. Interestingly, the recent tax proposal was not accompanied by spending cuts, which will put more pressure on the Fed to fund the country's deficit at least through 2011.

On November 3rd, the Fed announced a new monetary stimulus plan, also known as quantitative easing or "QE2," where the Fed will purchase up to $600 billion of Treasury debt securities between November and June. That would make the Fed the largest buyer of government debt, and total Fed purchases will roughly equal the U.S. government's total borrowing needs during that period. The Fed's QE2 plan has received much criticism from many other countries, commentators, and even some Fed officials, given the significant risks involved. Currencies are often a casualty of quantitative easing as the pool of paper money is diluted, but the trade-weighted U.S. Dollar jumped 4.5% in November as other currencies were weaker. European sovereign debt worries weighed on the Euro, giving the dollar a boost. Foreign stock markets in general were weaker, especially in Europe and China.

Underneath the hood, U.S stock investors favored domestic-oriented companies positioned to capitalize on improving economic and profit trends in the U.S. Despite a poor November employment report, the retail industry was one of the best performing groups, climbing more than 5% on strong sales trends and earnings. Early signs from the November 26th Black Friday weekend, the traditional kick-off to the holiday shopping season, point to increased store traffic and optimism about 4th quarter sales. This bodes well for December, which historically has been a good month for stocks on average.

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