



PACIFIC GLOBAL  
Investment Management Company

## Weekly Recap

February 3, 2012

### Market Returns

INDEX <sup>1</sup>	CLOSE	WEEKLY CHG	YEAR-TO-DATE CHG	12-MONTH CHG
Dow Jones Industrial Avg	12,862.23	201.77 / 1.6%	5.3%	6.4%
S&P 500	1,344.90	28.57 / 2.2%	6.9%	2.6%
S&P 400 MidCap	971.25	29.14 / 3.1%	10.5%	2.8%
NASDAQ	2,905.66	89.11 / 3.2%	11.5%	4.9%
NASDAQ 100	2,529.17	67.40 / 2.7%	11.0%	8.2%
Russell 2000	831.11	32.26 / 4.0%	12.2%	3.9%

	02/03/12 CLOSE	02/03/11 CLOSE
10-Year U.S. Treasury	1.94%	3.58%

Data: The Wall Street Journal; Federal Reserve Board

### Headlines This Week

#### **Payroll Gains Stronger-Than-Expected** • (For: Jan 2012 • Source: U.S. Department of Labor)

After adding an upwardly revised 203,000 jobs in December, employers added 243,000 positions in January. With strong growth in private sector jobs, the nation's unemployment rate fell 0.2% to 8.3%.

#### **Manufacturing Sector Continues Steady Growth** • (For: Jan 2012 • Source: Institute for Supply Management (ISM))

The ISM Manufacturing Index\* rose 0.2 to 54.1. New orders and backlog orders were strong while production and employment also gained but at a slower pace.

#### **Consumer Spending Unchanged; Incomes Rise** • (For: Dec 2011 • Source: U.S. Department of Commerce)

After increasing 0.1% in November, consumer spending surprised analysts by stalling in December. Personal income advanced 0.5% following a 0.1% gain in November.

#### **Service Sector Surges** • (For: Jan 2012 • Source: ISM)

According to the ISM Non-Manufacturing Index\*, a jump in employment and a substantial acceleration in new orders sent the Index to 56.8 from an upwardly revised reading of 53.0 in December.

\*An ISM Index reading of 50 or above indicates sector expansion.

Next week's primary economic reports include:

Friday, Feb 10

International Trade (Dec)

## The Bottom Line

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Markets continued to move higher this week on strong economic reports and positive earnings results. Improved job creation, accelerating manufacturing growth and impressive auto sales were the primary market catalysts. The decline in the unemployment rate portends an improving business and consumer environment that should help sustain gains in the domestic economy. Meanwhile, companies continued to report stellar profits. *Qualcomm* and *National Oilwell Varco* enjoyed broad global strength in mobile computing and offshore energy exploration, respectively. *Cummins* and *United Parcel Services* benefitted from brisk expansion in emerging economies and the gradual recovery in developed markets. The Federal Reserve's commitment to low interest rates is likely contributing to investor confidence; this should continue to support stocks in the near-to-medium term. The accommodative monetary policy is also reflected in the Treasury and gold markets. Yields on benchmark ten-year Treasury notes fell more than 100 basis points over the last two weeks, while gold rose nearly 5%.

The equity markets have rallied strongly; however, we are not yet prepared to issue an "all clear" signal. Europe remains mired in debt negotiations. Greece and Portugal will likely require further aid. Importantly, the core European economies of Italy and Spain appear to have assuaged the markets' worst fears. Nevertheless, the process of achieving comprehensive resolution has proven to be highly politicized and unpredictable. We believe a continued impasse would negatively impact world markets. We are reminded of last year when global economic conditions appeared to be strengthening only to be undermined by the natural disaster in Japan; political uprisings in the Middle East and North Africa; rancorous debate surrounding the U.S. debt ceiling; and the breakdown in talks concerning the Greek debt bailout. Yet momentum is building at home while emerging countries continue to strengthen. Accordingly, we believe that today's market valuations underestimate the growth potential of select, high-quality companies; and, we remain encouraged by the long-term outlooks of these businesses.

The U.S. equity markets have started the New Year with their best performance since 2006. Historically, a strong January has been an encouraging signal for the year. Many different factors are contributing to these results; nevertheless, uncertainties remain and we are mindful of their potential impact on the markets. The robust start is providing a much needed boost to investor confidence. The equity markets may receive a further boost if investors who have been on the sidelines believe they have been missing out on a strong rally and re-engage.

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<sup>1</sup>The Dow Jones Industrial Average is an unmanaged, price weighted measure of 30 U.S. stocks selected by the Averages Committee to represent the performance of all U.S. stocks outside the Transportation and Utilities sectors. The S&P 500 Index is an unmanaged, market capitalization weighted index which measures the performance of the large cap segment of the U.S. equities market, covering approximately 75% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy. The S&P MidCap 400 Index is an unmanaged, market capitalization weighted which measures the performance of the mid cap segment of the U.S. equities market. The Index includes 400 companies chosen on the basis of market capitalization, liquidity and industry group representation. The NASDAQ Composite Index is an unmanaged, market capitalization weighted measure of all domestic and international common stocks listed on The Nasdaq Stock Market. The NASDAQ 100 Index is an unmanaged, market capitalization weighted measure of 100 of the largest domestic and international non-financial securities listed on The Nasdaq Stock Market based on market capitalization. The Russell 2000 Index is an unmanaged, market-weighted measure of stock market performance. It contains stocks of the 2,000 smallest publicly traded companies of the Russell 3000 Index.