



Weekly Recap

February 17, 2012

Market Returns

INDEX ¹	CLOSE	WEEKLY CHG	YEAR-TO-DATE CHG	12-MONTH CHG
Dow Jones Industrial Avg	12,949.87	148.64 / 1.2%	6.0%	4.5%
S&P 500	1,361.23	18.59 / 1.4%	8.2%	1.4%
S&P 400 MidCap	984.60	20.11 / 2.1%	12.0%	0.2%
NASDAQ	2,951.78	47.90 / 1.6%	13.3%	4.2%
NASDAQ 100	2,584.24	36.92 / 1.4%	13.5%	8.0%
Russell 2000	828.68	15.35 / 1.9%	11.8%	-0.7%

	02/17/12 CLOSE	02/17/11 CLOSE
10-Year U.S. Treasury	2.01%	3.58%

Data: The Wall Street Journal; Federal Reserve Board

Headlines This Week

Consumer Price Index (+0.2%) • (For: Jan 2012 • Source: U.S. Department of Labor)

Following two months of no changes, the headline CPI rose on higher prices for energy, gasoline, food, apparel, recreation, tobacco and medical care. The core CPI rose 0.2%; year-over-year, it increased 0.1% to 2.3%.

Producer Price Index (+0.1%) • (For: Jan 2012 • Source: U.S. Department of Labor)

The broad-measure PPI edged higher after falling 0.1% in December. The core PPI rose 0.4 following December's 0.3% increase; annualized, it remained at 3.0%.

Retail Sales (+0.4%) • (For: Jan 2012 • Source: U.S. Census Bureau)

Retail sales rose following a downward revision to no change in December. Strength was broad-based while weakness came primarily from auto sales.

Industrial Production (unchanged) • (For: Jan 2012 • Source: Federal Reserve Board of Governors)

Industrial production was flat after rising a revised 1.0% in December. Manufacturing production remained robust but was offset by weakness in mining and utilities output.

Housing Starts (+1.5%) • (For: Jan 2012 • Source: U.S. Census Bureau)

Housing starts rebounded after dipping 1.9% in December. Regionally, starts were strong across the West, Northeast and South. Permits also posted a gain (0.7%) following a 1.3% drop in December.

Next week's primary economic reports include:

Monday, Feb 20

U.S. Markets Closed for President's Day

Wednesday, Feb 22

Existing Home Sales (Jan)

The Bottom Line

Markets started the week on a strong note as the Greek parliament passed austerity measures aimed at securing a bailout for the beleaguered nation. Progress, however, was briefly upended as euro-zone finance ministers debated the methods for implementing the bond swap program and release of bailout funds. Part of the difficulty stems from the poor state of the Greek economy. Labor market and pension reforms intended to shore up the country's financial condition are having the nefarious effect of weakening an already fragile house. Budget projections are falling short of the estimates made during prior negotiating sessions. Meanwhile, Greek citizens are questioning the sacrifices required for the "privilege" of remaining part of a single currency; for the moment, euro membership seems to be doing more harm than good. As public support fades, the commitment of political leaders will be tested; parliamentary elections in April could be a flashpoint. The week ended with positive comments from Germany regarding the bailout deal; but, this drama will almost certainly continue.

Perhaps of more importance to domestic interests this week was the visit of Xi Jinping, China's presumptive future premier. Over the next several years, U.S.-China relations are likely to be the most significant development effecting global economic prospects. Importantly, both sides have more to gain by working together than going it alone. China offers incredible growth opportunities for leading American businesses such as *Caterpillar*, *Halliburton*, and *Coca-Cola*. For its part, the U.S. offers the deepest and broadest consumer market; protections for intellectual property; and leading-edge technologies. A healthy, mutually-beneficial relationship between the two nations can raise global prosperity to new heights. However, the path forward will not be without obstacles; political and social differences remain. Global conflicts may arise that test China's role in international affairs; its willingness to participate will be key to its acceptance as a world power. We believe leaders of both countries understand the unique opportunity. Mr. Xi's visit is an important first step in what many hope will be a promising future.

The DJIA closed at 12,949 today. Investors will be watching closely to see if it crosses 13,000 next week. If so, this would be considered a strong bullish signal by many technical investors. Given the rally since January, a mild pullback would not be unusual though it may be delayed if equity markets break through this resistance level.

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¹The 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.