

Market Comments Regarding Debt Ceiling
07/11/2011

While the politicians continue to struggle over the specifics of a plan to raise the debt ceiling the effects of the stalemate are being felt in the financial markets. We continue to agree with the majority of market watchers that a deal will eventually be reached. (There really isn't any alternative.) When the deal is reached is another matter; it may even be after the August 2nd deadline, and may take a further decline in the markets to convince the politicians to take the needed action.

Once the debt ceiling is raised the short term volatility caused by this singular event will even itself out and the markets will continue to focus on more long term issues that continue to affect the growth of the US and world economies, therefore effecting the stock market. Some of these current issues include the post-tsunami recovery in Japan, the current economic soft patch in the US, the slowdown and inflation threat in the emerging market economies such as China, Brazil, and India, more problems in the Euro region (Italy this time), and the lack of jobs creation in the US. In all these, except the last two, the news has been a little better in the past week, hence the rally in stocks, – until Friday, when the ugly jobs number put a whole lot of doubt about the strength of the US economy back into people's minds. These issues will have much more of an impact on the financial markets than what happens over the next several weeks in Washington with raising the debt ceiling. As we enter the seasonally weak stock market months of August and September we will continue to focus on these macro issues and will take appropriate action with portfolios when needed.

Please do not hesitate to contact your portfolio manager with any questions or comments.

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