

# Roosevelt Investments All Cap Core Market Commentary

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## **December 2011**

During November the European sovereign debt crisis intensified, punctuated by the fall of governments in both Italy and Greece. Various solutions to the crisis were proposed which included the potential for bank nationalizations and the creation of Euro bonds that would be jointly guaranteed by the nations comprising the Eurozone, but German authorities vociferously made clear their opposition to Euro Bonds or any open-ended bond purchases by the European Central Bank (ECB). German reluctance to participate even on a pro-rata basis in a large-scale bailout led investors to believe that no solution was imminent, and heavy selling of sovereign debt issues occurred as yields on Italian and Spanish debt exceeded 7%. Even a German bond auction in late November drew few interested buyers.

In response to the worsening conditions during the month, we raised our risk tools\* to an elevated level by month-end as measures of liquidity in the global banking system began to reflect conditions that approached those experienced immediately after Lehman Brothers filed for bankruptcy in 2008. We also took steps to reduce the cyclical exposure of the portfolio. On the last day of the month, the U.S. Federal Reserve, the ECB, and four other major central banks initiated a coordinated action by which emergency funds were made available at low rates of interest. China also eased lending conditions within that country on the same day. Such coordinated actions are rare but send an important signal that the Fed and its counterparts have tools that they are willing to use in order to address and contain what may have been an emerging liquidity crisis faced by banks, particularly those in Europe.

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**Economic data in the U.S. has continued to improve, including strong Black Friday sales after the Thanksgiving holiday and an improving employment outlook.**

**In our view the coordinated global action will help to return the focus of investors to this underlying recovery in the U.S. economy.**

In response to this signal, which will act to temporarily ease concerns and has already resulted in lower yields in the sovereign debt market, we have reduced our risk tools\* to reflect the lower level of near-term risks which we believe are currently facing our clients in the capital markets. Meanwhile, economic data in the U.S. has continued to improve, including strong Black Friday sales after the Thanksgiving holiday and an improving employment outlook. In our view the coordinated global action will help to return the focus of investors to this underlying recovery in the U.S. economy.

**Roosevelt Investments**

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