# Roosevelt Investments Market Commentary

***November 2011***

*With Europe working toward a resolution of the Greek debt crisis, U.S. data coming in fairly strong, and the Fed indicating that it would take proactive measures to jumpstart the economy if necessary, we reduced our hedges, which allowed us to take part in October's market rally. However, concerns loom about Italian debt and U.S. efforts at deficit reduction, keeping us on high alert.*

**Monthly Overview**

The stock market rebounded sharply in October as investors grew confident about a near-term resolution to the sovereign debt crisis. An agreement reached between the European Central Bank, the International Monetary Fund, and leaders of the European Commission paved the way for a voluntary reorganization of Greek debt. At the same time, this deal should provide for the protection of European banks which will require additional capital after writing down the value of Greek debt on their balance sheets.

Prior to the resolution, investors feared that debt-related problems would cause solvency problems for European banks that would then spread to banks in the U.S. and elsewhere. In theory, this could have caused a Lehman-like liquidity freeze akin to what occurred in late 2008 and early 2009. As a result of these concerns, banking stocks were among the worst performers in August and September. The group rebounded sharply once it appeared that the Europeans had arrived at a solution that would help prevent a global banking crisis. (In recent days, concerns regarding Italy have moved to the forefront, causing renewed uncertainty.)

At the same time that Europe was moving towards a solution, the U.S. macroeconomic picture was also improving. In recent months, hiring activity has picked up while unemployment claims and the unemployment rate have moved downwards. Despite continuing weak consumer confidence, retail sales rose more than expected, perhaps boding well for holiday spending. October auto sales rose 7.5% compared with a year ago. U.S. Gross Domestic Product grew by 2.5% for the third quarter. “Private sector” GDP, which excludes government spending, grew at about a 3% rate.

# Roosevelt Investments Market Commentary, Cont'd.

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**The Look Ahead**

We are currently paying attention to several emerging issues that could affect our near-term outlook and investment strategy:

- Congress is expected to announce debt reduction plans before the Thanksgiving holiday. While the market would likely respond positively to an agreement on deficit cuts of $3 trillion or more, political wrangling is likely to obstruct cuts of this magnitude.
- Italy, with its huge debt, has taken center stage in Europe. With debt at 120% of GDP – five times larger than that of Greece –a bailout would be tremendously costly.
- Several European countries may slip into recession in 2012, further depressing global GDP growth and making efforts to balance budgets even more of a challenge across Europe.
- The Federal Reserve indicated that, if needed, it would take any necessary actions, including QE3, to boost growth in the U.S.

# Roosevelt Investments Market Commentary, Cont'd.

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**Roosevelt in October**

In October we participated in most of the market's rally as we reduced our hedges in response to improving developments in both the U.S. and Europe. However, we have not completely eliminated our risk management tools. We are still concerned about the unresolved European sovereign debt issues, including whether non-European countries will participate in the stability fund as well as how much European participation will be required and what impact this will have on sovereign credit ratings. Furthermore, we increased our weighting in financial sector stocks due to the improved macro conditions and stronger fundamentals. Should conditions deteriorate, we can quickly and easily increase our hedge weightings in order to provide more downside protection to our portfolios.

**Roosevelt Investments**

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