Market Brief

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The views and opinions contained in this market brief are those of Capital Allocation & Management, Inc. and have been researched and analyzed by Robert Kennedy, CIO, Capital Allocation & Management

	25-Nov-05	18-Nov-05	Weekly % Change	YTD % Change	12 month % Change
Nasdaq Composite	2,263.01	2,227.07	1.61%	4.03%	7.66%
S&P 500 Index	1,268.25	1,248.27	1.60%	4.65%	7.24%
Dow Jones Industrial Average	10,931.62	10,766.33	1.54%	1.38%	3.89%
MSCI EAFE (Intl.)	1,610.48	1,599.68	0.68%	6.27%	10.58%
Wilshire 5000	12,702.41	12,495.11	1.66%	6.11%	9.17%
10 Year U. S. Treasury Yield	4.43%	4.50%	-1.56%	NA	NA
30 year U.S. Treasury Yield	4.68%	4.69%	-0.21%	NA	NA

There's a lot of green up there! It was another fine week for equities, with *all* of the major indices finally moving into positive territory for the year. Other than the normal seasonal factors, which typically lead to a strong market, the release of the most recent FOMC minutes added a long awaited catalyst. The Fed, *apparently*, believes that it is near the end of its tightening cycle. Specifically, the minutes *may have* indicated that several Fed members are concerned that the Fed may move rates too high, leading to an eventual contraction in economic growth. Be that as it may, we still expect the Fed to raise rates after its December meeting, with another move higher early next year. That would take the Fed Funds Rate to 4.5%, which many market analysts consider to be a neutral position. In any event, after reading the minutes, we are not so sure that the Fed is indicating that it is close to stopping. There are concerns there, but with a new Fed Chairman taking over next year, we think its possible that he will err on the side of tightening too much as opposed to stopping the hikes too soon. After all, he wants to make sure that the markets view him as an inflation hawk, as opposed to a dove. Regardless, we hope that Mr. Bernanke's Fed is much easier to read than Mr. Greenspan's vague dialogues.

The equity markets have now risen for five straight weeks and it may be time for them to rest, prior to moving higher. Now that all of the indices have breached multi-year highs, we suspect any pullbacks will be relatively muted. In fact, we may simply see sideways action for a while prior to another leg up. On the other hand, many market technicians are seeing the potential for a lasting top, as the five year charts all suggest this area is a logical place for the markets to stop. Given the potential, however, for a more benign Fed in 2006, along with the likelihood for an historic year for stock buybacks and mergers, we think this bull rally may have more to come.

The Treasury markets obviously liked the most recent economic data, as well as the idea that the Fed may be nearing the end of its rate tightening cycle. The benchmark 10-year note has now retreated back below the psychologically important 4.5% level and it appears that the trading range, between 4.3% and 4.75% will be relatively stable for the foreseeable future. We continue to note, however, the tightening spreads between the 2-year Note and the 10-year, which has now fallen to only 7 basis points. This represents a continued flattening of the yield curve which, for the moment, does not appear to be a concern but raises the possibility of an eventual inversion - which we will not welcome. Regardless, Treasuries are in rally mode and that is good for the overall fixed income market.

Economic Reports: It is a pretty busy week for economic reports. On Tuesday, October Durable Goods Orders should post an overall gain of 1.5%. This compares with September's drop of 2.4%. On Wednesday, the preliminary estimate of 3rd quarter GDP should post a 4.1% gain, versus the original estimate of 3.8%. The implicit price deflator, however, should also see a rise to 3.1% versus the earlier estimate of 2.6%. On Thursday, October Personal Income should show a 0.5% rise, while consumption is expected to have risen 0.2%. This compares to September's readings of 0.5% and 0.5%, respectively. Finally, on Friday, the November Unemployment Rate should post a reading of 5%, which is identical to October's reading. Overall monthly job gains should be in the neighborhood of 210,000.

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