Market Brief

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By: Robert Kennedy, CIO

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.

	9-Sep-05	2-Sep-05	Weekly % Change	YTD % Change	12 month % Change
Nasdaq Composite	2,175.51	2,141.07	1.61%	0.00%	14.84%
S&P 500 Index	1,241.48	1,218.02	1.93%	2.44%	10.46%
Dow Jones Industrial Average	10,678.56	10,447.37	2.21%	-0.97%	3.54%
MSCI EAFE (Intl.)	1,608.10	1,599.84	0.52%	6.11%	22.42%
Wilshire 5000	12,418.05	12,189.58	1.87%	3.73%	13.54%
10 Year U. S. Treasury Yield	4.12%	4.04%	1.98%	NA	NA
30 year U.S. Treasury Yield	4.40%	4.29%	2.56%	NA	NA

If anyone had told us that the financial markets would be higher two weeks after the Nation's 33rd largest city, which arguably contains the nation's largest, most important port facilities, was virtually "wiped out," we would have asked "what planet are you from?" Incredibly, that is where we found ourselves as the markets opened for business Monday morning. As a discounting mechanism, the financial markets have decided that the current economic damage created by Katrina will be more than offset by the economic stimulus of the rebuilding effort. Indeed, in the past week, the U.S. government has already spent $62 billion with more to come.

Most economists are in agreement that Katrina will curtail economic growth by one-half to one percent over the coming months. This includes the impact of higher energy costs. We remain somewhat skeptical given the fact that, at the moment, the situation remains in a state of flux. Nevertheless, the fact that energy prices have quickly retreated and, consequently many energy analysts now believe that the yearly highs for energy prices are "in" suggests that higher asset prices may be warranted. In fact, we may be witnessing the next "leg" to the current cyclical rally that we have anticipated for the past several weeks. The key, of course, is how forgiving investors will be when the inevitable earnings warning appear. The other issue is the action of the Fed, which meets next week. While initially, investors anticipated that the Fed would pause in its current rate tightening efforts, given the uncertainty of Katrina's economic impact, there is a growing belief that the Fed will go ahead and hike another 25 basis points.

From a technical standpoint, the virtually year long trading range remains intact. The DJIA has yet to "breakout" to the upside, with the 10,750 level remaining key resistance. More importantly, we want to see the S&P 500 break above the 1250 level where, undoubtedly, there are numerous stop loss orders that will push the markets higher. Not to be ignored, the NASDAQ needs to bust above the 2200 level with authority. The big picture, however, is that the indices have "knocked" on these levels many times and the more times this happens, the more likely it is that they "break through." Of course, this is the "mean season" (the September-October time period) which means a "head fake" rally (where the markets bust through resistance and then fall back) would not be a surprise.

Originally, investors expected the Fed to "pause" at the next meeting. It has become apparent, however, that is not going to be the case. Regardless, the corporate fixed income markets remain solid and we are seeing a recovery in the muni markets as well. All in all, the financial markets act as if Katrina never happened. An issue which we are sure will be discussed in detail amongst academic circles.

Economic Reports: On Tuesday, the August PPI is expected to post an overall gain of 0.7%, with a core rise of 0.1%. This follows July's gains of 1% and 0.4% respectively. August Retail sales, out Wednesday, should show a 1.1% overall decline with a 0.5% gain in the core rate. On Thursday, the August CPI should show a 0.5% gain in the overall rate and a 0.2% gain in the core. This is virtually unchanged from month earlier levels.