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Market Week: January 23, 2012

The Markets

Downgrades? What downgrades? Having just lowered its long-term ratings on nine eurozone sovereigns, Standard and Poor's downgraded the European Financial Stability Fund itself early last week. European equity markets responded with a four-day rally, choosing to focus instead on the renewed possibility of a deal on Greek debt, and strong bond sales by France and Spain. The rally petered out on Friday, however, as doubts about Greece began to creep back in. Domestically, equities reached six-month highs, with the S&P 500 and Dow Industrials gaining every day of the holiday-shortened week (and the Nasdaq just missing that feat with a 1.63 point loss on Friday). This third straight week of equity gains--fueled by bank earnings, encouraging economic news, and eurozone optimism--slowed, at least temporarily, the flow of funds to U.S. Treasuries, which finished the week with yields on benchmark 10-year notes rising back above the 2% level.

Market/Index	2011 Close	Prior Week	As of 1/20	Week Change	YTD Change*
DJIA	12217.56	12422.06	12720.48	2.40%	4.12%
Nasdaq	2605.15	2710.67	2786.70	2.80%	6.97%
S&P 500	1257.60	1289.09	1315.38	2.04%	4.59%
Russell 2000	740.92	764.20	784.62	2.67%	5.90%
Global Dow	1801.60	1841.21	1908.00	3.63%	5.91%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	1.89%	1.89%	2.05%	16 bps	16 bps

*Equities data reflect price changes, not total return.

Last Week's Headlines

- Standard and Poor's downgraded its long-term rating on the European Financial Stability Fund from AAA to AA+, expressing some concern about the fund's bailout capabilities in light of S&P's downgrade of member states Austria and France.
- Negotiators for Greece's private creditors left talks in Athens suddenly on Saturday, leaving the status of a possible deal unclear and resurrecting the specter of a disorderly default.
- Despite the selloff in traditional notes, the Treasury Department announced the record sale of $15 billion of 10-year Treasury Inflation Protected Securities (TIPS) last week with a "high-yield" of negative 0.046%, marking the first time 10-year TIPS have been sold with a negative yield.
- After revising the prior week's numbers back over the 400,000 benchmark, the Department of Labor reported that seasonally adjusted initial claims for unemployment benefits dropped by 50,000 to 352,000, the lowest total since April 2008. The somewhat less volatile 4-week moving average was 379,000, a decrease of 3,500 from the previous week's revised average of 382,500.
- The Federal Reserve announced that industrial production increased 0.4% in December after having fallen 0.3% in November. For the fourth quarter as a whole, industrial production rose at an annual rate of 3.1%, its 10th consecutive quarterly gain. Manufacturing production climbed 0.9% in December, the largest increase in a year, with gains widespread among major industry groups.
- The Bureau of Labor Statistics reported that the Consumer Price Index for All Urban Consumers (CPI-U) remained flat for December.

The index for all items other than food and energy (core inflation) increased just 0.1% in December, after rising 0.2% in November. However, the CPI rose 3% overall in 2011, compared to a 1.5% increase in 2010.

- The Bureau also reported that the producer price index for finished goods (PPI, measuring wholesale inflation) declined 0.1% in December. Excluding food and energy, however, the index rose 0.3% in December, the largest increase since July 2011. The PPI rose 4.8% in 2011, after rising 3.8% in 2010.
- There was some positive news in the housing sector. The National Association of Home Builders reported that builder confidence in the market for newly built single-family homes continued to rise for the fourth consecutive month, reaching its highest level since June 2007. The National Association of Realtors announced that sales of existing homes rose 5% in December to an 11-month high. For all of 2011, existing home sales rose 1.7% to 4.26 million, up from 4.19 million sales in 2010. And the Commerce Department reported that new single-family housing starts rose 4.4% in December. However, 2011 ended as the worst on record for single-family home construction. Meanwhile, Freddie Mac reported that the average 30-year fixed rate mortgage edged down slightly for the week ending January 19 to 3.88%, a new all-time record low, marking the seventh consecutive week below 4%.

Eye on the Week Ahead

The first look at U.S. economic growth for the final quarter of 2011 could suggest the potential for further recovery in the coming year. Wednesday's Fed announcement is scheduled to include a forecast for the federal funds interest rate at the end of the year; any projected change could affect bond markets. But Greece may take center stage yet again, as the race to avoid a disorderly default continues.

Key dates and data releases: Federal Open Market Committee announcement (1/25); durable goods orders, new home sales (1/26); initial estimate of Q4 2011 gross domestic product (1/27).

Data sources: Includes data provided by Brounes & Associates. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indexes listed are unmanaged and are not available for direct investment.

About WealthTrust - Arizona

WealthTrust - Arizona is a fee based investment advisory firm that specializes in integrating portfolio management with estate planning for high net worth individuals and families. Services include portfolio management, estate planning, asset and lifestyle preservation, taxation concerns, access to trust and estate documentation preparation, business succession planning and more. The professionals at WealthTrust - Arizona are frequently sought out by the national media such as The Wall Street Journal, Forbes, New York Times, CNBC, BloombergRadio, and others to share their thoughts on matters that impact our clients.

Given the recent events impacting investors and their financial security, we would welcome the opportunity to provide a second opinion for anyone who would like to have a check-up on their investments, financial plan or estate plan. If you know of anyone who may have a concern with their current advisor or current investment portfolio, we encourage you to share our contact information with those that could benefit from a complimentary review.

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