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MARKET WEEK: DECEMBER 24, 2012

The Markets

The gift that keeps on giving: Negotiations over the impending fiscal cliff continued to affect equities markets. A rally produced earlier in the week by optimism over the chances for cooperation was cut short by a triple-digit drop in the Dow Friday after an agreement failed to materialize. Nevertheless, equities still managed to stay in the black for the week.

Market/Index	2011 Close	Prior Week	As of 12/21	Week Change	YTD Change
DJIA	12217.56	13135.01	13190.84	.43%	7.97%
Nasdaq	2605.15	2971.33	3021.01	1.67%	15.96%
S&P 500	1257.60	1413.58	1430.15	1.17%	13.72%
Russell 2000	740.92	823.75	847.92	2.93%	14.44%
Global Dow	1801.60	1973.39	1998.76	1.29%	10.94%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	1.89%	1.72%	1.77%	5 bps	-12 bps

Equities data reflect price changes, not total return.

Last Week's Headlines

Cliff notes: President Obama and House Speaker John Boehner spent much of the week arm-wrestling over spending cuts and the income cutoff point for any tax cut extensions. After Boehner's proposal for averting the fiscal cliff failed to get adequate support even from House Republicans, the White House made a more limited counteroffer that would extend current tax rates for those making less than \$250,000 a year, postpone impending budget cuts, and block expiration of unemployment benefits. Members of Congress will return to Washington on Thursday to take up the issue.

The U.S. economy expanded more than previously thought in the third quarter. The 3.1% annualized increase in gross domestic product exceeded the Bureau of Economic Analysis's recent 2.7% estimate. It also was more than double Q2's 1.3%, and represented the fastest growth of the year. Meanwhile, corporate after-tax profits rose \$36.7 billion; that's a 2.5% increase from Q2 and 3.2% ahead of Q3 2011.

Consumer spending, incomes, and the savings rate all rebounded from levels depressed by Hurricane Sandy in November. Personal incomes were up 0.6% from October--their biggest gain in almost a year--and spending rose

0.4%. Part of the increased income went into savings, which rose from 3.4% of income in October to 3.6%.

Sales of existing homes rose 5.9% in November--their ninth straight month of gains--and were at their highest level in three years. The National Association of Realtors® said home resales were 14.5% ahead of last November, helping to shrink the inventory of unsold homes and pushing up prices 10.1% from a year ago.

Housing starts declined 3% from October, though they were still almost 22% higher than a year ago. However, building permits--an indicator of future activity--were up 3.6% for the month and almost 27% from last November.

UBS AG agreed to pay \$1.5 billion to settle charges that it had deliberately manipulated the London Interbank Offered Rate (LIBOR), the benchmark rate that determines interest rates on many different types of debt. The U.S. Justice Department also charged two former UBS traders with conspiracy in connection with the scheme.

General Motors said it will spend \$5.5 billion to buy back 200 million shares bought by the U.S. Treasury as part of GM's 2008 bailout. That will cut the Treasury's 26% stake in the automaker to 19%.

NYSE Euronext, which owns the New York Stock Exchange, agreed to be acquired by IntercontinentalExchange Inc. (ICE), an Atlanta-based operator of futures exchanges and over-the-counter markets. The \$8.2 billion acquisition is expected to close in the second half of 2013.

Gun manufacturers' stocks took a hit in the wake of the Sandy Hook shootings as the national debate was joined over whether to arm school personnel across the country or adopt measures to improve mental health resources and restrict the availability of assault weapons and large-capacity ammunition clips. President Obama set up a committee to make recommendations by the end of January.

Eye on the Week Ahead

Any signals out of Washington will likely determine whether Santa or the Grinch dominates trading, though the holiday-shortened week could mean low trading volumes. With five sessions left before the end of the year, any investors who haven't already positioned themselves for the fiscal cliff's impact may try to do so--not an easy task given the uncertainty.

Key dates and data releases: durable goods orders (12/24); home prices (12/26); new home sales (12/27).

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.

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