**Market Update: 10/17/2013**
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Good Afternoon - Last week, we last reached out to you regarding the ongoing government shut-down and the prospects for a US Government debt default. Thankfully, at around the 10th hour last evening, a vote passed both the Senate and the House to restore funding for all governmental operations and simultaneously lift the debt ceiling (the contentious component without which we'd have encountered a technical bond default). We wrote last week primarily to dissect the differences between the credit default of Lehman Brothers in 2008 and any directionally similar circumstance within today's Federal government. But as I said, such discussion became academic last evening…….at least for the next 3 months.

Yes, in their stupendousness, (somehow commonly mistaken for stupidity), our Congressional leaders have agreed to a patch-worked mini-bargain for an entire 7.5 weeks before heading back to the bargaining table for budget negotiations on December 13th. That is the first in a series of important new deadlines. Here are the other 2:

**January 15, 2014 –** date to which the current government spending levels are funded and after which another shut-down could take place;
**February 7, 2014 –** date to which last night's newly-elevated borrowing capacity expires necessitating another debt ceiling lift, if approved.

In anticipation of a deal being struck and prospectively averting a near-term capital market's disaster, the Dow Jones Industrial Average has rebounded quite strongly from last week's e-mail. On 10/9, the Dow had fallen over 900 points, or roughly 6% from its September highs, and has since recovered over 500 of those points as of this writing today.* While this could certainly be classified as volatile, it is a far cry from such swings that we experienced some 2 years ago when the subject matter being debated was similar to that of this week.

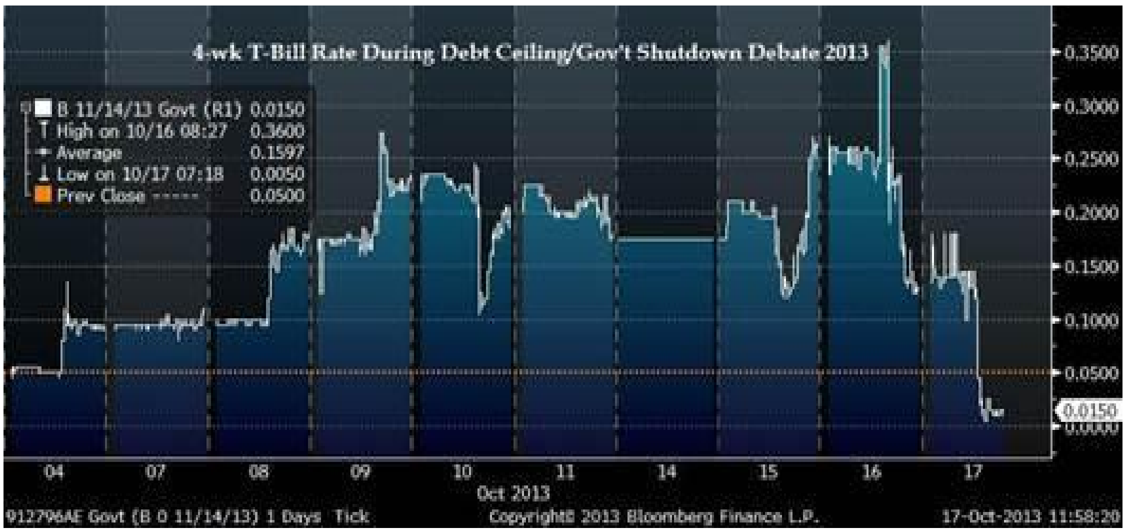
Recall that in 2011, Democrats and Republicans engaged in a similar match of legislative chicken-fighting on the backs of taxing and spending predilections. Back then, an 11th hour (even more to the brink than last night) deal was struck which birthed 2 dynamic "**S**'s" - the **S**uper-Committee which led to **S**equestration. Sadly, that alliterative avenue also squired a debt-rating downgrade for the otherwise unassailable creditworthiness of the US Government. The declivity was doled out by the data dogs from Standard & Poor's, who memorably mentioned that:

*"[Our] firm's conclusion 'was pretty much motivated by all of the debate about the raising of the debt ceiling,' John Chambers, chairman of S&P's sovereign ratings committee, said in an interview. 'It involved a level of brinksmanship greater than what we had expected earlier in the year."***

So the reaction of the Dow Jones Industrial Average two years ago was far more severe than what we've gone through this year. Yes, in 2011, the Dow fell over 16.25% from July 21, 2011 – October 4, 2011*, which prompts a question: Has the average investor become more ambivalent to the inner-workings of Washington, or is he/she a victim of political learned helplessness?!

The answer is far from clear cut and also depends upon the market in question. I have enclosed what I think is a fascinating chart of the gyrations of the 4-week T-Bill market over the last 3 weeks*. Treasury

Bills (T-Bills) are short-term debt obligations of the US Government that come due in less than 1-year. They represent a primary source of financing for the government to pay its bills, similar to that of a line-of-credit used by a company or individual, with a floating rate of interest. And float the 4-week T-Bill did, just this month! In nearly unprecedented gyrations, the bill traversed a trading range from 0.005% to 0.36%, prompting, or due to, some large institutions actually selling all of their T-Bill holdings for fear that payment would be deferred by a shuttered government. See story regarding the deep polarity in this perspective by Fidelity and PIMCO last week: http://blogs.barrons.com/incomeinvesting/2013/10/09/as-fidelity-sells-short-dated-u-s-debt-pimco-buys/




But alas, as indicated in the far-right tail of the graph, the government was back in place in time to honor these redemptions, ultimately restoring order to the T-Bill market.

I think that any apparent repair in the financial markets has taken place in much swifter fashion than will the repair of America's faith in our politicians. I understand those who preach patience in the "sausage making process" and also the ideological influences of each party's platform. But I also understand this: America's capital markets pivot on two axes- confidence and access to capital. While bureaucrats banter and their diatribes distract, invariably, the engine of American prosperity – commerce – persists. It is just maddening when an abdication of responsibility to the greater good is motivated by short-term partisan politics that holds *confidence* in the financial markets "hostage" and extracts the "ransom" of *capital flow* from its most optimal destination.

John McCain was quoted over the weekend that Congressional approval, "Can't get lower in the polls. We're down to blood relatives and paid staffers now.[t]" He may be right, across both parties. But there is time between now and December 13th to focus on a plan that passes a test of reasonableness and rationality. Expectations are low. Financial markets are already bracing. It would be a welcome holiday treat to see things handled better and more expeditiously than this month or even two years ago. Because, really, the only 11th hour appearance we should expect in December would that of Dear Ol' Santa Claus! Have a great evening. dc

*source: Bloomberg Market Data
** http://online.wsj.com/news/articles/SB10001424053111903366504576490841235575386
[t] http://www.theatlanticwire.com/politics/2013/10/oh-god-whats-happened-john-mccains-blood-relatives/70502/

**IMPORTANT DISCLOSURES**