Foxhall Capital Management, Inc.

The Foxhall Global Outlook

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Has The Stock Market Hit Bottom Yet? How Long Will It Take To See A Sustained Uptrend In The Stock Market?

I believe we did hit a bottom several weeks ago, but I also believe we will experience another six to eight weeks of stock market uncertainty until we start seeing a sustained upward swing in the market hopefully in November and December.

Another good omen is that historically, election years like 2012 have seen strong stock market growth.

The reason I believe we will see six to eight more weeks of uncertainty is that the European debt crisis is not over.

All of the European politicians know what they have to do to resolve this crisis, but it will be painful and European politicians are just as indecisive as American politicians when they think a decision will be harmful to their re-election chances.

Eurobonds & A New European Fiscal Authority

The solution to this problem will require the European Community to issue Eurobonds guaranteed by all member countries, rather than allowing each individual country like Greece, Spain, and Italy to offer their own country bonds that are just guaranteed by that individual issuing country.

But if the new Eurobonds are to be guaranteed by all the European countries, individual countries are going to have to give up some of their sovereignty over their tax policies, budgets and debt if other countries are going to guarantee their bonds. Some sort of European fiscal authority will need to be created to oversee and approve the tax policies, budgets and debts of countries that have been irresponsible in the past.

Why Is The European Debt Crisis Affecting The U.S. Stock Market?

A number of clients have asked me to explain why this European debt crisis is affecting the U.S. stock market.

The answer is that this is one of those "political issues" that now seem to regularly negatively impact the U.S. stock market even though American banks and companies have almost no exposure to these European bonds.

A recent report shows that European banks hold almost all of the bonds issued by Greece, Ireland, Portugal, Spain and Italy. U.S. banks own only a very small number of these bonds and they are hedged against any loss.

However, if European politicians do not act, many major French and German banks could collapse and that would cause another worldwide financial crisis.

But this should not happen because most people know that Germany is not going to allow Deutsche Bank or any of its other major banks to collapse. France is in the same position.

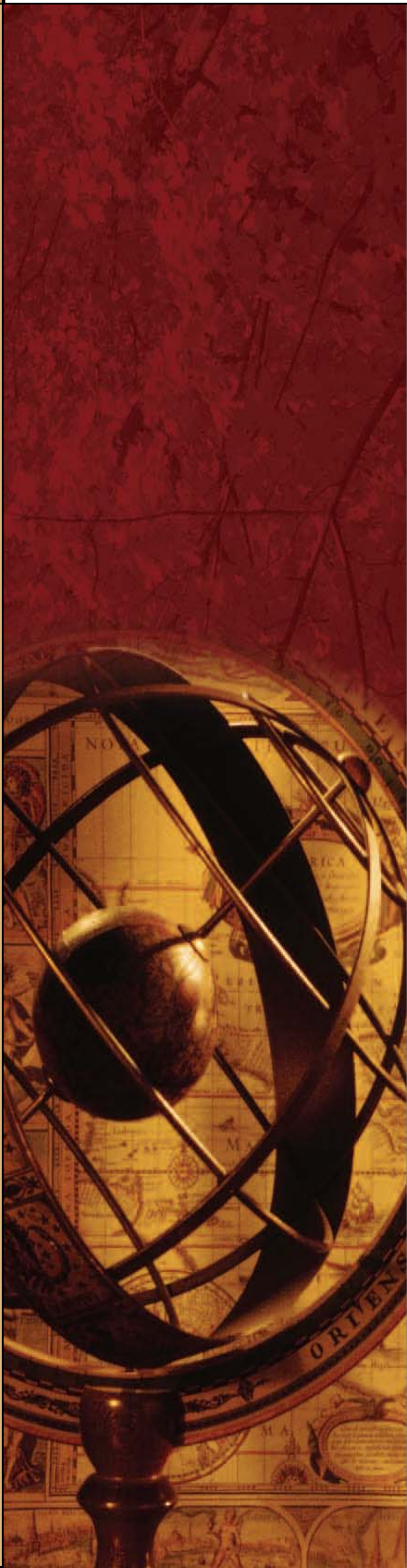
The bottom line is that German and French politicians have to make some very politically unpopular decisions.

Last week I appeared on both Fox News and Bloomberg TV and I talked about this European debt crisis. Here is how I explained it on those two programs:

European Debt Crisis—Fox News and Bloomberg TV

While some German and Northern European politicians are threatening to restructure the European Monetary Union by throwing out some of its fiscally irresponsible members, I do not believe this will happen.

The cost to Germany would be too great. First the currency group that remained in the Union would force the value of the new Euro to Switzerland type evaluations. This new strong currency could destroy German exports and cause large-scale unemployment. Also, if Greece, Ireland, Portugal, Spain and Italy defaulted on their current bonds, Germans would have to bail out all of Germany's banks by over 50%.



This would be too costly for Germany. The compromise will look something like the following.

There will be a combination of Eurobonds and the creation of some sort of fiscal oversight body to enforce fiscal, tax and budgetary discipline. European officials are now calling it a "pooling of fiscal policy."

The Eurobond would allow all countries to borrow at an affordable rate. This could, at least in the short term, starve off raids on individual country debt like that of Italy and Spain—and France.

European countries that use Eurobonds would have to agree to give up a degree of sovereignty over their own budgets. This could be an important step to eventually having some European control over member country spending and other economic policies.

The problem is no one knows how this would specifically work and there is no structure or institution to currently guarantee oversight of this important process. It is hard to create these kinds of institutions in a short period of time.

In Germany, these new Eurobonds are being derisively referred to as "DOLCE-VITA BONDS" because of the undisciplined spending in southern European countries.

The problem is Europeans have tried every option now available to them in fighting the debt crisis and none of these policies have worked.

The Europeans, and especially the Germans, have few good options. Their choice is to take a big hit and pay now, or delay making a decision and paying maybe three or four times more after causing a European banking crisis in France and Germany over the next year and a possible downgrade of French debt in the interim.

CONCLUSION

Most analysts believe that it will take another six to eight weeks of negotiations to hammer out a permanent solution for this European debt crisis.

At the same time, we here in the United States will have to suffer through another spending debate as the U.S. CONGRESSIONAL SUPER-COMMITTEE determines what spending to cut and if we will be raising taxes anytime soon.

I don't have a POLITICAL CRYSTAL BALL, but I believe I can say, without fear of contradiction, that this process will not be pleasant and may cause some short-term uncertainty in the stock market. This debate will also be over in the next

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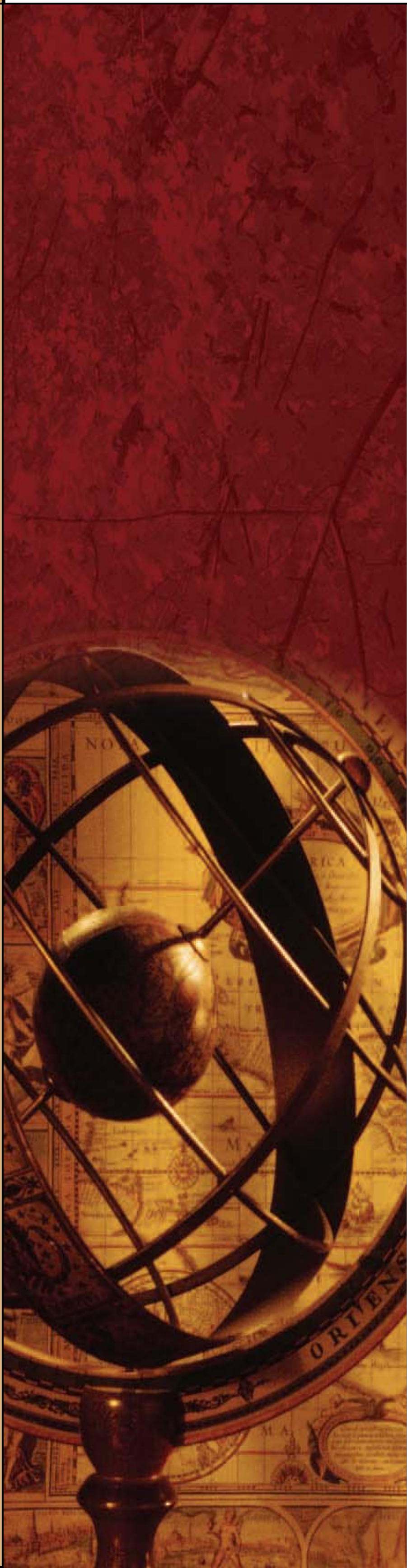

six to eight weeks, in that a vote is required before Thanksgiving.

Hopefully, after all of these political issues are behind us, investors will once again focus on the fundamentals of U.S. companies, which I believe are very cheap and under-rated at the moment, given their above-average earnings.

Until then…

Patience!

—Paul Dietrich
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