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Eye on the Market, November 18, 2010

A Don Quixote Thanksgiving

At this time each year, I write on a topic linking politics and investments to give our clients something to talk about over the Thanksgiving holiday (lest the conversation become stale). Following on last year's comparison of the Obama Cabinet's business experience with all administrations since Theodore Roosevelt, we focus on Europe's ongoing strains in the periphery. This follows on our Aspen Insights session on Europe we held with Martin Feldstein and Paul Marshall earlier this year.

The diverging economic conditions between Europe's core and periphery are severe, but not insurmountable. However, a flaw in Europe's creation myth may lay at the heart of the inability of the European Monetary Union to survive over the long run. As Europe deals with its latest weak link (Ireland), I am reminded of Don Quixote, who among other things, went on a difficult journey for all the wrong reasons. For Europe, the EMU may turn out to be the same.

At the end, some brief comments on investments in European equity and sovereign debt markets.

Michael Cembalest

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