**Weekly Economic and Market Comment 11-20-11**

***The week ahead:*** Political developments in Europe and the U.S. will dominate the news in the coming week. It is a light week for important data:

- Tuesday, November 22: The first revision of third quarter GDP will be released at 8:30am EST and is expected to be 2.4% vs. the first estimate of 2.5%. This data is considerably less important than the first release, but can move markets if a sizable unexpected revision occurs. I will be most interested in the category changes.
- Wednesday, November 23: October durable goods orders will be released at 8:30am and are expected to be down 1%, the second drop in a row. Despite decent momentum going into the quarter, some of the increases in retail soft goods may be coming at the expense of auto and housing sales.
- Wednesday, November 123: Due to the Thanksgiving holiday, weekly jobless claims and the final October reading on the Michigan consumer sentiment index will be released on Wednesday. Normally the WJCs are released on Thursday and the Michigan index on Friday.

***Congressional budget negotiations come down to the wire this week***: It appears that the Congressional panel charged with cutting the budget deficit is not coming to an agreement. If no agreement is reached, the $1.3 billion in sequestered cuts do not start until 2013. Thus I regard the main implication of a lack of agreement as negatively impacting consumer and business confidence. This is both bad for the economy and markets.

Given that the sequestration does not begin soon, I still think some form of congressional agreement will be made before year end even if the congressional committee does not meet the November 23rd deadline. And indeed, the markets may "tell" Congress to act (see equity section below).

***Europe:*** The new "technocratic" government in Italy is a positive and it has met its first test of legitimacy as both houses of the Italian parliament have sanctioned it. Nevertheless there is much to do and the incremental approach of the Eurozone governments has, to date, been a negative. Sovereign interest rates in the Eurozone countries including France, and even the most prudent counties including the Netherlands, Austria and Germany went up last week and it appears that the ESFS fund is not materializing. As one pundit (who I agree with) said at the end of last week, now is the time for bold action, not timid action. Whether legal or not, it appears that the only way to stop the rise in sovereign rates is for the ECB to step in massively as did the Treasury and Fed during the banking crisis of 2008.

***Equities:*** With earnings season winding down, stock prices are likely to be dominated by political developments in both Europe and the U.S. this week. After raising the bottom of my range on the S&P last week, I am lowering it again. It now appears that a further market setback is needed to convince Congressional negotiators that, in pursuing ideological goals, their failure to compromise will lead to a worse situation than otherwise would be the case. However, I still expect a partial resolution results consisting of an extension of current tax reductions in payrolls and some minimum money allocated to infrastructure as well as some limited curbs on future deficits. Such an agreement while not encouraging could allow stocks to rally into yearend.

Until an agreement appears to be forthcoming and more bold steps are taken to resolve the Eurozone debt crisis, I think the S&P will give up more ground. It appears headed to the mid 1100 level. However, progress in Europe and on the U.S. budget front could yield a rally back to the year's high (1360 on the S&P) by year end, if progress is made quickly. The yield on the U.S. 10-year note rate is likely to stay near or below 2% until an agreement appears likely, but reverse quickly back to the 2.25% level or above if a year-end stock market rally occurs.