



Weekly Economic and Market Comment 12-04-11

The week ahead: The European Union economic summit makes this a critical week for the markets. Several economic data reports will be released this week: The most important are:

- Monday, December 5: November ISM non-manufacturing sector index will be released at 10am EST. The consensus is 53.9, up a point from the October reading of 52.9. The release should bolster the notion that growth in the current quarter will be near 3%
- Thursday, December 8: Both the ECB and The BOE announce monetary policy results. In particular investors will key on whether the ECB follows up last month's ease with another 25 basis easing. I think they will, but it is not a "done deal"
- Friday, **December 9: The most important event Friday is the European Union economic summit. It is critical that Italy, Spain and at least several other countries agree to a stability pact that enforces fiscal discipline. Markets are already moving both in anticipation of a successful result and, given the dependence of aggressive purchases of sovereign debt on the outcome, disappointment could result in a crisis (see December 5 monthly report).**
- Friday, December 9: October trade data will be released at 8:30am EST and is expected to result in a deficit of \$43.4 billion, close to September's \$43.1 billion.
- Friday, December 9: The early December Michigan consumer sentiment index will be released at 10am EST. It is expected to rise to 66 from the November 64.1 reading.

The Budget: Despite the failure of the "super committee" budget negotiations, I expect last year's payroll tax cut to be extended. But U.S. budget developments will take a back seat to the European Union economic summit this week.

Europe: The outcome of the European Union economic summit will dominate the markets this week. I think the outcome will be a qualified positive that could keep the December stock market rally alive (see December 5 monthly report).

Equities: If my outlook is correct, the equity rally should continue. The European Union economic summit will dominate the news this week although Thursday's ECB policy outcome will also be important. I suspect the stock market rally will make further limited gains into the summit as investors buy expecting a positive result. My pre-meeting target for the S&P is 1280. If the outcome is positive (I think it will be), the initial reaction will likely be limited because of

the run-up in advance of the summit. Nevertheless, my year-end S&P target if the outcome is positive is the 1300-1320 area.

Given the dependence of European bank integrity and sovereign debt rates on the summit outcome, **a failure to convince the key Eurozone countries to sign on to fiscally enforced discipline would likely cause the S&P is to fall quickly to the 1070-1120 area.**

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