STUART INVESTMENT
MANAGEMENT LIMITED

**Weekly Economic and Market Comment 1-22-2012**

***The week ahead:*** The more important data releases this week come in later in the week starting on Wednesday and ending on Friday with the most important report of the quarter, the first estimate of $4^{th}$ quarter GDP:

- Wednesday, January 25: The results of the FOMC meeting will be released at 12:30am EST. While rates are not expected to change, investors will be looking for indications of whether the Fed is looking at the possibility of QE3. The economy is doing better and several key members of the committee would likely dissent at such a move. Still, the case for QE3 is that Europe is moving into recession and the Fed should try to stay "ahead of the game". So the meeting announcement could move the markets. In its attempt to be more transparent, the Fed will also release more data including its normal economic forecast and the newly released forecasts of rate policy for the next few quarters.
- Thursday, January 26: December Durable Goods Orders will be released at 8:30am EST and are expected to rise 2.2% following November's 3.8%. Growth in DGO's is healthy and is a significant contributor to recent growth.
- Thursday, January 26: December Leading Indicators will be released at 10:00am EST and are expected to be up 0.7% following Novembers 0.5% rise. This number should support the notion that economic momentum is continuing in the first quarter. Despite the worrisome slowdown in Europe, I may raise my forecast for first quarter growth to 1.5-2.5% from 1-2% based on stronger momentum and the composition of fourth quarter GDP results (see below).
- Friday, January 27: The most important release to date this year, the first estimate of $4^{th}$ quarter GDP will be released at 8:30am EST. The consensus is for a 3.1% rise and my estimate is 2.5-3% although I lean to the stronger end of my range. The composition of this report will influence whether I raise my forecast for the first quarter. Specifically, if inventories remain lean, I will raise my first quarter estimate.
- Friday, January, 27: The final estimate of January consumer sentiment will be released at 9:55am EST and is expected to be 74, the same as the preliminary index released two weeks ago and well above December's final reading of 69.9.

***Europe:*** Despite the diminishing correlation between European debt developments and the U.S. stock market, news from Europe remains important. One reason fourth quarter S&P earnings are mixed is the impact of the European economic slowdown. This week traders will be looking to see if a deal between Greece and the banks can be concluded.

***The U.S.:*** This week we will find out whether growth is stronger than I have been forecasting.

***The Market:*** The announcement of a deal between Greece and the banks this week would initially be positive for U.S. stocks but I suspect the market would then be subject to a moderate correction of the "buy on the rumor, sell on the news variety". The FOMC announcement is likely to move the market a bit. CNBC's Steve Liesman has been previewing his expectation that the Fed is closer to QE3 than commonly thought. I expect no indication that QE3 is imminent and this could be a source of disappointment. Finally Friday's GDP is more likely to be another source of correction given that the market has been up recently in anticipation of improving momentum in the economy.

I think the S&P is near the top of its near term range and will correct to test a level in the 1270-1285 area. My 2-3 week range is 1270-1320. Eventually, but not before a correction, I think the market will likely move toward a test of the 2011 high later in the quarter if a Greek deal is reached and Italian rates ease a bit more through the huge issuance that is coming. Alternatively, if a Greek deal fails, the market will move lower than the bottom of my range, probably to the 1180-1220 area. I am more optimistic about a deal than I was in my last monthly, but this will not prevent Europe from experiencing a moderate economic downturn.