



STUART INVESTMENT  
MANAGEMENT LIMITED

**Weekly Economic and Market Comment 1-8-2012**

***The week ahead:*** The more important data releases this week and next are:

- Wednesday, January 11: The Fed's briefing book will be released at 2:00pm EST. This book is an assessment of the state of the economy and financial system used by the Fed at their next regularly scheduled meeting, January 24-25. I expect it to show moderate growth and it should not surprise the market.
- Thursday, January 12: December Retail Sales will be released at 8:30am EST and are expected to be up a moderate 0.4%, following November's sluggish 0.2% rise. The consumer is still deleveraging and growth in the household sector is still fairly tepid.
- Thursday, January 12: November business inventories will be announced at 10:00am EST. They are expected to be up 0.5%, following October's 0.8% rise. This number will be used by analysts to refine their estimates of fourth quarter growth.
- Friday, January 13: The November trade report will be released at 8:30am EST and is expected to show a deficit of \$45 billion following October's \$43.5 rise. The ongoing trade deficit is the source of the U.S.'s ever-expanding external debt.

***Europe:*** Sarkozy and Merkel will meet on Monday and likely propose an increase in the ESFS fund. An increase would boost confidence that Italy and Spain can continue to issue debt and, over time, bring their sovereign debt back to more manageable levels. This will be very important because, increasingly, I think that Greece will leave the euro. Greece has not been able to get across the finish line in negotiating the most recent bailout package. So if the Greeks are going to abandon the euro, the Eurozone countries may decide to "bite the bullet" sooner rather than later.

Continuing the above line of thinking, if the Greeks are going to default further and exit the Eurozone, this may be why the ECB recently opened the spigot to banks. To avoid further defaults and a breakup of the Eurozone, the ECB must "ring-fence" other countries. This will make the difference between whether my base case or the more pessimistic case unfolds (see my monthly).

***The Market:*** Stock prices may start off the week under a bit of pressure as Italian 10 year note interest rates are again above 7%. However, with the caveat that a Greek exit would result in a cathartic stock market correction, I think the S&P is on target for moving to the 1300 level. If Greece does exit, it is likely to come over a weekend. Thus, as happened on Friday, I would not be surprised to see weak closes on Fridays until Geek either exits the

euro or it becomes clear that Greece will stay and bondholders accept the proposed debt restructuring.

Greece is not that big and any euro and market setback resulting from a Greek exit could be a buying opportunity, especially if the euro and market move down in anticipation of an exit. However, this rationale only applies if investors feel confident that a Greek exit would not result in a systemic European banking crisis, a breakup of the euro, or a contagion effect that drives up Italian and Spanish interest rates.

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