STUART INVESTMENT
MANAGEMENT LIMITED

Weekly Economic and Market Comment 1-15-2012

The week ahead: The more important data releases this week are:

- Tuesday, January 17: The December Producer Price Index, to be released at 8:30am EST, is expected to be flat vs. last month's up 0.3%.
- Tuesday, January 17: December Industrial Production, to be released at 9:15am EST, is expected to be up 0.5% vs. November's -.2% reading.
- Thursday, January 19: December CPI, to be released at 8:30am EST, is expected to rise 0.1% vs. a flat number for November. Core inflation is expected to rise 0.1% vs. November's up 0.2 reading. Inflation remains benign. Year over year core is up 2.1%, about where the Fed would like it.
- Thursday, January 19: December Housing Starts likely rose at about the same 685k rate as in November. Although up from the cycle low, starts remain at 35-40% of a level I consider normal given the size of the population. More people are renting and doubling up despite the moderate economic growth.
- Thursday, January, 19: The December Philadelphia Fed index of manufacturing activity is expected to be 10, near last month's reading of 10.3 and indicating moderate growth. Although it is only a regional index, it is the first such index of manufacturing for the month and can move the market.

Europe: Europe remains a primary focus of the markets, although U.S. stocks have been more resilient to bad news recently. The downgrade of sovereign debt in a number of European countries was pretty well anticipated. However, despite the knowledge that Greece remains a huge problem, I think markets could react to the success or failure of current negotiations between Greece and its major bondholders to reach a deal that allows for an ESFS bailout. The negotiations stalled at the end of last week and I think there is a good chance that Greece will have a formal default and exit the Euro. If I am right, the sooner the better. It would not be good if the ESFS provides funds only to see a default at a later date.

The U.S.: Move along folks. There's nothing to see here, yet.

The Market: Earnings season is going into full swing this week and I expect the results to be mixed. As always, more companies will exceed rather than miss earnings but the recent pickup in the economy apparently did little to boost earnings.

My S&P range for the next few weeks is 1220 to 1310. The downside will likely be tested if and when Greece declares a formal default. Meanwhile, even though earnings are not stellar, I think there is more room for upside. However, the rebound in bank stocks may be a bit overdone and consolidation may be in order. Still I suspect BAC and C have seen their lows and foresee more gains as the year progresses. But with more bad news to come, these stocks will have to climb the proverbial "wall of worry".