



Weekly Economic and Market Comment 2-5-2012

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

- Tuesday, February 7: Fed Chairman Bernanke testifies before the Senate Banking Committee at 10:00am EST. Given last week's testimony and his post-meeting press conference in the previous two weeks, I do not expect the testimony to reveal much or move the market.
- Friday, February 10: The December trade report will be released at 8:30am EST and is expected to show a deficit near last month's \$47.8 billion. With the U.S. growing faster than Europe and Japan, the deficits are likely to remain huge and contribute to ever-increasing foreign ownership of U.S. resources.
- Friday, February 10: The final reading of the Michigan consumer sentiment Index is likely to be between 74 and 75 a bit below December's 75 reading.

Europe: Negotiations between Greece, the EU and the banks continues to drag on, not a good sign. Moreover, sovereign debt rates in Portugal have risen to levels that will make it difficult to "ring-fence" that country from the same haircut negotiations that Greece is having. Thus the near-term situation appears to have gotten worse in the past couple weeks despite progress in adopting a better long-term approach to fiscal coordination and discipline.

Europe will continue to struggle with its debt problems despite a probable agreement between key banks and Greece on a restructuring of sovereign debt. It is by no means clear that Greece will be able to honor its commitments despite the huge haircut creditors are taking on existing debt. Nor is it clear that Portugal, Italy and Spain are adequately "ring-fenced" from the Greek problem. If investors increasingly feel that one of these countries will be looking for a similar arrangement with creditors, they will have to issue new debt at onerous levels.

The U.S.: Friday's employment report was the strongest since the 2008-2009 crisis began. Some prominent naysayers pointed to the revisions that masked the downturn in labor force participation and tried to read some negatives into the report. Yes participation has been dropping but there was nothing negative in the latest report, although it is likely an "outlier". I prefer to look at 3 month moving averages when assessing the labor market. Overall, as mentioned in my monthly, I am hiking my first quarter and half growth estimate a half percent to 1.5-2.5%. Absent serious contagion from Europe or a middle-east debacle, the risk is to the upside of my forecast.

The Market: Last week I raised my S&P near term upside target to 1330-1345. A strong employment report contributed to the rise. But the Greek situation still overhangs the market and European developments may, at some point lead to a correction. So might developments in the Middle-East that I comment on in my monthly. So I am reluctant to raise the top of my range above 1350. Assuming things simmer but don't explode in the Middle-East my downside in the S&P remains the 1275-1295 area.

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