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The reddish color indicates a heightened risks for holding stocks.

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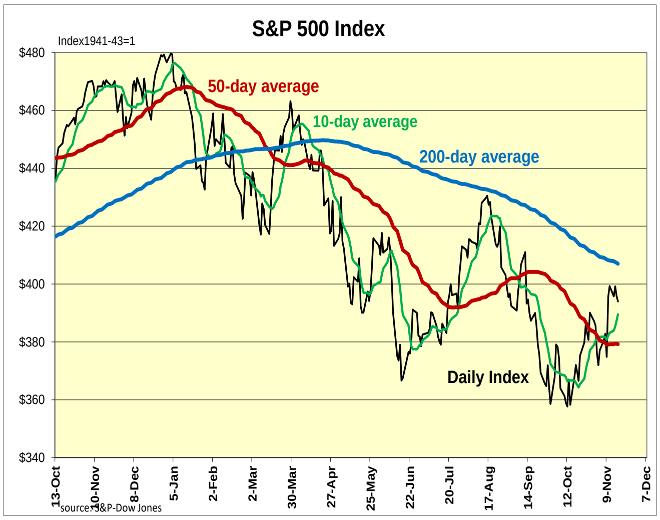
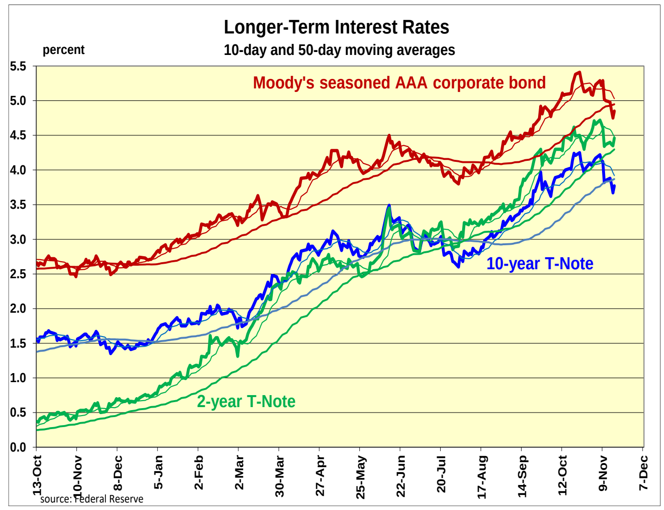
		Fundamental	Actual	Outlook
Fixed-income:	**10-yr Treasury rate**	**5.5**	**3.8**	**heading higher**
Equities:	**S&P 500**	**3,200**	**3940**	**resistance at 4100**





Market Outlook

After soaring a week ago, stocks took and early vacation with only minor changes. There was no major news to drive stocks one way or another.

Economic news pointed dramatically opposite directions. Housing activity collapsed while measures of retail sales and growth improved.

Technical indicators for stocks also improved. Most key indexes remain above their lows of a month ago. The downward moves in recent days were on lower trading volume, which is positive. The moves for the S&P and Nasdaq indexes also found support at their 50-day moving averages, which is also positive.

Although these positive technical signs indicate the near-term trend can move higher, both the S&P and Nasdaq remain below their 200-day moving average. Until they regain this key level, the longer-term trend remains negative.

With the S&P500 index still 23% above its fundamental value, and with sensitive indicators pointing to a serious recession, we remain cautious regarding outlook for significant additional gains in stocks.

A Look Back

Sensitive indicators remain very weak while coincident indicators point to an economy that continues to grow.

The weakness centers on the housing sector. October housing permits and starts are down 20% this year. Moreover, the November Homebuilders' survey fell to 33, indicating a further drop this month. Hence, a reliable early indicator of the economy is pointing to further problems ahead.

In contrast to the weakness in housing, October retail sales were up 16% from September and 9% from the third quarter average (both annualized numbers). With October core inflation at 3%, real sales are up at a 6% rate from the third quarter.

Forces Impacting the Near-term Outlook for Stock Prices

Economic Fundamentals:	**negative**	**Stock Valuation: over-valued**	**23%**
Monetary Policy:	**restrictive**	**Recommended Stock Exposure:**	**20%**

The retail sales report led the Atlanta Fed's to raise its estimate of fourth quarter real growth to a 4.4% annual rate.

In addition to retail sales, the Federal Reserve's estimate of October manufacturing is also up at a 2% annual rate from the third quarter.

Finally, despite tech companies announcing major layoffs, weekly data show no signs of a softening in the tight labor market. Into the second week in November, weekly initial unemployment claims remain stable. The latest 4-week average of 221,000 is close to the middle of a 200,000 to 250,000 range over the past seven months.

The Week Ahead

With sensitive indicators pointing to an upcoming downturn and coincident indicators pointing to strong growth. Upcoming reports are particularly important in determining what is actually going on.

The only reports this week will be Wednesday's S&P business survey for early November. This survey has been erratic. The most recent shows the October economy close to breakeven.

Also on Wednesday, October new orders for durable goods can provide a directional clue. The underlying dollar trend (without the volatile transportation and defense orders), has been flat since March. After inflation, real orders also trend down, as have other sensitive indicators. If the downward trends continued in October, we have further signs the current indicators of strength in the economy are unlikely to continue.

For now, I am preparing for a celebration with family and friends and would like to wish you and your family a very Happy and Joyful Thanksgiving.

The Lighter Side of Political Economy

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