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A fourth-quarter rally seems likely, opines Tobias Levkovich in *Tuesday Tidings* (September 2, 2011). Given depressed investor sentiment, attractive valuations and—so far— benign credit markets, the S&P 500 seems poised for late-year gains. Concerns about the economy, the European banking system and broader political issues are currently weighing on stock indices, but this is being reflected in measures of overall sentiment and in earnings multiples, he notes. As a result, Levkovich argues, investors should see September weakness as a buying opportunity—barring unforeseen shocks.

We don’t expect a recession or a decline in profits, Steven Wieting writes in *Inside the S&P 500* (September 6, 2011). “Yet we expect a marked slowdown in profits growth, with sharp cuts to earnings estimates shortly ahead,” he adds. Recent gains in profits were fueled in part by an expanding federal budget deficit and a drop in national savings. Although operating profits have doubled from their lows in 2008’s fourth quarter, at least part of that is the result of deficit-financed transfers and government spending. Wieting does not expect to see additional fiscal tightening in the remainder of 2011 or in 2012, but he also doesn’t anticipate an increase in federal demand. As a result, he expects any increase in corporate profits to track revenue growth more closely.

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The economy is not as weak as consumer (and some business) surveys suggest, Robert DiClemente argues in *Comments on Credit* (September 2, 2011). While recent declines in confidence partly reflect losses in the stock market and the downgraded economic outlook, those measures also reflect what is already known, he points out. “However, we think that the excessive drops in some of these gauges have gone well beyond fundamentals,” DiClemente says. “They seem to reflect a ‘news effect,’ as consumers were bombarded with unsettling news about government policies at the end of July and beginning of August.” Now, he argues, consumer attitudes seem to be improving and, while the September jobs report was disappointing, consumer spending would have to fall further to become a bigger concern. So far, he notes, that has not happened.

The Federal Reserve will probably do something. The question is, what? That’s the issue raised by Richard Cookson in *View From the Bridge* (September 1, 2011). “Three years after Lehman went bust and five years after the U.S. housing bubble went pop, the U.S. economy still needs injections of stimulants to show any sort of life,” he says. Inflation expectations have increased, so it’s unlikely that the Fed will authorize a bigger round of asset purchases, he argues. That leaves cutting the already minimal interest rates banks get to park their money at the central bank. The Fed could also buy more long-term Treasury bonds, which would lead to lower rates for these bonds and, presumably, make it cheaper for businesses to borrow. Or, Cookson says, the Fed may wait until Chairman Bernanke can get a consensus at the Federal Open Market Committee, whose members seem increasingly at odds.

The road ahead for Europe will be rocky, Willem Buiter and colleagues write in *Global Economic View* (September 9, 2011). Volatility in financial markets will remain high. Meanwhile, Euro area (EA) policymakers and the European Central Bank (ECB) will not be proactive and will continue to disappoint, Buiter reckons. The ECB will not, for example, guarantee vast amounts of EA bank debt, put a cap on yields for EA sovereign debt, nor take enough toxic assets off EA banks’ balance sheets. But make no mistake, he adds: The EA has institutional and political capacity to deal with the near-term problems and to make the necessary reforms to ensure its long-term survival. “Even if fiscal union is out of the question for the foreseeable future, a Euro area break-up does not necessarily follow,” he says. “Until then, better bring a helmet.”

The Greek economic adjustment program is hitting another wall, Michael Saunders and colleagues observe in *Euro Weekly* (September 9, 2011). This comes just two months after the end of the last round of negotiations to reach an agreement on the fifth payment of funds from the EU/IMF/ECB “troika.” “The current negotiations are likely to be even more arduous than the previous round, as the will for compromise is diminishing sharply on both sides of the negotiating table,” Saunders says. Although he believes a deal will eventually be reached, the risks of a near-term disorderly outcome have increased. Moreover, Saunders points out, drawbacks of the “muddle through” strategy are increasingly evident: Contagion has not been prevented and the Greek financial situation is getting worse rather than better. Still, he says, a large Greek debt restructuring may happen sooner than expected.

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