

WEEKLY MARKET WRAP

JANUARY 21 – 27, 2012

	1/27/2012	1/20/2012	% Change	% YTD
DJIA	12,660.5	12,720.5	-0.5%	3.6%
S&P 500	1,316.3	1,315.4	0.1%	4.7%
Nasdaq	2,816.6	2,786.7	1.1%	8.1%
Russell 2000	798.9	784.6	1.8%	7.8%

This was a very busy week in the markets, but without much movement in stock prices. The big “blockbuster” news came on Wednesday from Fed Chairman Bernanke when he announced that the FOMC will keep interest rates low throughout 2014!! Before this announcement, the Fed had indicated their accommodative policy, aimed at stimulating the economy, would last through mid-2013. This news was both chilling and exciting to the markets. Some investors were pleased to have easy money and the availability of low cost financing last as long as possible, while others were fearful that this move indicated the U.S. economy was weaker than previously thought. On Friday, this question was answered when GDP for the fourth quarter was announced showing an increase of 2.8% that fell short of the 3.0% expectation. Even though this fourth quarter report was disappointing, the quarterly trend for 2011 remained intact. The quarterly GDP progression for the year was: IQ +0.4%, IIQ +1.3%, IIIQ +1.8% and IVQ +2.8% that indicates the recovery is moving ahead, albeit at a slower pace than expected. The reason for the disappointment in the fourth quarter GDP report was due to a reduction in government spending, a pullback by consumer consumption and no improvement in housing.

Corporate earnings announcements have not been as robust as in past quarters. Many companies are now lowering their earnings and revenue outlooks for the coming year. Corporate CEO’s are sighting high pension expenses, high commodity costs and headwinds from a stronger dollar. All in all, it has been a mixed picture for earnings and guidance. It remains to be seen how the entire picture looks once all companies have reported by mid-February. Investors are anticipating S&P 500 earnings per share of \$97 for 2011 and \$100 to \$103 for 2012.

Earlier this week there was a spectacular earnings announcement from Apple (AAPL) for its fiscal first quarter that came in at \$13.87 versus an estimate of \$10.08 and compared to \$6.43 for the year ago quarter. Revenue was up 73% to \$46.3 billion while cash on the balance sheet reached almost \$100 billion. This is a truly amazing performance for a stock selling at a very reasonable P/E multiple of 10x projected of 2013 (June) earnings of \$44.50.

Earlier this week, President Obama gave his “State of the Union” address to Congress that outlined his vision and goals for the country in the coming legislative year. Unfortunately, Congress is deadlocked due to the desire of the Republicans to spend less and reduce the debt while the Democrats insist on addressing the budget imbalance through higher taxes. There are several key deadlines coming up later this year that will force Congress and the President to reach a compromise. Most observers are not hopeful that major legislation will be passed this year, prior to the election in November. Most politicians are looking at the challenges of re-election campaigns in a period of low employment, depressed housing prices and a climate of extreme disappointment with Wall Street and Washington.

One economic indicator we look to for general guidance on the economy is the Leading Economic Index (LEI). This series was just released on Thursday showing an increase of 0.4% for December. The LEI predicted an economic slowdown last fall, but is now indicating the economy will be returning to a better growth track. In addition, an index of global leading indicators shows a recent pick-up resulting in more optimism for improved global growth ahead. Of course, the big caveat remains Europe and its ability to navigate through the economic and political challenges. Most major business, academic and political leaders of Europe (and around the world) are gathered this week at the World Economic Forum in Davos, Switzerland. They meet there once a year to contemplate large global issues and try to agree on constructive approaches to coordinate global action.

For the week, the yield on the 10 year Treasury note fell to 1.9% due largely to the action of the FOMC. Oil closed at \$99 (unchanged) while the price of gold rose to \$1,741. The VIX continued to behave with a reading of 18.5 on Friday.

Have a great weekend!