Weekly commentary by Professor Jeremy J. Siegel

Economic Indicators Strong; Earnings will Drive Market

11:55 a.m. EDT, 10/16/2009, Philadelphia PA

Stocks are off so far today, as the extremely strong earnings of Intel and JP Morgan set expectations too high for Citi, Bank of America, and even GE. The only disappointing economic indicator this whole week was today's U. of Michigan preliminary October reading on consumer sentiment. The rest of the week's indicators came in stronger than expected, especially the New York Fed manufacturing, core retail sales, and jobless claims numbers.

The Dow Industrial, as I predicted, broke 10,000 this week with much media fanfare, although this morning's disappointments have sent the average below 10k once again. As I have said since the bull market began last March, my biggest concern is surging oil prices, so I am obviously not pleased with the recent rise above $78.00. Actually in Euros, the price of oil is just a tad below its June high, so part of the oil price rise is due to the fall of the dollar. But the major part of oil's price increase is the strength in world economic activity and the expectations of oil traders of continued expansion.

The fall in the dollar has generated a lot of angst among stock investors. But, as I noted before, the dollar is still well above the low reached in early 2007 when the U.S. economy and the stock market were riding high and our budget deficits were much smaller than today. Most of the decline in the dollar is due to the loss of the "safe-haven" premium that the greenback acquired during the past financial crisis. The dollar is not in a "state of collapse" or even near it. However, if it does break below its previous low, which means a further drop of about 6% measured against the DXY index of developed countries, the Fed should be put on alert that its zero-interest-rate-policy days are numbered. I have maintained that the Fed will have to start tightening next spring, a prediction that is far earlier than the consensus. If the dollar continues to slide, my conviction will be reinforced.

Next week is much lighter for economic data: PPI (+0.1%,+0.1%) and Housing starts (610k) on Tuesday, and of course Jobless Claims (520k) on Thursday. But the earnings calendar will dominate next week as I count 155, or about one-third of the S&P 500 firms reporting (Thursday a whopping 67 will report). So next week's market will clearly be driven by the earnings data.