Weekly commentary by Professor Jeremy J. Siegel

Poor Sentiment, Good Claims, and Waiting for S&P to cross 1100

10:35 a.m. EDT, 11/13/2009, Philadelphia PA

A disappointing Reuters/Univ. of Michigan sentiment index is an early drag on the market this Friday the 13th as the number came in at 66, below last month's 70.6 and even more below the expectation of 71. Both the economic conditions and economic outlook components of this indicators fell about 4 points, and although the 1-year ahead inflation expectations dropped one-tenth to 2.8%, the five-year ahead expectations rose to 3.1%, the most since February. This is about 1% above the inflationary expectations built into the TIPs ten-year spread, and shows there is still a lot of precautionary demand built into straight Treasuries despite the threat of inflation.

Earlier today, the trade deficit for September came in much wider than expected, at $36.5B, against $31.8B expectations, with little revision to August. The effect of this is to lower the GDP growth for last quarter, which is now expected to be about 2.9% to 3.0%, about 0.5% below the first estimate print released last month.

Yet the news for the week was not at all bad, as jobless claims yesterday came in at 502k, below expectations, and continuing claims came in at 5.63m, the lowest since March. Furthermore, although the trade deficit was higher, both imports and exports grew strongly, which is a sign of a reviving world economy and bodes well for this quarter, for which GDP estimates are holding firm in the 3.0% to 3.5% range.

I like days like yesterday – stocks sold off, but so did oil and other commodities, while the dollar and bonds rose. In fact WTI oil is now at $75.64, the lowest since early October. I would worry if stocks sold off and commodities rose, while bonds and the dollar fell for this would mean the Fed would need to abandon its zero-interest-rate policy. As I have noted, I think that the Fed will abandon its ZIRP next spring, far earlier than consensus, in response to stronger-than expected economic growth, which will not be bad for equities. In the meantime, the tone of the market remains good, although I am a little disturbed to see that other stock indexes, such as EAFE, Emerging Markets, and even the US Russell 2000 are failing to make new high ground like the Dow and the S&P have in the last few days. If the S&P 500 Index could convincingly close above the 1100 level, I think we're in for another good upward run.

Next week watch the following economic indicators, as both the PPI (+0.5%,+0.1%) and CPI (+0.2%,+0.1%), as well as retail sales (+0.9%,+0.4% ex autos), housing starts (598k) and the NY (28.5) and Philly Fed (12) regional manufacturing indexes are released.
