Weekly Commentary by Professor Jeremy J. Siegel

Mostly Good News Marred by SEC Charges Friday

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The SEC charges against Goldman Sachs on Friday should not deflect investors from the mostly good economic news released last week. March Retail sales were much better than expected and housing starts were also above expectations. On the downside, jobless claims were clearly disappointing even though the Labor Department indicated that the Easter period once again biased the number upward. And the preliminary U. of Michigan sentiment index fell once again, although these sentiment indicators have not been a good measure of consumer spending of late.

On the earnings front, the news was almost all good. 19 of the 21 S&P 500 firms that have announced since Alcoa have beat their estimate. It is true that Google beat by a smaller margin than expected and sold off sharply in the after-market. But investors in tech firms often set their whisper number well above the "consensus forecast," leaving much room for disappointment.

And there was great news on the inflation front. The CPI shows absolutely no sign of inflation as core inflation was flat in March and up only 1.1% over year. You have to go back to January 1966 to get a lower reading. And many economists expect the core rate to continue to fall, reaching 0.5% by year end. The long-bond yield closed the week at 3.76% and oil around $83 a barrel, comfortably below their recent highs. All this means that there is no pressure on the Fed to increase rates and unless we get some surge in commodity prices over the next two weeks, there is little reason for the Fed to change its "extended period" language in its April 28 FOMC Meeting.

On the stock front, equities sold off Friday in response to the news that Goldman Sachs was being charged with fraud by the SEC. I shall comment on that situation later, but investors should realize that there were many "momentum" players on the long side of the equity market that set their stops about 1% below ongoing levels. When that limit was breached following the SEC charges, stop loss orders were triggered sending stocks lower. Although the downward momentum will probably continue Monday morning, and perhaps into Tuesday, I see no reason that that the Goldman news will cause a significant interruption in the bull market.
