



Earnings and Econ Data Good; Demonstrations in Egypt Bring "Risk-on" Trade

2:30 p.m. EDT, 1/28/2011, Philadelphia PA

Although the overall gross domestic product (GDP) growth number was a bit disappointing, the details were very strong. Both Real GDP and real consumption have (finally) eclipsed their pre-crisis high. Final sales, which strips out inventory growth, grew at 7.1% annualized pace, the largest since 1984. Consumption grew at a 4.4% annualized rate, the largest since the first quarter of 2006, well before the financial crisis hit. Furthermore, government purchases shrank at a 0.6% annual rate, which meant that the private sector increased even faster (at a 7.2% rate), compared to last quarter where government spending added 0.9 percentage points to the growth rate. Also, the GDP deflator increased at only a 0.3% rate, and at a year-over year rate of only 1.3%. All this points to a strong first quarter, in which I believe growth will easily top 4%.

Earnings continue to be strong despite some high profile disappointments (particularly Ford today). Of the 174 S&P 500 firms that have reported since Alcoa, 137, or 74.4% have beat estimates. The percent that have surpassed their revenue estimates are much higher than in the last few quarters. Forward guidance has been mixed, but overall analysts continue to increase their estimates of 2011 earnings.

Not surprisingly, Bernanke was able to put together a unanimous vote behind the latest FOMC directive; Charles Plosser and Richard Fisher chose not to dissent. As noted last week, this does not mean that they support QE2, but as the program has already been undertaken, they do not wish to stop the policy midstream. Given the pace of economic recovery, there is virtually no chance that a further quantitative easing will be implemented. Indeed the next round of discussion should be how to prepare the market for a Fed tightening.

Until today, where unrest in the Middle East is giving oil a bump, one of the most gratifying developments had been the softening of commodity prices, particularly gold and oil. Whether current unrest in Egypt will spread is unknown. Uncertainty, even when the outcome can be quite favorable, causes investors to become conservative, shunning stocks and buying gold and Treasuries, often called the "Risk On" trade. If democracy can come to the Middle East without under turmoil, this will be very positive development. Stay tuned.

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