Week in Review: Stocks drop as China tightens credit, Obama proposes bank rules

Related Resources

By the Numbers - (PDF format)

For the week ended January 22, 2010

Equities fall around the world

U.S. leading indicators point to sustainable recovery

Goldman Sachs reports record earnings; other banks show losses

GE posts 19% loss in net income

China reins in credit after growth hits 10.7%

World Bank raises forecast for global growth to 2.7%

Stock markets around the world came under pressure this week amid worries that China's retreat from its economic stimulus measures could slow world growth and earnings could be hurt by proposed new limits by the Obama administration on the size and activities of the nation's largest banks. By midday Friday, both the Dow Jones Industrial Average and the Standard & Poor's 500 Stock Index, had erased gains for 2010 and were down more than 2% on the week. International stocks, as measured by the MSCI World Index, experienced comparable losses.

U.S. economic news

Recovery persists despite continued job losses

Despite the selloff in equity markets, some of the more forward-

looking data this week showed the economic recovery still has momentum. The index of leading indicators, a gauge of the economic outlook for the next three to six months, increased more than expected in December. Fewer firings, rising stock prices, and efforts by the U.S. Federal Reserve Board to keep short-term rates low boosted the index.

Job growth continued to lag, however. Jobless claims unexpectedly increased by 36,000 to 482,000 in the week ended January 16, the highest level in two months.

Other data showed inflation remained in check. U.S. wholesale prices rose 0.2% in December, a slower pace than in November when prices increased 1.8%.

U.S. and global corporate news

Goldman Sachs posts record gains, while other financial companies suffer losses
Goldman Sachs Group reported record earnings that beat expectations as the company slashed its bonus pool. The company made up for the fourth-quarter slowdown in trading revenue by taking back money the bank had set aside for bonuses earlier in the year. The move results in the lowest percentage of compensation to revenue — 35.8% — since the bank went public in 1999.

Morgan Stanley posted a net loss of $960 million, its first annual loss since going public in 1986. **Citigroup** reported a $7.6 billion loss on costs to exit the government's bailout program. Loan troubles hit earnings at **Bank of America**, **Well Fargo,** and **U.S**. **Bancorp**. **Bank of New York Mellon**, the world's largest custody bank, reported an increase in fourth-quarter profit after fees for overseeing investor assets rose along with the market.

General Electric posted a 19% drop in fourth-quarter profit after the company was hurt by weakness at its finance arm and NBC Universal. The company said, however, it foresees a return to growth in 2011.

Income at **CSX** rose 23% in the fourth quarter. The company is the first of the four largest U.S. railroads to report quarterly earnings.

Railroad traffic is considered a leading economic indicator for the economy.

Global economic news

China moves to rein in credit to prevent overheating
China took measures to rein in credit this week after its economic growth accelerated 10.7% in the fourth quarter, the fastest pace since 2007. The news sparked speculation that the Chinese central bank will need to start raising its benchmark interest rate and tighten restrictions on nation's lenders in an effort to prevent the economy from overheating. On Thursday, the People's Bank of China raised the yield on three-month bills that it sells to financial institutions, making it more attractive for the firms to hold the securities rather than expend loans.

Underlining the inflation risks, Chinese consumer prices rose 1.9% from a year earlier, accelerating sharply from the 0.6% rise in November, which followed months of declines. In December producer prices rose 1.7% from a year earlier, reversing November's 2.1% decline.

World Bank lifts global growth forecast
The World Bank raised its forecast for global growth in 2010 to 2.7% from the 2% rate it forecast in June. It predicted that China would overtake Japan as number two in GDP rankings this year.

Manufacturing data in the eurozone suggests the sector slowed less than previously thought. German manufacturing orders rose much more strongly in November than previously estimated, and eurozone factory orders rebounded sharply after a decline in October. In another sign that the recovery is gaining pace, French business confidence rose more than expected in January. The French finance ministry this week raised its 2010 growth forecast to 1.4%.

Stay focused and diversified
In any market environment, we strongly believe that investors should stay diversified across a variety of asset classes. By working closely with your financial advisor, you can help ensure that your portfolio is properly diversified and that your financial plan supports

your long-term goals, time horizon, and tolerance for risk. Diversification does not guarantee a profit or protect against loss.

The views expressed here are those of MFS® and are subject to change at any time. These views should not be relied upon as investment advice, as securities recommendations, or as an indication of trading intent on behalf of any MFS investment product. Individual securities mentioned are for illustrative purposes only and may not be relied upon as investment advice or as an indication of trading intent on behalf of any MFS product.

Securities discussed may or may not be holdings in any of the MFS funds. For a complete list of holdings for any MFS portfolio, please see the most recent annual, semiannual, or quarterly report.

Past performance is no guarantee of future results.

Sources: MFS research; *The Wall Street Journal*; The Wall Street Journal Online; Bloomberg News; CNNMoney.com; Forbes Online; msnbc.com.

19039.3
