

Weekly commentary by Professor Jeremy J. Siegel

## News Continues Favorable; Could see Breakout Next Week

8:15 a.m. PDT, 8/28/2009, Philadelphia PA



Equities are moving up as predicted and I believe the upward movement is far from exhausted. There's still a huge amount of skepticism among traders about this rally and many investors are still sitting on the sidelines.

Economic news on balance was even better this week than last. The only disappointment was unemployment claims; I'd like to see them in the low 500k or lower. But that might happen in the next two weeks. Even the 2nd quarter GDP report – usually a non-event – was very favorable, as inventories were revised down and final sales, originally reported as negative, poked into the positive territory. It is looking like this quarter's GDP could be 3% or more. Most economists were looking for a significant downward revision in 2nd quarter data. Holding the decline at 1% means that the good productivity data, reported next week, are likely to hold.

The second increase – far more than expected – in the Case-Shiller home price index was also a surprise. There is no question that the residential real estate market has stabilized, particularly in the mid to low ranges. High priced homes are still struggling, but with further improvement in the stock market, this sector should stabilize soon. Jumbo loans are more difficult to get (and more expensive), but more banks are lending here also.

What I like about the current stock action is that when equities sell off, commodities (and oil) also decline and the bond market rallies. So yields become more supportive (as I indicated last week, the ten year under 3.50% [now 3.49%] is extremely bullish) and inflation fears diminish. Short-term credit markets continue to normalize and this is also extremely favorable for stocks.

Next week is big: the ISM manufacturing reports and the Friday employment report, which will keep traders from taking a 4 day Labor Day break. Expectations are for a 225k decline in payrolls and a one tenth percentage point rise in the unemployment rate. We will get hints about this number from the ADP report on Wednesday (although ADP was 125k too bearish last month), the ISM employment data, and claims next week. If employment Friday proves better than expected, look for a major upside breakout in equities.

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