Weekly commentary by Professor Jeremy J. Siegel

Next Week Very Important: Earnings Plus Critical Economic Indicators

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As we predicted last week, the correction proved temporarily and stocks have regained lost ground. Certainly there was some better news, particularly jobless claims, but the news was not the main reason for the gain. Stocks have their own rhythms and we are still in a primary bull market; corrections, which place doubt in investors' minds, are always part of the game.

Next week brings us a slew of important economic indicators starting Wednesday with Retail Sales (-2.1%, ex auto +0.2%), CPI (+0.2%,+0.1%), Jobless claims (525k), the New York (17.75) and Philly (12.0) manufacturing indexes and the Univ. of Michigan sentiment index (73.0). With the exception of the CPI, all the rest are going to be important. Inflation is not now a concern, and unless the number is far from expectations, it won't move the data. There will be a big drop in overall retail sales as "cash for clunkers" expired, but excluding autos, sales are expected to be mildly up. Jobless claims took a welcome plunge last week, but they have to stay in the low 500k to keep the bullish cast. The New York, and Philly Manufacturing indexes are somewhat less important due to their regional nature, but the preliminary Univ. of Michigan consumer sentiment data, which disappointed last month, will be carefully watched.

Of equal importance will be earnings reports, as we are now going into the thick of third quarter earnings season. Early in the week we will see Intel ($0.272), JNJ ($1.13), JPM ($0.49), GS ($4.17), GE ($0.21), and others. It will be particularly interesting to see Citi's (-$0.229) and B of A"s (-$0.113) earnings, as they were the most troubled of the banks.

If earnings come in above expectations, and the economic indicators come in strong, stocks could stage a big rally with the Dow pushing through 10,000, garnering much media attention. This could cause many fence-sitters to jump in, causing a further rise in stocks. Another 15% rise would then be quite probable by the end of the quarter. The S&P 500 so far has a 21% return year to date, but 35% is not out of the question by the end of December. This coming week is going to be one of the most important in many weeks, and investors seem poised to give a bullish tint to the data and send stocks higher. Only big disappointment will hold stock back.
