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## Week in Review: Stocks tread water despite positive economic, earnings news

**For the week ended January 15, 2010**

- Obama to tax banks, recoup bailout money**
- Fed beige book: Moderate growth broadens**
- Jobless claims trend down to August 2008 low**
- JPMorgan Chase disappoints**
- Core inflation remains low**
- Retail sales dip in December**
- China puts the brakes on growth**

A number of economic reports painted a moderately positive picture overall, as inflation remained subdued, retail sales dipped slightly, jobless claims trended downward, and the U.S. Federal Reserve Board indicated broad, though modest, U.S. economic recovery. Major U.S indicators climbed to a 15-month high on Thursday before dipping on Friday.

President Obama proposed taxing about 50 large financial firms for the next decade to recover money taxpayers spent bailing out Wall Street through the Troubled Asset Relief Program. The fee would be levied on financial companies with assets greater than \$50 billion. It would be based on bank liabilities and imposed after June 30.

Overseas, China ramped up its efforts to slow down its economy, which is revving in high gear just a year after China joined the global effort to stimulate economic growth. In contrast, struggling

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Greece pledged to slash its country's deficit over the next four years.

## U.S. economic news

### **Fed beige book sheds positive light on 10 of 12 districts**

In its latest beige book, the Fed reported improving economic conditions in all but two of 12 districts from November 21 through January 4. Consumer spending, an important key to U.S. economic growth, recovered slightly in the latter half of 2009, the report indicated, although it remained far below 2007 levels. Also, the labor and real estate markets remained weak. The U.S. economy grew at a 2.2% annual pace in the third quarter of last year and was expected to have picked up pace in the final quarter.

### **Inflation remains contained**

U.S. consumer prices rose a modest 0.1% from November to December, as did core inflation — excluding food and energy prices, according to the U.S. Labor Department. Year over year, the Consumer Price Index (CPI) rose 2.7% in December, largely due to a sharp drop in energy prices late in 2008. Core CPI rose 1.8% from December 2008 to December 2009. Energy prices rose 18.2% in 2009, after falling 21.3% in 2008.

### **Jobless claims trend downward, but weekly numbers rise**

The four-week average of initial unemployment benefits claims fell to 440,750 last week — its lowest level since August 2008 — according to the U.S. Labor Department. The week-earlier number was 449,750. However, initial jobless claims rose 11,000 to 444,000 in the week ended January 9. Although companies are generally hesitant about hiring employees, fewer layoffs and firings are occurring.

### **Retail sales fell in December**

U.S. retail sales fell 0.3% in December, the U.S. Department of Commerce reported, indicating restrained consumer spending during the holidays as high levels of unemployment continued.

### **S&P cuts California's debt rating**

Standard & Poor's lowered its rating on California's \$64 billion general obligation debt from "A" to "A-," putting pressure on the

state legislature and Governor Arnold Schwarzenegger to terminate, or reduce, the state's \$20 billion deficit. The lowered rating could decrease investor demand for California's debt and make it costlier for the state to borrow money.

### **Up to 2 million jobs stimulated**

The \$787 billion economic stimulus package passed in 2009 kept 1.5 million to 2 million jobs in the economy throughout last year, according to White House economists. The Council of Economic Advisors credited the stimulus with stabilizing personal consumption, company investments in equipment, and spending by state and local governments.

### **U.S. trade deficit grows on rising imports**

The U.S. trade deficit grew in November, as rising imports exceeded increases in exports. This reflected a global rebound in trade generated by a resurgence in world economic growth. The trade deficit grew 9.7% in November to \$36.4 billion, the Commerce Department reported. While U.S. exports rose 0.9% to \$138.2 billion, that was outstripped by a 2.5% rise in imports, to \$174.6 billion.

### **Fed nets record profit in 2009**

The Fed does not often make headlines for setting profit records, but 2009 was a unique year, as the central bank's holdings of Treasuries, mortgage-backed securities, and agency debt grew. The Fed had \$52.1 billion in net income and paid \$46.1 billion to the U.S. Treasury during a year in which the Fed acquired billions of dollars of securities in an unprecedented effort to spur economic growth.

### **ETFs hit \$1 trillion**

Global assets in exchange-traded funds have topped the \$1 trillion mark, reports BlackRock, Inc., which is the largest ETF firm after buying the iShares ETF business from Barclays last year. BlackRock said ETF assets reached \$1.032 trillion at the end of 2009, a 45% yearly growth. Of the total, \$706 billion were U.S. ETF assets.

## **U.S. and global corporate news**

**JPMorgan Chase** quadrupled its fourth-quarter earnings, but its

shares fell initially as CEO James Dimon said quarterly and annual results fell short of expectations. The banking giant posted a \$3.28 billion profit, up from \$702 million a year earlier. JPMorgan Chase's investment banking division logged a \$1.9 billion profit, a wild swing from a \$2.36 billion loss a year earlier.

**Intel's** fourth-quarter profit grew tenfold — to \$2.3 billion from \$234 million a year earlier — as sales rose 28% and its gross profit margin expanded significantly. Intel's profit is all the more impressive after it deducted the \$1.25 billion it paid to Advanced Micro Devices in an antitrust lawsuit. The giant computer chip maker also provided a strong earnings forecast for the current quarter.

**Société Générale**, France's second-largest bank by market value, issued a fourth-quarter profit warning because of a \$2 billion charge it took from real estate-linked assets. The bank's management is reportedly concerned with strengthening its financial position in order to survive the next round of banking industry consolidation.

**Alcoa** posted a \$277 million fourth-quarter loss on lower sales in construction, aerospace, commercial-building, and gas-turbine markets. Results were better than the \$1.2 billion loss of a year earlier, but the aluminum maker clearly is still struggling.

## Global economic news

### **Eurozone industrial output rises**

Eurozone monthly industrial production rose 1% in November, but it was down 7.1% from a year earlier, according to Eurostat, the European Union's statistics agency. This marked the nineteenth straight month of a reported annual decline in eurozone industrial production, but it was the smallest in 13 months.

### **China reverses course on economy**

In an abrupt move away from its efforts to stimulate the world's fastest growing economy, China announced it would raise the percentage of deposits that banks must keep in reserve by half a percentage point to 16%. The move is aimed at preventing inflation and related asset bubbles. In response, the price of crude oil fell 2% worldwide on concerns of falling demand.

**German economy shrinks 5%**

Gross domestic product in Germany, Europe's largest economy, fell by 5% in 2009, according to the country's federal statistics office. The slump was caused by declines in exports and business investment. Germany's large dependence on exports leaves it vulnerable to global economic conditions. However, the BGA Association of German Exporters and Wholesalers predicted economic growth of up to 3% in 2010.

**Japanese deflation hits 4%**

Japan's corporate goods price index fell 3.9% annually in December, its twelfth straight month of decline, as weak domestic demand reflected a reluctance by consumers to spend in the face of deflation. This downward spiral could hurt corporate profits and, in turn, consumer wages.

**Greece tackles deficit**

The Greek government outlined an aggressive four-year deficit reduction plan with a goal of cutting the country's budget deficit to 8.7% of GDP this year, 5.6% in 2011, 2.8% in 2012, and 2.0% in 2013.

**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.

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