Weekly Commentary by Professor Jeremy J. Siegel

Very Good Earnings Clash with Weak Econ Data

11:00 AM EDT, 4/20/2012

Two currents moving in the opposite direction are impacting equities: weaker economic data but much better than expected first quarter earnings. The result so far has been a standoff and whether the bull market resumes will depend on whether the economic data in the U.S. improves and the European crisis doesn't worsen.

The claims data yesterday confirmed we have hit a soft spot; in fact virtually all economic data this week came in weaker than expected: U. of Michigan consumer sentiment, NY PMI, Core retail sales, the NAHB, Housing starts, Industrial production, Claims, the Philly Fed, and existing home sales. Only Housing permits and the unimportant leading Indicators beat forecasts. Certainly none of these indicators indicated that the economy is falling off a cliff and it could very well be that this softness is due to the very mild February and March weather "borrowing" strength for the normal spring pickup. And the softness has led to a sell-off in commodity prices, as Brent fell Wednesday to $116.70, more than $10 off its March 1 peak and wholesale gasoline prices are pointing to $3.75 a gallon. Nevertheless, fears of a repeat of the 2010 and 2011 scenarios of strong early growth followed by very weak year-end growth have certainly re-surfaced. On the earnings front the news is much better than expected, as the percent of firms beating estimates has risen to about 80%, putting the fears of a sharp slowdown in earnings to rest, at least temporarily. Even if the economy weakens, it is comforting that firms are starting out the year with strong balance sheets and good profits.

Certainly the most important event next week is the FOMC meeting. Before the recent spate of weak data, the interest rate forecasts of some individual committee members would certainly have signaled an earlier date for tightening. But the recent data certainly will deter many from shifting their forecast. Nonetheless, I expect that when the individual forecasts are tallied at least one or two will show some earlier tightening. However Bernanke will still have the majority (he had 11 in January) agreeing that the low funds rate will continue until the end of 2014, so the directive will remain unchanged. The timing of Wednesday's announcement should be of interest to traders. The statement will be released at 12:30p, and because it will show little change, may not move markets appreciably. But when the individual forecasts are released at 2:00, stocks may pull back when the market learns that some members believe tightening will come earlier than they forecast in January's meeting.