

Week ended **March 5th**



Dr. Jerry Webman is Chief Economist for OppenheimerFunds, Inc. In this capacity, Dr. Webman provides strategic viewpoints on the overall financial and economic markets to investment management and the financial advisor and investor communities.

For over 20 years, Dr. Webman has been involved in the investment and economic markets—as a researcher, financial advisor and portfolio manager.

Dr. Webman holds a B.A. in political science, with honors, from the University of Chicago where he graduated Phi Beta Kappa, and a Ph.D. in political science from Yale University. He is also a Chartered Financial Analyst.

Stocks Gain Globally as Risk Appetite Returns

Stocks rose worldwide and U.S. Treasuries fell last week as investors' appetite for risk picked up. We saw some reassuring signs from Greece, whose looming budget deficit problems have for weeks placed it at the center of intensifying European sovereign default fears. The country was able to issue nearly \$7 billion in 10-year bonds last week at a 6.25% coupon rate. The successful sale reflects a rising level of comfort among investors that Greece will manage to avoid default and will trim its deficit through tough austerity measures.

Of course, the country is not out of the woods yet. It still has much more money to raise this year, including about \$13 billion worth of planned debt issuance in April alone. Additionally, the political and economic effects of Greece's austerity plans remain unclear. Street protests against the measures continued unabated last week, and the deep spending cuts risk tipping the Greek economy back into recession. Still, the market's reaction to the bond sale potentially bodes well for other strapped eurozone countries, including Portugal, Spain and Ireland.

China continues to tap the brakes

In China, the SSE Shanghai Composite Index sold off last week as the government took further steps to rein in excess liquidity. Premier Wen Jiabao, in a Beijing speech, made promises to limit property speculation, slow lending and increase social spending. Recently, the Chinese central bank has raised reserve requirements for banks and scaled back lending quotas, and interest rate hikes

may be on the horizon. The next step in Chinese tightening may be allowing the Yuan to resume appreciating against the U.S. dollar, a move that could limit domestic inflation and stimulate domestic consumption.

The government's overall strategy is to try to maintain high growth rates and spur consumption without setting off high inflation. As I've said previously, China, like many emerging markets, has its risks. Any pullback in emerging market equities could represent a long-term buying opportunity, however.

U.S. recovery on track, but employment still lags

A slew of data released last week confirmed that by and large, the U.S. economy continues its modest recovery. Jobs, however, have been slow to come back. Nonfarm payrolls fell 36,000 in February after falling a revised 20,000 in January. The construction and government sectors lost the most jobs, while the services sector saw the most job gains—particularly in temporary positions, which may be a precursor to permanent jobs.

The February results were not as poor as many expected, but it's nevertheless discouraging that we're still seeing job losses nine months after the recession probably ended. Overall, the U.S. lost 8.4 million jobs as a result of the downturn. Factoring in population growth, the country will need to re-create even more than that just to get back to even.

Fortunately, other areas of the economy are improving. The Institute for Supply Management's (ISM) Manufacturing Index dipped to 56.5 in February from 58.4 the previous month, but it remains well above 50, the

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threshold between retraction and expansion. In fact, the index remains well above pre-recession levels. New orders and backlog data remained strong in the latest report, which could be positive for job creation.

The ISM's Non-manufacturing Index rose to 53.0 in February from 50.5 in January. This is a welcome development, given that the index indicates (in part) the state of the services sector, which constitutes the lion's share of the U.S. economy. Employment was still in recessionary territory at 48.6, but rose by four points since January. New orders were the strongest since mid-2007, a positive sign for future employment.

Productivity growth for the fourth quarter of 2009 was revised higher last week, to 6.9% from an earlier estimate of 6.2%. Unit labor costs, meanwhile, were revised to -5.9% from the previous estimate of -4.4%. Rising productivity and falling costs are clearly bullish for corporate earnings. The question remains how much more efficient companies can get before they have to start hiring workers to meet demand.



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