

# 361 Capital Weekly Research Briefing

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*Timely perspectives from the 361 Capital research & portfolio management team*

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## **U.S. Equity Market continues to grind higher to the dismay of many Active Investors**

Just as we exited 2011, the majority of hedge funds and active institutional managers do not have significant over exposure for a rise in equities. Hedge Fund surveys and year end letters continue to suggest that their net exposure remains near 2009 levels. Many investors continue to wait for a break in Europe or for a more bullish signal from the U.S. equity market, so for anyone with a dollar of risk on the sidelines, the +4% move in the S&P500 has made for a painful start to 2012. Will the market give investors a sign that it wants to continue higher via a volume breakout or will it continue to move in its banana slug like ways?

## **Economic Datapoints continue to show wide improvement in the U.S.**

- Jobless claims dropped -50,000 to 352,000 for the week. This translates into a 4-week moving average of 379,000. This is the lowest claims reading since 2008.
- Existing home sales rose +5.0% in December to a 4.6 million unit pace and are now the highest since January 2011.
- The Architecture Billings Index remained in positive territory last month for a second consecutive month, an indication that conditions in the design industry are showing signs of improvement. *WSJ*
- Big U.S. banks are reopening the lending spigot amid signs that an improving economy is spurring companies and individuals to borrow more. On Tuesday, Citigroup Inc. and Wells Fargo & Co. recorded their strongest loan-growth numbers since the financial crisis. The figures confirm a warming trend highlighted Friday by J.P. Morgan Chase & Co. Demand is “everywhere,” J.P. Morgan Chase Chief Executive James Dimon said during a conference call last Friday. “Industrial, consumer, Asia, Latin America, trade finance, corporations, all types of corporations.” *WSJ*
- It is only one week into the earnings season but so far the reports have been a bit cold to the market. Goldman Sachs had a big upward surprise and stock reaction but most of the other big bank names ran into solid selling. IBM, Intel, GE and Microsoft were inline but Google sold off sharply after disappointing investors on several earnings metrics. The next 2 weeks will see the bulk of S&P500 earnings reports and the market will have plenty to analyze and digest.
- The weather item is making its appearance during the earnings season. Goodyear is not selling snow tires and Johnson Controls is not selling car batteries due to the above average temps. Natural Gas prices have been in a free fall so it will be a curious reporting outlook for the energy companies as well as those companies who use natural gas as an input for their products (plastic & fertilizer industries, utilities, even retailers who will benefit from consumers with extra cash in their pockets from the lack of heating bills).

## **Europe remains a source of market volatility**

European Bond Markets improved significantly last week with several note and bond auctions occurring at improved prices and the Italian 10 year yield retreating to 6.2%. Encouraged by this move were the European bank stocks which jumped 9% last week. On the flipside, private debt

holders of Greek paper failed to come to an agreement on the level of write off that they would accept and Greek 1 year notes continue to trade near a 400% yield.

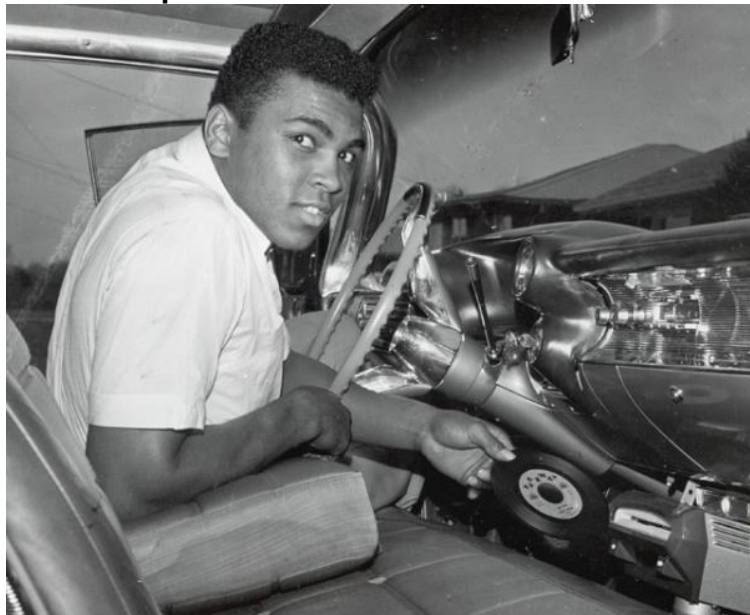
### **Quick Observations**

- The Nasdaq100 hit an 11 year high this week.
- The “B” in BRIC is breaking higher... Brazil Equities are +13% year to date.
- The Copper ETF is trading +10% year to date. And even though natural gas prices have gone into freefall, crude oil prices are only 2% lower year to date.
- 30 year mortgage rates fall to a new low of 3.88%.
- Apple unveiled its launch into the educational textbook category with books priced at \$14.99 and below.
- According to the U.S. Department of Agriculture’s latest data, a record 44.7 million people participated in the Supplemental Nutrition Assistance Program (Food Stamps) in fiscal 2011 at a \$75.3 billion cost to taxpayers. That’s up from 28.2 million and \$37.6 billion in 2008.
- The worldwide market for hydraulic fracturing will grow 19 percent this year to a record \$37 billion, one-third the pace of expansion in 2011 after tumbling natural-gas prices discouraged exploration for the fuel, said Spears & Associates Inc.
- “We shouldn’t be criticized for using Chinese workers,” a current Apple executive said. “The U.S. has stopped producing people with the skills we need.” [\*New York Times\*](#)

### **At some point, this will translate into a meaningful pop in Auto and Truck sales**

Americans are holding onto their cars and trucks longer than ever. The average age of cars and trucks on U.S. roads is 10.8 years, the oldest ever recorded, according to Southfield-based Polk. By comparison, the average age of the fleet was just 8.4 years in 1996. [\*Detroit News\*](#)

**The Champ turned 70 this week. Note how tech forward he was at 19 years old...**



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