

MARKETBEAT

One Down, Three to Go

April 3, 2006 8:07 a.m.

Send suggestions and comments to us at marketbeat@wsj.com. Find this feature every day at WSJ.com/marketbeat.

4:08 p.m.: Investors sent the stock market higher in the first quarter, all but tasting the end of the Federal Reserve's campaign to raise interest rates and stamp out inflation. The Dow Jones Industrial Average gained 3.7% in the three months; the Standard & Poor's 500-stock index logged a 3.9% gain (its best start to a year since 1999); and the Nasdaq Composite Index surged 6.1%, [Scott Patterson writes](#). Small-cap stocks were expected to fall apart, but they chugged along to record highs seemingly every day. Oil prices roared back to flirt once again with \$70. Gold put \$500 well behind it.

THE BOX SCORE

	4Q Close	1Q Close	Change
DJIA	10717.50	11109.32	+3.66%
S&P 500	1248.29	1294.83	+3.73%
Nasdaq	2205.32	2339.79	+6.10%
Russell 2000	673.22	765.14	+13.65%
10 Year	4.393%	4.857%	+0.464*
Crude Oil	61.04	66.63	+9.16%
Comex Gold	517.10	581.80	+12.51%

* - percentage points

The market ends the quarter with just as much uneasiness about the Fed's intentions as it had at the beginning of 2006. But that didn't seem to matter for the past quarter -- "the fact of it is investors have become complacent," said

Michael Barron, CEO of Knott Capital in Exton, Pa. "Consumers have seen little personal damage so far from the 18-plus months of Fed tightening, and so these moves have done little to slow their appetite to spend."

Mr. Barron has increased his cash position to 12% of his portfolio because he sees economic growth slowing in the second quarter as the Fed continues to tighten and the housing market continues to slow.

--David A. Gaffen

Costs of Doing (Auto) Business

3:12 p.m.: Analysts looking at the troubles at [General](#)

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TODAY'S MARKETS 12:24 p.m. EDT

STOCKS	LAST	CHANGE	%CHANGE
Dow Jones	11406.52	52.03	0.46
Industrials			
S&P 500	1313.91	8.50	0.65
Nasdaq Composite	2360.48	26.85	1.15
Russell 2000	770.00	4.77	0.62

COMMODITIES	LAST	CHANGE
Gold, June (\$ per ounce)	641.30	-0.70
Oil, June Light Crude(\$/bbl.)	71.30	-0.63

TREASURYS	YIELD	CHANGE
10-Year Note	5.0630	0.34375

CURRENCIES	LAST	PRIOR DAY
Yen (per dollar)	113.9600	114.73
Euro (in dollars)	1.2533	1.2454

Source: Reuters and Dow Jones * At close
Note: Closing quotes are preliminary
For more data, visit the [Markets Data Center](#).

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[Motors](#) and Delphi are coming to one conclusion: What happens in the auto sector may not necessarily stay in the auto sector. [Yesterday](#), Merrill Lynch assessed banks' loan exposure to auto makers. Meanwhile, [XM Satellite Radio Holdings](#) has a partnership with GM, so a strike "would create uncertainty for XM in the near term," Chad Bartley at Pacific Crest wrote, noting that Delphi is XM's largest satellite-radio partner. Though Delphi radios are assembled overseas and operations would not be affected by a strike in the U.S., Mr. Bartley says, "given the breadth of Delphi products that are included in GM vehicles, XM could be affected by a general slowdown in GM vehicle production and sales as a result of a strike." The ad industry could also be dealt a blow. GM spent more than \$2.8 billion in 2005, according to TNS Media Intelligence, making it the second-largest advertiser behind [Procter & Gamble](#). A strike could affect ad-spending growth in 2006, wrote Merrill analyst Lauren Rich Fine in a note yesterday, pointing to GM's ad and marketing agencies, such as [Interpublic Group](#) and [Digitas](#).

--[Worth Civils](#)

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Blog Roll -- Afternoon Edition

2:28 p.m.: Charles Kirk looks at the stock market and sees people getting jittery. "It's been awhile since we've seen the tape act this jumpy," he writes on [the Kirk Report](#). "Profit-taking in the leadership groups has been the name of the game though the bulls continue to defend key areas of support."

As far as conditions in the market, Eddy Elfenbein has another take on his [Crossing Wall Street blog](#): "It's just too nice outside to blog about stocks," he writes. "I promise I'll have more later."

--[David A. Gaffen](#)

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Left Behind?



1:41 p.m.: Flows into international stock funds last month again outpaced those into U.S. funds. Some watchers are asking whether smaller foreign markets can handle the load as investors [seek out returns](#) in riskier corners. Total net flows into mutual funds were \$27.33 billion in February, the Investment Company Institute reported yesterday. Of that haul, \$18.98 billion went into international stock funds. Iceland was a hot target among international investors looking for high yields -- its benchmark stock index surged 65% last year -- but flows have reversed lately due to concerns about the nation's

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MarketBeat looks under the hood of Wall Street each day, finding market-moving news and analyzing interesting trends and numbers. The column is updated several times daily with contributions from reporters at The Wall Street Journal and the Online Journal, and includes noteworthy commentary from the best blogs and research notes. Market Beat is edited by David Gaffen. Send in your thoughts and suggestions at marketbeat@wsj.com. Find this feature every day at WSJ.com/marketbeat.

COMPANIES

Dow Jones, Reuters

[General Motors Corp. \(GM\)](#)

PRICE	22.99
CHANGE	-0.16
	12:00a.m.

[XM Satellite Radio Holdings Inc. CI A \(XMSR\)](#)

PRICE	21.13
CHANGE	-0.88
	12:03a.m.

[Procter & Gamble Co. \(PG\)](#)

PRICE	58.52
CHANGE	0.51
	12:00a.m.

widening current-account deficit and [banking system](#). "It was one of these phenomena where everyone is trying to play the same game," says Axel Merk, manager of the Merk Hard Currency Fund. "But you can't do it with a country like Iceland ... when everybody wants to leave [a market], it's a disaster." Economist Nouriel Roubini recently warned on his RGE Monitor Web site that other countries, including Turkey, Hungary and New Zealand, could face similar liquidity runs because of existing economic conditions, including a housing bubble, declining savings rates, and large fiscal deficits.

--David A. Gaffen

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Stocks in a Slumber

12:54 p.m.: Oil prices, bond yields, and economic data are all supportive of equities, which aren't getting anywhere. This morning's personal income and consumption report contained a benign core PCE indicator, a key measure of inflation watched by the Federal Reserve, but it hasn't spurred a rally. Oil prices are down, as the April crude-oil contract dropped \$1.20 to \$65.95, and the 10-year note's yield fell modestly to 4.857%. The Dow was up 6.80 points to 11157.50, led by a 1.6% gain in [Hewlett-Packard](#), which benefited from news that retailer [Best Buy](#) will start selling flat-panel television sets made by the computer giant. [Caterpillar](#) was holding the average down, losing 1%.

--David A. Gaffen

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Strike Watch

12:08 p.m.: Analysts expressed caution today over General Motors (preserving the status quo) after parts supplier Delphi moved to cancel labor contracts and benefits in a sweeping reorganization. But as dire as the situation seems, analysts are still betting against a strike by auto workers. "GM has far too much to lose," wrote Citigroup's Jon Rogers, who doesn't own the stock, in a morning comment. "In the coming months, GM management must navigate through a storm of events" that could burn through a portion of the company's \$20.5 billion in cash, he added. GM, which buys about \$15 billion in auto parts annually from Delphi, could be crippled by a lengthy work stoppage. Its shares were stung this week over the escalating labor strife, and have lost another 2% today. There are still optimists: Joseph Amaturio at Calyon Securities has been bullish on GM (his "add" rating is the firm's second-highest) since May 2005; he said today, "we are confident that GM will likely stay afloat as we believe the company has more than adequate cash to withstand a short-lived production disruption." Mr. Amaturio, who doesn't own the stock, said if "weakness in the sector were to persist," the firm would recommend adding to its GM positions.

--David A. Gaffen

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Blog Roll -- Morning Edition

[Interpublic Group of Cos. \(IPG\)](#)

PRICE	9.55
CHANGE	0.02
	12:00a.m.

[Digitas Inc. \(DTAS\)](#)

PRICE	13.78
CHANGE	0.63
	12:03a.m.

[Hewlett-Packard Co. \(HPQ\)](#)

PRICE	33.30
CHANGE	0.50
	12:00a.m.

[Best Buy Co. Inc. \(BBY\)](#)

PRICE	57.28
CHANGE	0.22
	12:00a.m.

* At Market Close

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10:48 a.m.: David Altig at the Cleveland branch of the Fed is confused about the market's reaction yesterday to an upward revision to inflation measures in fourth-quarter GDP. His take: Markets are taking the Fed's suggestions that data are the preeminent issue too literally. "I really would not have thought that the by-gones of 2005 would be that big a deal," [he writes](#). "So I wonder: Does data dependent mean that markets have become especially sensitive to any signs that might be interpreted as support for higher policy rates?"

The trading that followed this week's policy meeting implies investors are just as likely to grumble about Fed chief Bernanke as they did about Fed chief Greenspan. James Hamilton, economics professor at the University of California-San Diego, advises against overcomplicating the matter. "If you read the Fed's latest statement not as an arcane set of tea leaves that have to be deciphered, but rather as a straightforward statement of where we stand that should be taken at face value, then I don't see anything to be alarmed about," [he writes](#) in his Econobrowser blog. "When people ask, 'what does Bernanke mean?' My first instinct is, 'exactly what he says.' You might come to like it, once you get used to it."

--David A. Gaffen

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Longest Eighth Inning. Ever.



9:49 a.m.: Kansas City Fed President Tom Hoenig, speaking in Missouri today, said the Federal Reserve is in "an area where we are much closer to neutral, maybe in the neutrality or in the upper end of neutrality." If this is the case, perhaps the Fed's tightening campaign is in the bottom half of the eighth inning now? As opening day of Major League Baseball approaches, a comment like this from Mr. Hoenig can't help but remind us of Dallas Fed President Richard Fisher's "eighth inning" comment to describe the status of Fed policy -- 10 months ago.

At the time, the federal-funds rate was at 3%, and the Fed was halfway through its current tightening effort, as it has since raised rates seven times, a quarter percentage-point each time. That day, stocks jumped on the comments, made in [an interview](#) with the Wall Street Journal. The Dow [ended up](#) 0.8% after Mr. Fisher's statement, and the 10-year Treasury yield dropped below 4% to 3.90% on the remarks. So where are we since? Well, the Dow is still higher, having gained 5.7%; the S&P is up 12.1%, but the 10-year yield has risen from 3.90% to 4.86%.

--David A. Gaffen

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On ETFs and May Showers

9:12 a.m.: With investors jumping all over metals as they await the approval of the forthcoming silver-focused exchange-traded fund, Diya Gullapalli writes in today's Wall Street Journal [Fund Track](#) that these narrow investments -- such as the popular gold ETF -- are "raising concerns that the funds are drifting too far from their roots." The main selling point, she says, was that "they provide wide exposure to the market at lower costs than a similar mutual fund." Now, however, the gold fund "reminds you of the mutual-fund world celebrating the launch of an Internet fund in the late '90s," she quotes Don Phillips, managing director of Morningstar as saying.



From the "Here Comes the Pain" department comes a column from Bloomberg's Chet Currier, who reminds us that the market is entering two historically lousy periods at once -- the May-to-October period and the mid-cycle elections. Neither have proven fruitful for equities. "Of the 12 declining years endured by the Standard & Poor's 500 Index

since 1960, a check of my Bloomberg indicates, six occurred in the second year of a presidential administration," [he writes](#), making sure to throw in the old adage, "Sell in May and go away."

If the swoon does happen, there will be a chorus of people out there to blame the Fed. Comstock Partners, in a week-ending commentary, frets that by the time the data -- which the Fed says it is dependent on -- shows a slowing, it will be too late. "By the time the Fed stops raising rates the economy is already on a course leading to probable recession, and the stock market is likely to shift its attention to faltering economic growth and disappointing earnings rather than cheer the end of tightening," [they write](#).

--David A. Gaffen

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Inflation Is in the Zone

8:51 a.m.: Stock futures were given a boost after this morning's release of the February personal income and consumption report again showed inflation remaining at a relatively low level. The so-called core PCE deflator, which excludes food and energy prices, rose 0.1% in February and was up 1.8% on a year-over-year basis. However, the deflator is on the higher side of the Fed's comfort range for this gauge, considered to be between 1% and 2%. Including food and energy, however, the PCE is up 2.9% year-over-year. Nonetheless, the market is taking this as a positive after a week of malaise prompted by the Federal Reserve's interest-rate increase and accompanying statement, viewed as supportive of more rate increases. Among pre-market movers, [Google](#) was up 1% after the company unveiled plans for a new online-advertising format for its local search service. [Dow Chemical](#) was off 1.2% on Inet after Prudential Equity Group downgraded its rating on the company to "neutral."

--David A. Gaffen

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