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# Lookahead: Yield Signs

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After this week's deluge of economic data, next week should be much quieter, which means stocks might continue their runaway rally – though bond yields could be a worry.

## What Happened

THE WEEK'S TALLY

| | At June 1 Close | Week's % Change |
|---|---|---|
| Dow | 13668.11 | 1.2% |
| Nasdaq | 2613.92 | 2.2% |
| S&P 500 | 1536.34 | 1.4% |
| 10-year yield | 4.955% | 4.86%* |
| Euro vs. dollar | $1.3447 | 0.0% |
| Gold (for June delivery) | $671.20/oz. | 2.4% |
| Silver (for July delivery) | $13.74/oz. | 5.7% |
| Crude oil | $65.08 a barrel | -0.2% |

*Last week's closing yield

Markets were closed Monday for the Memorial Day holiday. Stocks edged just a bit higher on Tuesday, a day of choppy trade and light volume after the long weekend. Consumer confidence numbers were better than expected, but housing data were weak.

Wednesday, the S&P 500 reached a new closing record of 1530.23, ending a biblical seven years without surpassing its previous closing high, set in March 2000. Thursday, momentum slowed, but the S&P and Nasdaq closed modestly higher.

On Friday, a positive earnings report from Dell and news of a meeting between Dow Jones and News Corp. kept stocks gaining. A strong May employment report, which came in ahead of consensus expectations, also boosted the market. In other reports on Friday, consumer spending rose (though incomes dropped slightly), inflation cooled and manufacturing strengthened -- almost too much to absorb in one day. But stocks closed higher, with the Dow and S&P again breaking records.

## What's Next

Next week's economic calendar is much lighter, compared with this week's deluge.

"There's nothing as big as [the data] this week, particularly as big as [the data] today," said Phil Dow, director of equity strategy at RBC Dain Rauscher, speaking of Friday's flurry of economic news. He said Monday and Tuesday could bring a delayed reaction to today's jobs number, which showed a solid increase in employment last month. "It was a real surprise," he said, calling today's reaction "muted."

Some analysts think April factory-orders data, due Monday, could catalyze the market. "It would be nice to see [strength in manufacturing] continue," said Robert Pavlik, chief investment officer at Oaktree Asset Management. Wall Street consensus believes orders grew 0.6% in the month, according to Briefing.com, compared with a 3.5% surge in March. One caveat: Investors may have already heard enough about the May rebound in manufacturing to make these April figures redundant.

With recent data looking robust, the possibility of the Fed cutting short-term interest rates has dwindled -- but fears of a rate increase haven't grown, either. "The Fed is sort of out of the picture," notes Mr. Pavlik. "I don't think growth is so strong they're going to have to raise rates, and that bolsters commitment to the market, even at this level."

Can anything stop the rally, then? Many analysts noted that the recent rise in bond yields could move money to fixed income and away from equities. "In the short-term I think we're going higher because of liquidity," said Alan Lancz, president of Alan Lancz & Associates. "The caveat is, as interest rates go up, fixed income is a viable option."

Today, the yield on the ten-year Treasury hit 4.96%, a level last seen in August of 2006, and fixed-income analysts said the yield on the ten-year might soon cross 5%. "If we cross that threshhold, we'll probably see money taken out of stocks and put into Treasurys," said Jim Herrick, head trader at Robert W. Baird.

Other factors that could drag on stocks include a dearth of deal activity, which analysts call unlikely -- or oil prices jumping up ahead of hurricane season. "[A pullback] would be healthy," said Anthony Conroy, head trader at BNY Brokerage. "But the economic numbers are so strong, earnings continue to be better than expected, and as private-equity groups come in, there's a floor under the markets."