JSOnline
MILWAUKEE • WISCONSIN
JOURNAL SENTINEL

Stocks roar back, but economy has far to go

A year after trough, doubt slows recovery

By John Schmid of the Journal Sentinel

Posted: March 6, 2010

By themselves, the numbers tell a seemingly clear story: The Dow Jones industrial average is up 61% from the recessionary low it hit exactly one year ago Tuesday. The Standard & Poor's 500, up 68%. The tech-heavy Nasdaq, up a remarkable 83%.

Yet as strong as the U.S. stock market has been since it bottomed out last March 9, almost no one is feeling very bullish about the broader economy just yet. Seldom has the disconnect between Wall Street and Main Street been so gaping.

"Normally a rise of 60% should be reason for quite a bit of optimism," said Werner De Bondt, a professor of behavioral finance at DePaul University in Chicago. Instead, he said, "people are cutting spending, saving more, turning inward and going into a defensive posture. The middle class is under pressure. There are serious fears that this could be a double-dip recession."

The stock market used to be a reliable barometer of the nation's economic mood, not least because it reflected personal wealth and retirement security. Now, however, the pain lingering from the latest recession prevents many from celebrating this rollicking bull market.

One year ago Tuesday, all the major American stock indexes hit their lowest levels since the recession began in December 2007, having crashed to white-knuckle lows almost daily in the preceding months. But March 9, 2009, proved to be a turning point for investment analysts who paid more attention to their charts than the prevailing panic.

What they saw was fire-sale pricing on Wall Street: Microsoft selling for $15.15 a share, Google at $290.89, IBM at $83.48. And a buying spree began.

The trend, with a couple of interruptions in June and again in January, has been up ever since. Microsoft closed Friday at $28.59, Google at $564.21, and IBM at $127.25.

"When I saw how low some of these companies were trading at, I was telling " said Brian Jacobsen, a people, 'Back up the truck and load it up!' Milwaukee-area economist at Wells Fargo Bank.

Investment professionals explain that stock markets trade on expectations of what's coming - not what's already happened. And traders evidently expect some degree of economic recovery, even if one out of six working-age Americans still cannot find work or are unable to earn enough to pay their bills, according to government data.

"Are we out of the woods yet? No," said Maureen Busby Oster, the chief investment officer at Milwaukee-based MBO Cleary Advisors Inc. "Unemployment is the last thing to recover."

Pricing in Armageddon

One factor making a market rebound inevitable was that panic-stricken traders oversold stocks on the way down, spooked by the September 2008 collapse of 158-year-old Lehman Brothers, instability among other gold-plated investment banks, and a resulting freeze in credit that slammed the brakes on the broader economy.

"The market basically was pricing in Armageddon," said Jacobsen, who also teaches economics at Wisconsin Lutheran College.

The gains since last March have been led by classic investment contrarians, those who sense the greatest opportunity just as the herd espouses the deepest gloom, analysts said.

Still, many investors are nervous about Washington's inability to control its staggering deficits, which economists say are unsustainable. Worrisome to some traders is uncertainty over whether the costly stimulus programs will help the economy or merely trigger a renewed American economic crisis.

"That's hanging like a cloud over any recovery that's going to happen," said Bob Atwell, chief executive at Nicolet National Bank in Green Bay. "There's no confidence that Washington has a handle on it."

That helps explain why, by one crucial metric, the current rally still lags the average of every other post-recession stock-market recovery since World War II.

The Dow remains 25% below its pre-recession closing peak of 14,164.53 - its all-time high, hit in October 2007. Other stock-market comebacks on average had closed the gap to 5 percentage points by this stage of the recovery, Jacobsen said.

So despite a year of rapid growth on Wall Street, long-term investors still have a long climb ahead of them just to get back where they were more than two years ago.

"The stock market recovery is not as extreme as previous ones because the economic recovery is not as extreme," Jacobsen said.

In a global economy, many traders look beyond the anemic U.S. economy anyway. It is increasingly common that rapid growth in China and India can boost stock prices on Wall Street: Among the 500 companies in the S&P 500 index, close to half of all revenue on average comes from outside the United States, according to S&P.

Global growth also has helped the stock market levitate over the worst U.S. labor market in decades. On Friday, the Labor Department issued the latest sign that the U.S. remains mired in a jobless recovery. The nation lost 36,000 jobs in February, while the unemployment rate remained stuck at 9.7%.

The U.S. economy has lost 8.4 million jobs since the start of the recession. And few expect rapid improvement. Economists widely expect the unemployment rate to hover stubbornly at or near double digits through the remainder of the year, maintaining a background of anxiety during the midterm elections in November.

Perhaps the sharpest Wall Street-Main Street rift, at least in the popular imagination, lies with the investment banks. These days, they are back in the business of managing money after emerging from the perilous days of late 2008 and early 2009.

On Main Street, however, many continue to harbor disgust at the bonuses and bailouts heaped on those same banks that enabled the subprime debacle, or at financiers like Bernard Madoff, whose Ponzi scheme defrauded thousands of investors.

"The panic has receded," said Atwell at Nicolet, a world away from Wall Street, "but the future is clouded."