Stocks may extend rally after strong jobs data
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Yesterday's stronger-than-expected payrolls report did more than ease concerns about US economic fundamentals – it also seemed to justify Wall Street's record levels, suggesting the market's uptrend could continue.

February's jobs report followed two straight months of payroll reports that were sharply below expectations, and the rebound reinforced the theory that the weakness in December and January had been temporary, related to weather as opposed to worsening fundamentals.

That bet has helped equities shrug off bearish data and geopolitical uncertainties in Ukraine, taking the S&P 500 to a series of record highs. However, it also raised concerns that the market may be vulnerable to pullbacks on any indication that conditions have gotten worse.

"We're hoping the payroll report means we're on a stronger footing going ahead and that we can get more robust growth going forward," said Michael Mullaney, chief investment officer of Fiduciary Trust Co in Boston. "Now we're trading on fundamentals, which we think are fine. We're comfortable still being long on the market."

In a sign of positive trading momentum, the S&P 500 is 1.3% above its 14-day moving average, a level that could serve as support in a market decline.

In the latest week, the Dow rose 0.8%, the S&P 500 climbed 1% and the Nasdaq gained 0.7%. While the Dow and the S&P 500 rose for their second straight week of gains, the Nasdaq advanced for a fifth straight week, up 5.7% over that period.

Yesterday, the S&P 500 ended at a record high of 1,878.04. The milestone marked its fifth record closing high in the past seven sessions.

Wall Street has marched steadily higher this year, save for a pullback in late January that came on concerns about emerging markets. Those worries will remain prominent after Russian President Vladimir Putin rebuffed a warning from US President Barack Obama over Moscow's military intervention in Ukraine's Crimea region. Obama has ordered sanctions against Russia in the most serious confrontation since the Cold War.

"Weekends are notorious for geopolitical developments, so we might be vulnerable to some kind of shock," said Terry DuFrene, investment specialist at JPMorgan Private Bank in New Orleans, which has US$977 billion (RM3.1 trillion) in assets under management.

Macro issues may have a large influence on trading next week, with little else that could serve as catalysts. Only two S&P 500 components, Urban Outfitters and Dollar General, are scheduled to report quarterly results. Economic indicators on tap include February retail sales, seen rising 0.2%, and a preliminary read on March consumer sentiment from the Thomson Reuters/University of Michigan Surveys of Consumers, which is expected to hold flat from February.

While any development in Ukraine could overshadow the data, the conflict is not expected to drastically change the market's fundamentals.

"We're not as susceptible to a disruption from that part of the globe as we would be to a flare-up in the Middle East," DuFrene said. "That gives us some breathing room, and though there will be fears of contagion, the market should be able to continue taking things in stride."

Equities in total may be hard-pressed to post dramatic gains from record levels, but analysts see opportunity in specific areas of the market.

Fiduciary Trust's Mullaney, who oversees about US$11.3 billion in assets, said he was overweight large-cap stocks and underweight small-caps, which outperformed the S&P 500 for the past two years, as well as so far in 2014.

"While multinationals with a lot of emerging market exposure could be hit by developments in Ukraine, we don't think the pain will be that outsized, compared to other parts of the market, and in the meantime, small-caps are not favoured by their valuation."

The forward price-to-earnings ratio of the small-cap S&P 600 is 20.1, while the Russell 2000's, which includes more small names, is 24.5. To compare, the S&P 100, which has a higher concentration of large-cap names, has a P/E ratio of 14.3, while the benchmark S&P 500's is 15.8.

Morgan Stanley analysts wrote that it had been "dismissive" of the idea that emerging market contagion would impact US equities, "as what really matters is that the dream of growth is still alive", with corporate earnings not slowing.

"In this environment," the firm added in a note to clients, "stock pickers would benefit from exposure to technology as its historical alpha ranks first over all other sectors."

Sunday will mark the five-year anniversary of the closing low that the S&P 500 reached during the financial crisis. The benchmark index has soared almost 180% from that level. – Reuters, March 8, 2014.

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