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S&P 500 Gains for Third Day on Earnings, Economic Data

U.S. stocks rose, with the Standard & Poor's 500 Index (SPX) headed for its best three-day rally in two months, as Yahoo! Inc. earnings topped estimates and industrial production gained more than forecast.

Yahoo rallied 5.3 percent after sales surged at Alibaba Group Holding Ltd., where it holds a stake. Southwest Airlines Co. paced gains among carriers after saying it will freeze the size of its jet fleet through 2015, a one-year extension, to focus on boosting its return on invested capital. Bank of America Corp. retreated 2.1 percent after reporting a quarterly loss.

The Standard & Poor's 500 Index added 0.8 percent to 1,857.53 at 3:03 p.m. in New York, bringing its three-day advance to 2.3 percent. The Dow Jones Industrial Average rose 136.66 points, or 0.8 percent, to 16,399.22. Trading in S&P 500 stocks was 4.4 percent above 30-day average during this time of the day.

"The macro data continues to come in reasonably firm and we don't think valuations on the stock side suggest we're overdone," Jim Russell, a senior equity strategist at U.S. Bank Wealth Management, said by phone. "The market is finding some sort of natural trading level to bounce out of and we're seeing slightly better-than-expected earnings and second-quarter outlooks from management that seem to be encouraging."

The S&P 500 gained 0.7 yesterday as earnings from Coca-Cola Co. and Johnson & Johnson outweighed concern about escalating conflict in Ukraine. The index dropped 2.5 percent from its April 2 record through yesterday as investors sold Internet and biotechnology stocks, the best performers during the five-year bull market, amid concern valuations had become too expensive before earnings.

Defensive Rotation

Money is flowing to companies with stable profits and dividends. Utilities have climbed 12 percent in the past three months, nearly double the gain in energy shares, the next best performing group in the S&P 500.

“Big investors, obviously, are getting nervous,” Michael Chadwick, who manages \$150 million as chief executive officer of Chadwick Financial Advisors in Unionville, Connecticut, said in a phone interview. “It’s an old, old bull market. Prices are expensive. We got a lot of signals here that maybe we’re creating some kind of top.”

Yellen, speaking to the Economic Club of New York, told investors to pay attention to shortfalls in both inflation and the jobless rate for signals on the Federal Open Market Committee’s decisions on the policy rate. The Fed has a “continuing commitment” to support the economic recovery, she said.

Beige Book

The central bank said the U.S. economy continued to expand in most regions as businesses benefited from a bounce back from harsh winter weather earlier in the year. Eight of 12 Fed districts characterized growth as “modest or moderate,” the Fed said today in its Beige Book business survey, based on reports gathered before April 7.

Economic data today showed gains in manufacturing are helping power the U.S. out of the winter doldrums, while homebuilding shows signs of lagging behind. Industrial production rose more than forecast in March after a February gain that was twice as big as previously estimated. A Commerce Department report showed the pace of U.S. home construction rebounded less than forecast in March.

Seventeen companies in the equities benchmark, including Google and International Business Machines Corp., report earnings today. Profit per share for the index’s constituents probably dropped 0.9 percent in the first quarter, according to analyst estimates compiled by Bloomberg. Revenue climbed 2.6 percent from a year earlier, the projections show.

Volatility Protection

Russell Investments, the U.S. asset manager that oversees \$257 billion, bought protection against a drop in equities shortly before last week’s selloff. The firm acquired puts on the S&P 500 last week’s 2.7 percent slide, Alain Zeitouni, head of multi-management at Russell Investments France said.

“Protection is cheap and we’re a bit cautious,” Zeitouni said in Paris on April 10. “We don’t see a big rally in equities in the U.S. We’ve been expecting a correction.”

The Chicago Board Options Exchange Volatility Index, a gauge for U.S. stock volatility known as the VIX (VIX), fell 8.3 percent to 14.31.

All 10 main S&P 500 industries advanced today, with raw-material producers and industrial companies adding at least 1.1 percent to pace gains. 3M Co. and United Technologies Corp. jumped at least 1.7 percent for among the biggest gains in the Dow.

Yahoo Results

Yahoo rallied 5.9 percent to \$36.24. The Web portal posted first-quarter earnings of 38 cents a share, more than the 37-cent average estimate of analysts. Sales excluding some items of \$1.09 billion also beat projections. Alibaba reported that net income more than doubled in the last quarter of 2013 and revenue surged 66 percent. Yahoo owns 24 percent of the Chinese e-commerce company.

Southwest Airlines advanced 2.6 percent to \$23.50. The largest discount carrier's cap goes beyond Chief Executive Officer Gary Kelly's stated goal of holding the number of planes -- now about 680 -- steady through 2014. Showing a higher return on invested capital is part of Southwest's push to broaden its appeal to investors.

Delta Air Lines Inc. climbed 4.9 percent to \$33.49.

Johnson Controls Inc. rose 1.6 percent to \$46.69. The largest U.S. auto-parts maker agreed to buy Air Distribution Technologies for \$1.6 billion, seeking to lessen its reliance on the cyclical auto industry by adding ventilation products by purchasing Air Distribution Technologies from the Canada Pension Plan Investment Board.

Moelis Debut

Moelis & Co. climbed 5.7 percent to \$26.43 in its trading debut after raising less than it planned in the first U.S. initial public offering of an investment bank since the financial crisis.

Bank of America declined 2.3 percent to \$16.02. The second-largest U.S. lender swung to a quarterly loss after settling claims on mortgage bonds. The first-quarter loss of \$276 million compared with a profit of \$1.48 billion a year earlier, the lender said.

The Philadelphia Semiconductor Index fell 0.5 percent and a gauge of semiconductors dropped the second-most among 24 S&P 500 groups. Linear Technology Corp. slipped 4.1 percent to \$45.21 for the biggest retreat in the equities benchmark. Analog Devices Inc. lost 2.2 percent to \$52.03 and NetApp Inc. dropped 2.2 percent to \$36.18.

CSX Corp. declined 2.4 percent to \$27.63. The largest railroad in the eastern U.S. said it expects "modest" earnings growth for 2014 and it's unclear if 2015 will be "strong enough" to deliver a two-year compound annual growth rate of 10 percent to 15 percent.

Overseas Influence

In China, a report showed that the world's second-largest economy grew at an annualized 7.4 percent in the first three months of this year, a faster pace than economists had forecast. Gross domestic

product still expanded at the slowest pace since the third quarter of 2012.

Investors have also been keeping an eye on developments in Ukraine, where the government accused Russia of fueling “terrorism” in its eastern provinces as troops pressed on with an offensive to rein in separatist unrest. The U.S. and its European allies have threatened a new round of penalties against Russian interests. Envoys from Ukraine, Russia, the U.S. and the European Union hold talks in Geneva tomorrow.

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