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We are back into “earnings season” again, with companies reporting first quarter results, and so far, things are looking good. With 90 of the 500 companies in the S&P 500 Index having reported, earnings have been strong enough to increase the analysts’ “consensus” guesstimate of earnings growth up about two percentage points. Another 161 companies report this week, providing a pretty deep look at first quarter corporate health. The S&P 500 stock price index is 1485, near the old record high, but its estimated P/E for this year is 16, low enough, in my opinion, to allow earnings increases to continue to push stock prices higher.

Meanwhile, the economy continues to chug along at a slow but steady pace. We will get the preliminary Gross Domestic Product (GDP) report for the first quarter on Friday, and it will likely show growth of about 2%. Consumer spending was strong over the first quarter, as was international trade, but housing and business investment remain weak. The downturn in home construction appears to be bottoming out, with housing starts struggling higher after sharp declines last year and existing home sales and prices starting to recover. Weakness in business investment likely reflects continued tight control over costs. Sluggish first quarter investment caught me by surprise; typically investment advances with earnings. While this news has pushed down my Q1 GDP growth estimate, I view it as good news going forward in that it helps earnings growth. Also, sooner or later, business will loosen the purse strings and increase spending on equipment and inventories. With the unemployment rate at 4.4%, the job market looks good.

All the hand wringing over inflation still looks unjustified. The Consumer Price Index (CPI) inflation rate was 3.4% in March of last year and fell to 2.8% this March. The “core” CPI (which excludes food and energy) rose slightly from 2.1% last March to 2.5% this March, but this small rise does not look particularly threatening. Consequently, bond markets are quiet, with the 10-year Treasury note yield at 4.7%, about the same as this time last year.

Adding it all up, I think the bulk of data on earnings, stock market valuation measures, the economy, inflation and interest rates points to continued health in financial markets and renewed health in the housing market. After the dust settles on earnings season, I will report back with more complete results. As always, please call me with any questions or concerns.

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