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Positive employment data lift US stocks

By Ajay Makan in New York

A week that started with eurozone clouds over Wall Street ended with the focus squarely back on the domestic economy, as a strong employment report gave another leg to the new year rally.

Stocks had opened sharply lower on Monday as a eurozone summit once again weighed on sentiment, but the market rallied through the rest of the week, before a fall in unemployment to 8.3 per cent, a three-year low, pushed markets sharply higher on Friday.

Equity strategists had been worrying that the “surprise” ratio of US data – a measure of how often domestic economic reports surprise to the upside, boosting stocks – had started to tail off, but bulls seized on the employment report to advance the argument that US markets can decouple from their eurozone peers.

“Our economy is growing, and faster than we thought. That reduces the dependence of US equity markets on eurozone news flow,” said Randy Warren, principal of money manager Warren Financial, who said he was adding to his domestic equity position in anticipation of further rallies in the S&P 500.

The S&P 500 ended the week up 2.2 per cent, at 1,344.9, 25 points into bull market territory and at a new six-month high.

The tech-heavy Nasdaq Composite index hit a post-dot com bubble high after climbing 3.2 per cent to 2,905.66, as **Facebook**’s long-awaited IPO filing drove a two-day rally in internet stocks from Chinese social network Renren to offers website Groupon.

Zynga benefited the most. Shares in the social-game developer climbed 33.2 per cent over the week to \$13.39, trading comfortably above its \$10 IPO price for the first time since its stock market debut in December last year.

That came after Facebook’s filing showed Zynga accounted for 12 per cent of Facebook’s 2011

revenue, up from 10 per cent in the prior two years. But other moves appeared to have little to do with any Facebook-specific information.

Professional networking website [LinkedIn](#) climbed 4.3 per cent over the week to \$79.88, **Groupon** surged 21.9 per cent to \$24.43, well above its November \$20 IPO price. Chinese internet businesses, including [SINA](#), which owns a Twitter-like service and gained 7.2 per cent to \$75.00, also benefited.

“There’s nothing I saw in the Facebook filing that justifies a 20 per cent rally for Groupon or LinkedIn say,” warned Aaron Kessler at Raymond, “this is clearly all about sentiment, which makes the stocks vulnerable to a pull back if say earnings were to disappoint.”

Options traders appeared to be taking note, with bearish traders buying \$18 Groupon puts in large volumes on Friday, a trade that would require the stocks to pare gains significantly in the next two weeks to yield a profit.

The tussle between eurozone tail risk and upbeat US economic data was summed up in an 17 per cent rise for [Genworth Financial](#), which ended the week at a post-July close of \$9.17.

The market capitalisation of the US insurer halved in 2011 on fears of a deep recession in the eurozone, where it sells a consumer debt insurance product.

The company declared its first quarterly profit since 2010, after a sharp fall in losses on its core domestic mortgage insurance products, as the default rate on its US mortgage book fell.

“Sequentially from the third quarter to the fourth we’d expect to see a seasonal uptick in delinquencies,” said Steven Schwartz at Raymond James. “That we didn’t may indicate that we’ve reached a peak default rate for Genworth’s mortgage book, and will see falls form here.”

Bank stocks rallied strongly through the week, with [Morgan Stanley](#), whose shares climbed 9.4 per cent to \$20.31 over the week, to the fore as the investment bank secured the coveted lead underwriting role for Facebook’s IPO.

[Bank of America](#) hit a post-August high of \$7.89 before ending the week up 7.5 per cent at \$7.84, although the bank is still only trading at 40 per cent of the book value of its assets.

The **New York Stock Exchange** fell 0.3 per cent to \$27.49 in the week that the European Commission blocked its proposed merger with Deutsche Boerse. Rival [CME Group](#) saw its shares climb 14.2 per cent to \$273.43.

Earnings were the other big driver of stocks during the week. Amazon shares fell 3.9 per cent over the week to \$187.68, as revenue and sales growth fell unexpectedly at the online retailer.

Whirlpool surged 25.8 per cent to \$68.66 for the best performance in the S&P 500, as the dishwasher manufacturer delivered unexpectedly strong fourth-quarter results, after substantial cost savings.

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