

## Elections, QE2 on Tap in Coming Week

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NEW YORK ([TheStreet](#)) -- Expectations for the first week of November have been running high for months.

Midterm elections on Tuesday may bring at least a perceived sense of resolution to some policy uncertainties that may have been keeping some investors and hiring managers on the sidelines.



The market is also expected to get more clarity regarding how the **Federal Reserve** intends to bolster the flagging recovery on Wednesday with the Federal Open Market Committee's statement at the end of its two-day monetary policy meeting. Finally, the week concludes with the Labor Department's October employment report.

Heightening anticipation, the Bureau of Economic Analysis said on Friday that the [U.S. economy grew 2% in the third-quarter](#) -- a gray area for the Fed since it's right on the cusp of healthy growth, according to Ralph Fogel, head of investment strategy at Fogel Neale Partners.

"GDP of 2% is exactly what the Fed says is good -- anything less than that and they're not happy -- so it's probably causing a lot of disagreement internally," Fogel said, pointing particularly to consumer spending growth of 2.6%, which was slightly better than expected. "Bernanke is very much a person who does things by consensus. For the first quantitative easing, they did several trillion, but for this one, they're going to try it out and go a little at a time. They want to keep it flexible and see how it goes. The concern is that if they do too much quantitative easing, then they're going to get inflation."

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Although Fogel believes that unemployment numbers will have the most influence on the size of QE2, he said the Fed is also paying close attention to corporate earnings results.

"We've had a great earnings season," Fogel said. "Net income of all the companies that have reported so far is up 38% this year while sales growth is up 10% year-over-year but only up 8% quarter-over-quarter, so it looks like earnings might still be coming from cost-cutting and not from actual growth. That's something the Fed is looking at: It's great that corporate America is getting great earnings, but it's because they're getting more efficient, not because of growth."

Earnings reports will continue to trickle in throughout next week with oilfield services company **Baker Hughes**([BHI](#)) and managed care company **Humana**([HUM](#)) scheduled to report before the bell on Monday. Analysts are anticipating earnings of 47 cents a share and \$1.66 a share, respectively.

Other notable reports on the docket include **Archer Daniel Midland(ADM)**, **BP(BP)** and **MasterCard(MA)** on Tuesday; **Aetna(AET)**, **AOL(AOL)** and **Prudential Financial(PRU)** on Wednesday; **MF Global(MF)**, **Sirius(SIRI)**, **Kraft Foods(KFT)** and **Starbucks(SBUX)** on Thursday and **Beazer Homes(BZH)** on Friday.

Monday morning brings plenty of economic news to the market though indices are likely to be stuck in a holding pattern ahead of the midterm elections on Tuesday and the FOMC decision on Wednesday.

At 8:30 a.m. EDT, the Bureau of Economic Analysis releases September personal income and spending data. Economists anticipate a 0.3% increase in income, compared with growth of 0.5% in August and a 0.4% uptick in spending after similar growth in August, according to *Briefing.com*.

The Institute for Supply Management's October manufacturing index is projected to come in at 53.6 at 10 a.m., after hitting 54.4 in September.

Also at 10 a.m., the Department of Commerce issues its report on September construction spending. Economists are anticipating a decline of 0.5%, after previous growth of 0.4%, according to *Briefing.com*.

All eyes will be on the polls Tuesday. Markets are largely expecting Republicans to take the House and unless the GOP also takes the Senate or Democrats maintain a majority in the House, the market could see some selling on the news.

"More than likely, the elections will result in gridlock, which the market loves because it means you're not going to see a lot of liberal programs with lots of spending going through," said Fogel of Fogel Neale Partners. "But you've heard buy on the rumor, sell on the news, and I think this will be a case where people will sell after the election."

Fogel expects the next several years to be very good ones for the equity market, as they typically are in the years following a midterm election, but said he the market could be due for a pullback in the near term.

"The market has run up some 2,000 points very quickly, so even losing 200 to 300 points wouldn't be such a terrible thing. I think it would actually be healthy to take some of the excess out of the market," he said. "The market will have to take some time to digest some of this news, and after the election is a good time to do that."

Wednesday's FOMC statement will easily be the most anticipated event of the week. The market has been expecting the Fed to announce additional quantitative easing measures following its two-day November meeting ever since Chairman Ben Bernanke signaled that the central bank is open to providing more easing while speaking at the Kansas City Fed's annual symposium in Jackson Hole, Wyo., in late August. The question, as investors count down to the announcement at 2:15 p.m. EDT, isn't "if," but "how much?"

"For QE2, there's probably \$500 billion to \$1 trillion that's already priced into the market based on where equities and currencies have moved since the Jackson Hole address," said Keith Hembre, chief economist at First American Funds. "There was a story in *The Wall Street Journal* suggesting that the Fed moves would be several billion dollars over the next several months, so if that's the case, maybe you're at risk for some disappointment."

Mike Schenk, senior economist at the Credit Union National Association, believes the market has already readjusted its expectations.

"In the last day or two, it seems like the market has started to look at Fed easing more realistically. Expectations were very high for significant and immediate easing. Those expectations have come down -- and rightly so -- the Fed wasn't going to go in with guns blazing," he said. "The nervousness related to the potential increases in inflation that a big move in easing could have is well understood by the Fed."

On Wednesday, *The Wall Street Journal* reported that the [Fed is likely to purchase a few hundred billion dollars](#) of U.S. Treasury bonds over several months to lower long-term interest rates and bolster the recovery. The estimate was lower than some forecasts and well below the \$2 trillion of purchases that the Fed enacted during the financial crisis, creating some doubt among investors that measures will be large enough to be effective.

Before the afternoon rate decision, the market will get its first piece of employment data ahead of Friday's government report at 8:15 a.m. EDT with **Automatic Data Processing's(ADP)** employment change report. According to *Briefing.com*, Wall Street is expecting to see that the private sector added 20,000 payrolls in October after losing 39,000 in September.

At 10 a.m., the Institute for Supply Management's October services index is projected to come in at 53.6 at 10 a.m., after September's reading of 53.2.

Also at 10 a.m., the market gets a read on September factory orders. Economists are anticipating growth of 0.6%, compared with a previous decline of 0.5%.

By Thursday, market attention can shift fully to the labor market. Initial weekly jobless claims, which are due out at 8:30 a.m., are expected to climb to 450,000 for the week ended Oct. 30, from 434,000, previously.

At 8:30 a.m. on Friday, the Department of Labor is expected to report an increase of 45,000 nonfarm payrolls in October, compared

Hourly earnings are slated to show growth of 0.1% after holding steady in September, and the average workweek is expected to remain at 34.2.

Pending home sales from the National Association of Realtors are also due out on Friday morning. Economists anticipate a 0.5% uptick in September, compared with a 4.3% surge in August.

At 3 p.m., the Federal Reserve is expected to report that consumer credit declined \$3.8 billion in September after falling \$3.3 billion in August.

*--Written by Melinda Peer in New York.*

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