Weekly Commentary by Professor Jeremy J. Siegel

Good Jobs Report, Sinking Euro, and Thoughts on the Primaries

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Good news on the labor front with private job creation rising to 212k, unemployment down to 8.5% and the average workweek up one-tenth hour. If you were puzzled why the stock market was down, it was all about Europe which, despite the huge cash infusion from the ECB, saw sovereign yields continue to rise and financial shares, especially in Spain, drop sharply. The U.S. market would have opened down 150 points Friday morning had it not been for the very strong ADP report, which caused speculators to pull their shorts ahead of the labor data. Once the numbers were released, short sellers reestablished their position, pressuring equities.

The only good news coming out of Europe is the fall of the euro, which we have long predicted and which has now declined below $1.27. I think the ECB will follow a policy of "benign neglect" on the euro, never officially saying they want a lower dollar target but not resisting the market's move in that direction. And despite the complaints from the Germans, the DAX rose sharply last week. Europe is selling for less than 8 times 2012 earnings (the Italian market less than 7), which give stock investors extraordinary opportunities if one hedges the euro. A decline to dollar parity cannot be ruled out and will help Europe, but even this will do little to avoid severe recessions in the periphery.

Much has been written about the release of the December 13 FOMC minutes and the "new communication policy" anticipated to be released at the January 25 meeting. As promised, I will discuss these issues in detail in my communication before that meeting, but I should say that if the U.S. data stay as strong as they have been, the market is likely to be over-anticipating the likelihood of an easing directive. Nevertheless, stock valuations are so persuasive that absent a complete European meltdown, equities are likely to remain firm or work higher.