

Dow Climbs Most for Week Since September on Fed, Economy

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December 21, 2013 — 12:00 AM EST



A trader works on the floor of the New York Stock Exchange. Photographer: Jin Lee/Bloomberg

Dec. 21 (Bloomberg) -- U.S. stocks rose for the week, giving the Dow Jones Industrial Average its biggest gain in three months, as the Federal Reserve said it will reduce the pace of bond buying amid faster-than-estimated economic growth.

All 10 main industries in the Standard & Poor's 500 Index advanced more than 0.8 percent. 3M Co. jumped 8.1 percent after increasing its quarterly dividend and signaling plans to spend more to spur growth. Boeing Co. climbed 2.1 percent after authorizing the largest share buyback in its history and boosting its dividend. An index of homebuilders rallied 5.9 percent as low interest rates spur housing demand.

The S&P 500 gained 2.4 percent to 1,818.32 over the five days, posting its largest increase since October and erasing a loss for December. The Dow

advanced 465.78 points, or 3 percent, to 16,221.14. Both gauges ended at records after falling during the previous two weeks.

“This week really boiled down to two hours on Wednesday after we got the Fed statement,” Michael Chadwick, who manages \$150 million as chief executive officer of Chadwick Financial Advisors in Unionville, Connecticut, said in a phone interview. “We saw some performance chasing into the end of the year and the Fed remained ultra dovish outside the reduction in stimulus, separating tapering and tightening, while signaling they won’t raise rates anytime soon.”

The S&P 500 jumped 1.7 percent on Dec. 18 after the Fed announced plans to cut its monthly bond purchases to \$75 billion from \$85 billion, boosting investor confidence that the recovery in the world’s largest economy is on course. The central bank is taking its first step toward unwinding the unprecedented stimulus that Chairman Ben S. Bernanke put in place to spur a recovery from the worst recession since the 1930s.

Near Zero

The Fed said it may hold interest rates near zero even if unemployment falls below the 6.5 percent rate the central bank previously cited as a likely catalyst for an increase. The jobless rate fell to 7 percent in November, a five-year low, as employers added a greater-than-forecast 203,000 workers to payrolls.

Data from the Commerce Department showed the rate of expansion in the third quarter was faster than previously estimated as consumers stepped up spending on services such as health care and companies invested more in software. Gross domestic product climbed at a 4.1 percent annualized rate, the strongest since the final three months of 2011 and up from a previous estimate of 3.6 percent, according to the report.

“The Fed has endorsed that the economy is growing,” Brad McMillan, chief investment officer for Waltham, Massachusetts-based Commonwealth Financial Network, which manages about \$81.6 billion, said in a phone interview on Dec. 18. “For the market, the top line has to improve, which requires economic growth. The Fed thinks growth is there.”

Fed Stimulus

The S&P 500 has rallied 27 percent so far in 2013, on course for its best performance since 1997. The gauge is trading at 16.4 times its members' projected earnings, up from 13.7 times at the end of last year.

Three rounds of central-bank bond purchases have helped propel the equity benchmark 169 percent higher from a 12-year low in 2009. The Fed will probably reduce its bond purchases by \$10 billion in each of its next seven meetings before ending the program in December 2014, according to the median forecast in a Bloomberg survey of 41 economists conducted on Dec. 19.

The Chicago Board Options Exchange Volatility Index dropped 13 percent to 13.79 for the week. The gauge of S&P 500 options known as the VIX slid 15 percent on Dec. 18, the most in two months and the sixth biggest retreat since the start of 2012.

3M, Boeing

Industrial shares added 3.3 percent for the largest advance among the 10 main groups in the S&P 500, followed by 2.8 percent increases for raw-materials providers and technology companies.

3M, the manufacturer with a product line spanning electronics to dental braces, climbed 8.1 percent to \$136.72 for the biggest gain in the Dow. The company said it will spend up to \$10 billion on acquisitions through 2017 and repurchase as much as \$22 billion of shares in the five-year period. It increased its quarterly dividend by 35 percent.

Boeing advanced 2.1 percent to \$136.67. The planemaker boosted its quarterly dividend by 51 percent and authorized a \$10 billion share-repurchase plan. Boeing has been reaping more cash as it accelerates production of some of its top-selling jetliners, including the single-aisle 737 and the wide-body 777 and 787 Dreamliner.

Technology Shares

LSI Corp. surged 38 percent \$10.94 for the biggest gain in the S&P 500. Avago Technologies Ltd., a chip manufacturer that began as a unit of Hewlett-Packard Co., agreed to buy LSI for \$6.6 billion, gaining semiconductors for disk drives and other electronics. Avago rose 13 percent to \$51.65.

Red Hat Inc. climbed 20 percent to \$56.10 as the software company raised its full-year profit and sales forecasts. Oracle Corp. rose 9.5 percent to \$36.37 after forecasting third-quarter sales and profit in line with analysts' estimates. The world's largest seller of database software also agreed to buy Responsys Inc. for about \$1.5 billion, gaining marketing software that helps businesses sell to consumers.

An S&P index of homebuilders rallied 5.9 percent as 10 of 11 members advanced. D.R. Horton Inc. added 8.5 percent to \$20.58 and Toll Brothers Inc. increased 7.9 percent to \$35.16.

The Fed's low interest rates have prompted consumers to buy homes or refinance existing mortgages, sparking a recovery in the housing market that was at the center of the financial crisis. Builders broke ground on more homes in November than at any time in over five years, the Commerce Department said on Dec. 18.

Eye Drops

Allergan Inc. advanced 12 percent, the most since 2009, to \$107.73. The maker of the Botox wrinkle treatment may be issued a patent for its Restasis eye drops as soon as January, Ken Cacciatore, an analyst with Cowen & Co., said in a note, citing legal consultants.

Jabil Circuit Inc. plunged 15 percent, the most in the S&P 500, to \$16.12. The maker of electronics for Apple Inc. and Cisco Systems Inc. reported fiscal first-quarter earnings that missed estimates and predicted sales declines for two of its three major business units in the current quarter.

Ford Motor Co. slid 7.1 percent, the most since May 2012, to \$15.42. The second-largest U.S. automaker said the cost of bringing the most vehicles ever to market will lead to a decline in its pretax profit next year. Ford plans to introduce 23 new vehicles globally in 2014, more than double this year's total.