U.S. Stocks Pare Weekly Loss as Payrolls Top Forecast

By Oliver Renick and Callie Bost - Oct 3, 2014

U.S. stocks advanced, paring a second straight weekly loss in the Standard & Poor’s 500 Index, as a better-than-forecast payrolls report and an expansion in service industries boosted confidence in the world’s largest economy.

The S&P 500 (SPX) rose 0.8 percent to 1,961.41 at 10:51 a.m. in New York. The benchmark gauge has lost 1.1 percent this week. The Dow Jones Industrial Average climbed 121.88 points, or 0.7 percent, to 16,922.93. The Russell 2000 Index jumped 0.9 percent, trimming its drop for the week to 1.2 percent. Trading in S&P 500 companies was 21 percent above the 30-day average for this time of the day.

“This is considered good news in the market today because it’s been validated by a lot of economic data coming out supporting job growth and economic growth,” Jonathan Corpina, senior managing partner at Meridian Equity Partners who works on the floor of the New York Stock Exchange, said by phone. “I don’t think this changes the Fed’s plans at all.”

The U.S. jobless rate declined to a six-year low of 5.9 percent in September and employers added 248,000 in payrolls, followed a 180,000 August increase that was bigger than previously estimated. The median forecast of economists in a Bloomberg survey called for a 215,000 advance.

“This allays the fears about growth and offsets what we’re seeing in Europe,” Doug Cote, chief market strategist at Voya Investment Management LLC, said by phone. His firm oversees about $215 billion. “There’s a consistent downward trend in unemployment. It bodes well for not only future GDP growth, but future corporate profits as well.”

Interest Rates

Stocks tumbled this week amid signs of economic weakness in Europe and geopolitical turmoil as the Federal Reserve is on course to end its bond-buying program this month. Investors have been concerned the central bank may raise interest rates sooner than anticipated as the U.S. economy gains strength.
Fed policy makers are trying to determine the extent of labor-market slack. Sustained, elevated gains in hiring are needed to help bring about faster wage growth and put the expansion in a self-reinforcing cycle of more consumer spending and employment opportunities.

More hiring and stock-market gains are boosting Americans’ wealth and encouraging them to keep spending. Separate data today showed service industries grew in September, capping the strongest quarter of expansion in more than 10 years for the biggest part of the U.S. economy.

While the Institute for Supply Management’s non-manufacturing index fell to 58.6 from the prior month’s 59.6, the third-quarter average was the highest since the first three months of 2004, a report from the Tempe, Arizona-based group showed today. Readings above 50 signal expansion.

**Earnings Season**

Investors will be watching earnings next week as corporations begin to report third-quarter results. Alcoa Inc. unofficially kicks off the season on Oct. 8.

The Russell 2000 rebounded 1 percent yesterday on speculation that a recent selloff was overdone and as concern faded that Europe’s stimulus plans won’t be enough to revive the region’s economy. The gauge of small-cap companies closed the previous day more than 10 percent below its record in March, the common definition of a correction.

The S&P 500 is down 2.5 percent from an all-time high reached Sept. 18. The benchmark index is still up 6.1 percent for the year. The gauge has not had a decline of four straight days this year, and has not dropped more than 10 percent in three years.

**Volatility Gauge**

The Chicago Board Options Exchange Volatility Index (VIX) slid 7.1 percent to 15.01 today, dropping for a second day. The gauge of S&P 500 options prices soared 36 percent in September.

Eight of 10 main industries in the S&P 500 rose today. Health-care and financial shares gained the most, advancing at least 1 percent. Industrial and consumer companies jumped more than 0.8 percent.

Mylan Inc. increased 8.5 percent to $50.46. The generic-drug maker forecast earnings will be at least $1.12 a share in the third quarter, exceeding a previous projection of no more than 95 cents. Analysts had estimated 94 cents.

Covidien PLC jumped 5.8 percent to $93.98 after Medtronic Inc. said it intends to use about
$16 billion in external financing to buy Covidien, reaffirming its commitment to complete the acquisition of the drugmaker. Medtronic climbed 3.9 percent to $65.26.

Salix Pharmaceuticals Ltd. added 2.9 percent to $155.43 after people familiar with the matter said the drugmaker is in talks for a sale to Actavis Plc. Though no deal is imminent, an agreement between Salix and Actavis has become more likely in the past week, the people said. Botox maker Allergan Inc.’s effort to acquire Salix stalled in recent days over valuation concerns, they said.

**Airlines Soar**

Airline stocks climbed as Brent crude fell for a fourth day, headed for a bear market. United Continental Holdings Inc. advanced 4.9 percent to $48.37 and American Airlines Group Inc. increased 4.5 percent to $35.44.

JetBlue Airways Corp. jumped 5.3 percent to $11.15 after Raymond James raised the company to market perform from underperform and Deutsche Bank added the stock to a short-term buy list.

Cliffs Natural Resources Inc. lost 11 percent to $8.90. Nomura Holdings Inc. cut its rating to on the stock to reduce, the equivalent of a sell, from buy.

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