Monday, February 22, 2010
Leveraged loans are outperforming high yield corporate bonds for the first time in four years, according to Bloomberg. Speculative-grade loans were up 1.91% year-to-date through February 19, according to Standard & Poor’s. The Merrill Lynch High Yield Master II Index was up 1.14%. Funds that invest in leveraged loans have attracted $1.38 billion this year, compared to $440 million in outflows from high yield funds, according to Deutsche Bank AG. Futures for the 3-month LIBOR rate indicate the rate will rise to 1.29% in a year, and to 3.63% by February 25, 2013. It currently stands at 0.25%.

Tuesday, February 23, 2010
The Q4’09 earnings season is coming to an end and 68% of all U.S. companies have topped their estimates so far, according to Bespoke Investment Group. If it holds, it will mark the third consecutive quarter where the beat rate has been 68%. The revenue beat rate is running at 70%, the highest reading since Q4’04. The forward-looking price-to-earnings ratio of the S&P 500 is 14.08, according to Bloomberg. Bespoke data indicates that the average P/E ratio has been around 16.00 since 1942.

Wednesday, February 24, 2010
The number of distressed banks in the U.S. rose from 552 in Q3’09 to 702 in Q4’09, according to the Federal Deposit Insurance Corporation (FDIC). It is the largest number of banks to hit the FDIC’s “problem list” since June 1993. The FDIC does not disclose the names of the banks. The total value of the problem assets in the system stood at $402.8 billion at the end of 2009, up from $345.9 billion in Q3’09. Those banks insured by the FDIC posted a profit in Q4’09, down from $2.8 billion in Q3’09. Bank losses in 2010 are expected to be largely driven by weakness in the commercial real estate market, according to FDIC Chairwoman Sheila Bair.

Thursday, February 25, 2010
The Conference Board Consumer Confidence Index fell from a reading of 56.5 in January to 46.0 in February, or a drop of 18.6%. It marked the sixth time in the past decade that the index declined by 15% or more in a month, according to Bespoke Investment Group. While some might interpret such a drop in sentiment as a negative for the stock market, it isn’t so. In the five prior periods where a drop of this magnitude occurred, the S&P 500 posted an average gain of 23.0% over the following 12 months – with positive returns in all five periods.

Friday, February 26, 2010
From the 1970s to late 2008, the cash-to-bankruptcy ratio was the U.S. banking system fell from 60% to a low of 20%, according to the Economist Intelligence Unit. The ratio, however, surged to an all-time high of 98% on January 13, 2010, according to data from the Federal Reserve. The spike is a combination of cash hoarding and a reduction in loans outstanding. It indicates that banks should have the capacity to lend once confidence in the banking system fell from 60% to a low of 20%. The Conference Board Consumer Confidence Index fell from a reading of 56.5 in January to 46.0 in February, or a drop of 18.6%. It marked the sixth time in the past decade that the index declined by 15% or more in a month, according to Bespoke Investment Group. While some might interpret such a drop in sentiment as a negative for the stock market, it isn’t so. In the five prior periods where a drop of this magnitude occurred, the S&P 500 posted an average gain of 23.0% over the following 12 months – with positive returns in all five periods.