

## **CORPORATE PROFITS IMPROVE**

### *Summer brings fresh optimism to Wall Street.*

**Provided by Timothy C. Hucks, CEP, President, Rising Tide, Inc.**

**Corporations are making money again.** Earnings reports amount to some of the most powerful indicators on Wall Street, so it has been great to see some of the headlines in the news this month. On August 6, with 80% of S&P 500 firms having shared 2Q 2009 earnings, CNBC.com rounded up data and found that 74% of S&P 500 companies had beaten estimates - a seismic shift from the first quarter.<sup>1</sup>

While some of these profits reflected corporate decisions to downsize into smaller, leaner firms, others were attributable to the power of the global economy. After all, corporations such as Microsoft, Caterpillar, Intel and IBM now earn most of their revenue overseas, with surging/emerging economies in Asia often playing a big role in their profitability.<sup>2</sup>

**AIG feels confident it can repay the government.** Shares of the insurance titan shot up 21% on August 20. Its newly appointed CEO, ex-Met Life CEO Robert Benmosche, told Bloomberg News that "we believe we will be able to pay back the government and we hope we will be able to do something for our shareholders as well." Edward Liddy, AIG's former CEO, again stated this month that it could probably pay the entirety of the federal bailout funds back within 3-5 years.<sup>3</sup>

AIG made money in the second quarter - \$1.8 billion, in fact. It still owes the federal government more than \$80 billion - but that's much less than the \$182 billion in debt it once faced.<sup>3</sup>

**New optimism for Citigroup, other big banks.** Although banks are still comparatively hesitant to lend, earnings certainly improved for some big names - Goldman Sachs, Citigroup, JPMorgan Chase and Bank of America combined for \$13.6 billion in profit, just two quarters after they posted \$20.8 billion in collective losses. Citi's shares went up almost 9% on August 20 - capping a climb of about 56% during the last month - on growing faith that Citi will sell some of its troubled assets and pay back the federal government in reasonable time. Analysts liked the news that the Swiss government intended to reduce its stake in UBS, musing that the U.S. government might in turn wish to reduce its stake in Citi. Shares of State Street Corp. and SunTrust Banks Inc. also respectively rose 5.4% and 4.1% on August 20.<sup>4,5</sup>

Speaking of UBS, its analysts recently concluded that the U.S. Treasury is up nearly \$10 billion since it converted \$25 billion worth of preferred Citi shares in March. They converted at \$3.25 per share; as of August 21, they were trading at about \$4.70 a share, about 48% north of the March level. It appears risk has brought reward.<sup>6</sup>

**Ford Motor Co. made money - and GM & Ford are boosting production.** The C.A.R.S. program certainly was a tonic for domestic auto sales. In mid-August, Ford said it would make 10,000 more cars and trucks in 3Q 2009, and 141,000 more in 4Q 2009. General Motors said it would ramp up car/truck production by 60,000 vehicles in the second half of 2009, putting 1,350 employees back on the job and providing almost 10,000 workers with overtime. Ford made \$2.3 billion in 2Q 2009 profit and was in the black by \$834 million for the year's first two quarters - largely through accounting gains, but still notable.<sup>7,8</sup>

**Can we see a strong September?** As many longtime market watchers know, September is historically the weakest month for stocks. On average, the S&P 500 has lost 1.3% in September and the DJIA 1.2%. Trading volume has been light through the summer rally.<sup>9</sup> It will be interesting to see if the current Wall Street optimism will translate into a September of strong gains.

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#### Citations.

<sup>1</sup> [cnbc.com/id/32313829](http://cnbc.com/id/32313829) [8/6/09]

<sup>2</sup> [online.wsj.com/article/SB20001424052970203517304574306414148814226.html](http://online.wsj.com/article/SB20001424052970203517304574306414148814226.html) [8/10/09]

<sup>3</sup> [money.cnn.com/2009/08/20/news/companies/aig/?postversion=2009082014](http://money.cnn.com/2009/08/20/news/companies/aig/?postversion=2009082014) [8/20/09]

<sup>4</sup> [reuters.com/article/innovationNews/idUSTRE57J4RP20090820](http://reuters.com/article/innovationNews/idUSTRE57J4RP20090820) [8/20/09]

<sup>5</sup> [washingtonpost.com/wp-dyn/content/article/2009/07/17/AR2009071700885.html](http://washingtonpost.com/wp-dyn/content/article/2009/07/17/AR2009071700885.html) [8/20/09]

<sup>6</sup> [blogs.wsj.com/marketbeat/2009/08/21/citigroup-shares-treasury-is-up-almost-10-billion-since-conversion/](http://blogs.wsj.com/marketbeat/2009/08/21/citigroup-shares-treasury-is-up-almost-10-billion-since-conversion/) [8/21/09]

<sup>7</sup> [usa.today.com/money/autos/2009-08-19-automakers-production-gm-ford\\_N.htm](http://usa.today.com/money/autos/2009-08-19-automakers-production-gm-ford_N.htm) [8/19/09]

<sup>8</sup> [freep.com/article/20090820/BUSINESS01/908200439/1320/Ford-Motor-presses-for-UAW-modifications](http://freep.com/article/20090820/BUSINESS01/908200439/1320/Ford-Motor-presses-for-UAW-modifications) [8/20/09]

<sup>9</sup> [cnbc.com/id/32506534](http://cnbc.com/id/32506534) [8/21/09]