



Stocks Close Lower on Caution About Economy

Stocks close lower as investors turn cautious following consumer companies' earnings reports

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The Associated Press

NEW YORK

The stock market paused from a four-day rally Monday and closed modestly lower after big consumer companies gave a cautious outlook for economic growth.

The market, which has advanced on stronger economic signs, fluctuated after Lowe's Cos. and Campbell Soup Co. reported higher earnings but reminded investors that a recovery among consumers is expected to be slow. Stocks drew some support from news that oil field services company Schlumberger Ltd. agreed to buy Smith International Inc.

"Corporate America is being cautious with their earnings predictions," said Roy Williams, CEO at Prestige Wealth Management Group. A recovery in consumer spending hasn't happened as fast as executives have hoped, he said.

Trading was also fragmented as investors hunted for deals following last week's big rally. The Dow Jones industrial average posted its best weekly gain since November on strong earnings and economic reports.

"I wouldn't read too much into this," Sam Stovall, chief investment strategist at Standard & Poor's, said of Monday's trading. "There could be some minor profit-taking."

Financial stocks were among the day's winners after a federal judge approved a settlement between the Securities and Exchange Commission and Bank of America Corp. over the acquisition of Merrill Lynch & Co.

The Dow fell 18.97, or 0.2 percent, to 10,383.38. The Standard & Poor's 500 index fell 1.16, or 0.1 percent, to 1,108.01, while the Nasdaq composite index fell 1.84, or 0.1 percent, to 2,242.03.

Rising stocks were about even with losers on the New York Stock Exchange, where volume came to a light 3.84 billion shares, compared with 3.95 billion on Friday

Lowe's said Monday its fourth-quarter profit rose 27 percent as it cut costs and saw a slight increase in sales. The home improvement retailer's results beat analyst projections and Lowe's said it anticipates sales to grow as the housing market recovers. However, its first-quarter earnings forecast was below expectations.

Campbell Soup's fiscal second-quarter profit met forecasts as lower costs helped offset a slowdown in U.S. sales.

"Right now, they're trying to heal," Steven Goldman, chief market strategist at Weeden & Co., said of consumers.

Consumers are holding off on big purchases like home renovations because employment is still a concern, Goldman said. That hurts companies like Lowe's that rely on big spending from U.S. customers. But they're also being choosy when it comes to staples including food. Campbell's report reflected that caution.

Lowe's fell 6 cents to \$23.07. Campbell Soup dipped 43 cents to \$33.50.

The National Association for Business Economics echoed a similar tone that the economy is getting better, but at a sluggish pace. It reaffirmed in its latest outlook that an economic recovery remains on track, though it will be slow. The group of economists expects to see job growth later this quarter, but unemployment is expected to stay above 9 percent throughout the year.

High unemployment — the rate currently stands at 9.7 percent — remains a major obstacle for a strong, sustained recovery. It has also dragged down consumer spending and confidence, which hurts companies like Lowe's and Campbell Soup.

Other major retailers, including Macy's Inc., Target Corp., Home Depot Inc. and Gap Inc., release quarterly results this week. The reports should provide further clues about whether consumers are more confident in the recovery.

Schlumberger is buying Smith International for \$11 billion in stock in a move to diversify its product offerings and better compete with rival Halliburton Co. Investors viewed the deal as a sign that demand is likely to grow for fuel as the global economy recovers.

Energy and material companies were mixed on the day following the deal. Falling commodity prices dragged down the sector.

Schlumberger shares fell \$2.33, or 3.7 percent, to \$61.57. Smith International rose \$3.33, or 8.8 percent, to \$41.03.

Healthcare shares were also mixed after President Barack Obama renewed his push for insurance reform and a Senate report said drug maker GlaxoSmithKline has known about possible heart attack risks tied to its diabetes medication Avandia.

GlaxoSmithKline shares fell 94 cents, or 2.5 percent, to \$37.32.

Bank of America rose 33 cents to \$16.21 after U.S. District Court Judge Jed S. Rakoff approved the settlement of charges that the bank had misled shareholders about the Merrill Lynch deal.

Meanwhile, bond prices also traded in a tight range. Long-term bonds fell slightly, while short-term rates increased — a sign that investors might expect the Federal Reserve to raise its benchmark rates in the coming months.

Fed chairman Ben Bernanke is scheduled to give his semiannual report on the economy and interest

rates to Congress later this week. Last week the Fed started to remove its extraordinary stimulus measures put in place during the recession. It increased the rate it charges banks for emergency loans.

The yield on the 10-year Treasury note rose to 3.80 percent, from 3.78 percent late Friday.

The Russell 2000 index of smaller companies rose 0.63, or 0.1 percent, to 632.25.

Overseas, Japan's Nikkei stock average rose 2.7 percent. Britain's FTSE 100 fell 0.1 percent, Germany's DAX index fell 0.6 percent, and France's CAC-40 fell 0.3 percent.

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