

Wall Street lifted by Kraft optimism

By Samantha Pearson
January 13, 2010

Optimism inspired by Kraft's positive outlook was bolstered by a rally among financial stocks on Wednesday, helping Wall Street to push higher after a shaky start.

Kraft Foods, the world's second-largest food group, surprised investors by saying profits last year were higher than analysts had expected. The company, which is pursuing a \$17bn takeover of Cadbury, said investment in marketing campaigns had boosted sales of its core products. Kraft shares gained 0.7 per cent to \$29.49, helped further by reports that Italy's Ferrero has decided to pull out of the running for the British chocolate maker.

Meanwhile Hershey, the US confectioner, which has also shown interest in Cadbury, lost 1.8 per cent to \$37.53.

Energy stocks soon pushed the market into the red for brief periods after a bearish inventory report pushed the price of US crude oil below \$80 a barrel. However, a rally among financial stocks in late morning trading helped the market to recover its losses.

Goldman Sachs rose 0.7 per cent to \$169.00 and Bank of America was up 2 per cent at \$16.69 as top banking executives defended their actions to the Financial Crisis Inquiry Commission. The hearing took place following a move by the Obama administration to impose a new levy on the sector to pay for the financial bail-out.

By midday, the S&P 500 had pushed back into positive territory and was up 0.5 per cent at 1,141.50. The Dow Jones Industrial Average had gained 0.4 per cent to 10,668.07 and the Nasdaq was 0.3 per cent higher at 2,289.50.

Wall Street closed lower on Tuesday for the first time this year after Alcoa, the aluminium producer, kicked off the earnings season with worse-than-expected fourth quarter results.

"This market hasn't decided what it wants to be when it grows up in 2010," said Randy Cass, founder of First Coverage, the research group that tracks market sentiment. "We've already seen substantial shifts in the sell side. They came into the new year trying to advocate a little bit of cautiousness and perhaps a movement from traditional positions in areas such as financials and technology into newer plays of basic material, oil and industrials. But none of that gained traction."

He said the earnings season would play a crucial role in giving the market direction.

"The year 2009 was about giving everyone the benefit of the doubt and looking for the silver lining in every data point that came out. But the year 2010 is really about making sure that the market is where it should be and that the rally wasn't too much too soon."

Google was also a source of concern on Wednesday after the search engine announced it would end the controversial censorship of its service in China, taking the risk of being thrown out of the country. Its shares dropped 1.4 per cent to \$582.03.

Meanwhile, Baidu shares jumped 13.3 per cent to \$437.71 in New York as investors bet that the Chinese search engine would benefit if Google was forced to exit the world's most populous internet market.

Elsewhere in the technology sector, shares in Triquint Semiconductor jumped 10.5 per cent to \$6.43 after the company raised its forecast for the fourth quarter following strong demand for its wireless device components over the holiday shopping period.

Arris Group, which makes broadband equipment, also raised its outlook for the fourth quarter, helping to boost its shares 6.5 per cent to \$11.50.

Flanders dropped 23.8 per cent to \$3.65 after the maker of air filters said it would voluntarily delist from Nasdaq. The company said the move would help it to save money by reducing legal and accounting costs.

Merck advanced 4.3 per cent to \$39.17 after Credit Suisse raised the drugmaker to "outperform" from "neutral", citing promising new products in the pipeline.

Analysts at RBC Capital also gave a boost to Atlas Air Worldwide and United Parcel Service, raising the carriers to "outperform" from "perform". The group said UPS would benefit from cost-cutting measures as well as strong demand in its domestic and global markets. Atlas gained 1.5 per cent to \$39.92 while UPS was down 0.2 per cent at \$62.27.

Wyndham Worldwide showed the greatest gains in the benchmark index, rising 7.5 per cent to \$21.98. Deutsche Bank raised the hotel operator to "buy" from "hold" and increased their price target on the stock, saying the company's decision to cut back on its timeshare investment would boost cashflow and pave the way for acquisitions.