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By Louis Navellier

The S&P 500 rose 1.74% last week. NASDAQ did even better (+2.28%) and the Russell 2000 rose 2.5%, virtually erasing the previous week's losses. Since domestic smaller-cap stocks have an advantage as long as the dollar remains strong, I expect the Russell 2000 to continue to outperform the S&P 500. As May approaches, I feel there is no advantage in "selling in May and going away," since you have an opportunity to score market-beating profits by focusing on stocks that surprise Wall Street with rising earnings. In addition, this bull market seems to have some strong "legs" to support it, namely the powerful impact of stock buybacks.

Corporate Stock Buybacks will Continue to Sustain this Bull Market

The most interesting news last week was that Apple* announced on Tuesday that it will boost its payments to investors by \$55 billion to a total of at least \$100 billion by the end of 2015, including \$60 billion in stock buybacks and \$40 billion in dividends. Here's a cash-rich company that is borrowing in the bond market because, if it repatriated its overseas cash to fund dividends, it would have to pay U.S. corporate income taxes on top of the foreign income taxes it already paid. To avoid "double corporate taxation," Apple has chosen to borrow in the bond market. Furthermore, since blue-chip U.S. companies can borrow at ultra-low rates, they can buy back their outstanding stock and boost their underlying earnings per share.

Apple is not alone, but it is now the leader of Corporate America's stock buyback revolution, since its \$60 billion stock buyback program is much larger than Home Depot's* \$17 billion buyback plan, announced last February. The fact that Apple suddenly has a 2.7% dividend yield seems very bullish for Apple and the market. Clearly, Corporate America's dividend funding and stock buyback frenzy remains alive and well, which will likely put a firm foundation underneath the overall stock market, muting any future corrections.

Wall Street is rewarding some companies that offer high dividends and those that post better-than-expected first quarter earnings results. I especially like how fast many companies bounce back every time the market gets hit. Even though May is historically a weak month, I recommend investors be fully invested by late May (before the Memorial Day weekend), since the market traditionally rallies around Memorial Day.

Stat of the Week: Mediocre (2.5%) GDP Growth Hides Bullish Details

On Friday, the Commerce Department announced that its initial flash estimate for first-quarter GDP growth was a disappointing 2.5% annual rate. Many economists were estimating 3%, but lower inventory rebuilding, reflecting a more cautious business environment, kept GDP growth under 3%. On the bright side, inventories must eventually be replenished, so this brief delay might help boost second quarter GDP.

Also, government spending remains weak, contracting at an annual 4.1% rate due to the biggest military cuts since the post-Korean War drawdown of the mid-1950s. This put a drag on overall GDP growth, but a contraction in government spending is often good news for the overall economy. Subtracting government, private-sector growth was 3.3% last quarter, one of the fastest rates in the current recovery.

Another piece of hidden good news in the GDP report was that consumer spending rose 3.2% in the first quarter – the second-fastest growth rate since the recovery began – up from 1.8% in the fourth quarter.

Another positive detail in the GDP report was that exports rose 2.9% in the first quarter after falling 2.8% in the fourth

quarter. Since imports rose even faster (+5.4%) last quarter, the overall trade deficit rose. However, the private credit-card company Visa* reported a robust 5% credit-card spending increase from the same period in 2012 and a hefty \$1,139 spent on proms, for families with a teenager attending a prom.

An abrupt slowdown in March durable goods orders turned out to be one of the chief drags on second-quarter GDP growth. Last Wednesday, the Commerce Department announced that durable goods orders plunged 5.7% in March due largely to a 48% decline in commercial aircraft orders. Excluding volatile transportation orders, durable goods still declined by 1.4%. Another piece of bad news is that February's durable goods orders were revised down to only a 4.3% gain vs. an initial estimate of a 5.6% rise.

Looking forward, the *Financial Times* reported last week that the Bureau of Economic Analysis (BEA) discovered an extra 2.8% in U.S. GDP that will be added in July as part of a revision to the government's historical statistics. The reasoning behind the BEA's GDP revision is "intangible" assets like (1) music, movie, and TV residuals (e.g., *Seinfeld* has generated \$3.1 billion in revenue after the series ended in 1998), (2) pension accounting, (3) research and development benefits, and (4) miscellaneous fees (e.g., attorney fees and stamp taxes). So between the projected inventory rebuilding in this quarter and the BEA's GDP revisions in July, we should see some dramatic current and historical growth rates in July.

The Other Economic News Last Week was "Mixed" (at Best)

Last Friday, in addition to the GDP report, the University of Michigan/Reuters reported that its consumer sentiment survey fell to 76.4 in April, down from 78.6 in March. This means that consumer sentiment is now back to where it was in January when consumers' paychecks fell by 2% due to higher withholding taxes. Also, consumer expectations declined to 67.8 in April, down from 70.8 in March, which does not bode well for the second quarter. With consumers representing about 70% of overall GDP growth, this drop in sentiment could mean that second quarter GDP will be a bit lackluster.

Unfortunately, the latest economic evidence from around the world last week is no better. On Tuesday, HSBC announced that its preliminary Purchasing Managers Index (PMI) for China declined to 50.5 in April, down from a revised 51.6 in March. This was a big disappointment, since economists expected a PMI of 51.5, according to *Bloomberg*. China's PMI is now at a two month low. By the way, China's markets are closed the first three days of this week in honor of May Day, or International Worker's Day. Russia will close Wednesday through Friday, so Communism's symbolic May Day still has some appeal.

Germany's preliminary PMI was also released last Tuesday, reflecting a drop to 48.8 in April, down from 50.6 in March. This is Germany's lowest PMI in six months. Since any PMI reading below 50 signals a contraction, mighty Germany's PMI is clearly a big warning sign for future euro-zone growth statistics.

This week, there will be another Fed meeting on Tuesday and Wednesday and then the widely-watched monthly payroll report released on Friday. I'll report on these and other market events next Monday.

Marketmail gets updated on Fridays and whenever the DOW closes up or down 300 points or more.

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