After two weeks of disappointing economic and policy news that drove stock prices sharply lower, stocks witnessed a strong reversal last week. The main catalyst for the rally was a global coordinated central bank policy action designed to help banking liquidity, but markets also benefited from some improved economic data.

Last week's market action centered on the US Federal Reserve's and other central banks' announcement that they would provide coordinated action to boost the liquidity of the financial system by reducing dollar borrowing costs from foreign central banks by between 50 and 100 basis points. The central bank actions are clearly a positive in terms of investor sentiment and will be helpful from a practical basis regarding expanding liquidity. Importantly, the move does underscore the willingness of the Fed and other central banks to support the global banking system.

The moves by the central banks, however, do not address the root causes of the European debt crisis. On that point, Germany's chancellor Angela Merkel and French president Nicolas Sarkozy have been pushing hard for increased European integration and more effective fiscal discipline. Should these efforts succeed, they would provide some reassurance to the policymakers at the European Central Bank (ECB) that the politicians are serious about establishing the fiscal measures the ECB believes are necessary, which could pave the way for additional ECB intervention in the market. Whether any of this comes about is, of course, still an open question since any proposed plan would need the backing of countries other than Germany and France, but it does appear that the parties are moving in the right direction.

Also on the global policy front, China announced last week that it would lower its bank reserve requirements. This likely represents the first in a round of reductions and should be stimulative for Chinese growth, helping reduce the probability of a hard landing.

In the United States, economic data continues to point to an acceleration in growth. November's labor market report was a solid one, showing that jobs growth came in at 120,000 (with private payrolls increasing by 140,000). The data also showed some solid upward revisions to October and September jobs growth. At the same time, unemployment fell noticeably in November, although it remains uncomfortably high at 8.6%. In addition to the labor market data, consumer confidence measures moved higher for November, which is a reflection of improved economic activity on a number of fronts.

Although last week's news was positive it is too early to declare any sort of victory and it is important to remember that the market gains that occurred last week did not match the losses of the previous two weeks. In any case, however, it does appear that conditions are continuing to improve. The coordinated rate action and continued easy availability of money should ease some of the world's debt burdens. On the economic front, we are expecting gross domestic product growth in the United States to increase to at least 3% in the fourth quarter, which should provide further evidence that the macro backdrop is getting better. The main risk remains a potential Eurozone failure or breakup, but the odds of that occurring have been at least slightly reduced.
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