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S&P 500 Extends Best Month Since ’87, Euro Rises on Debt Accord

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Stocks surged, extending the biggest monthly rally in U.S. equities since 1987, and the euro strengthened as European leaders agreed to expand a bailout fund to stem the region’s debt crisis. Treasuries and German bunds fell, while metals and oil led a rally in commodities.

The Standard & Poor’s 500 Index rallied 2.9 percent to 1,278.09 at 12:50 p.m. in New York, sending its October gain to 13 percent and erasing its 2011 loss. Benchmark gauges in France, Italy and Germany rose more than 5 percent as German and emerging-market stocks extended gains from this year’s lows to more than 20 percent. Even as Italian and Spanish bonds climbed, yields held near levels seen two weeks ago. The euro topped $1.40 for the first time since Sept. 8. Ten-year Treasury yields rose 11 basis points and copper added 6 percent.

Equities, commodities and the euro rallied as French President Nicolas Sarkozy said the euro region’s bailout fund will be leveraged by four to five times, and investors have agreed to a voluntary writedown of 50 percent on Greek debt. Sarkozy spoke with Chinese leader Hu Jintao today as Europe seeks help from the Asian nation in the bailout effort. U.S. data today showed the world’s largest economy expanded last quarter at the fastest pace in a year.

“Europe has done enough for the time being,” Russ Koesterich, the San Francisco-based global chief investment strategist for the IShares unit of BlackRock Inc., said in a telephone interview. His firm oversees $3.3 trillion as the world’s largest asset manager. “It will remove near-term pressure,” he said. “In the U.S., the GDP report was decent and it was encouraging to see the consumer hold. The fear of a recession is fading.”

Bull Markets

JPMorgan Chase & Co., Citigroup Inc. and Bank of America Corp. climbed more than 7 percent to pace gains in all 81 financial companies in the S&P 500 today, sending the group up 5.3 percent and extending its advance from this year’s low to 24 percent. A gain of at least 20 percent from a low is the common definition of a bull market. The MSCI Emerging Markets Index is up 20 percent from its low for the year, while Germany's DAX Index, Brazil's Bovespa and Russia's Micex have each surged more than 20 percent.

The S&P 500 is trading above its highest closing level since Aug. 1 and has rebounded 16 percent since Oct. 3, when it closed at the lowest level since September 2010. The advance has been fueled by better-than-estimated corporate earnings and economic data and growing confidence that European leaders would make progress in combating the sovereign debt crisis.

Earnings, Economy

More than half of the companies in the S&P 500 have released quarterly results since Oct. 11, and about three- quarters have beaten the average analyst estimate, data compiled by Bloomberg show. Net income has grown 16 percent for the group on a 11 percent increase in sales.

The Citigroup Economic Surprise Index for the U.S. this week climbed to the highest level in six months, reaching 17 on Oct. 24. The index increases when data exceeds economists' estimates. The gauge has rebounded from minus 117.20 on June 3, when it showed reports were trailing the median economist projection in Bloomberg surveys by the most since January 2009.

The U.S. economy grew at a 2.5 percent annual rate in the third quarter, matching the median forecast of economists surveyed by Bloomberg, according to figures from the Commerce Department. Household purchases, the biggest part of the economy, increased at a more-than-projected 2.4 percent pace.

European Banks

The Stoxx Europe 600 Index climbed 3.6 percent to a 12-week high as banks led gains. BNP Paribas (BNP) SA and Deutsche Bank AG, the biggest lenders in France and Germany, advanced more than 15 percent. BASF SE rallied 7.5 percent as the world's largest chemicals maker reported profit that beat analyst estimates. Ericsson AB rose 6.1 percent as Sony Corp. agreed to buy its 50 percent stake in their joint mobile-phone venture.

The German bund yield jumped as high as 2.22 percent, the most since Oct. 17, while the 10-year Spanish yield fell 15 basis points to 5.33 percent. That drove the difference in yield with German debt down by 32 basis points to 3.12 percent, the lowest since Oct. 14 on a closing basis.

Even after today's gains, the bonds of some of Europe's most-indebted countries are still trading near their historical lows. Greece's two-year yield slid 285 basis points to 76.91 percent today, compared with an average of 27 percent in the past year. Italy's 10-year yield, which averaged 4.93 percent in the past 12 months, fell five basis points to 5.87 percent.

'Red Flag'

"If we're not seeing the sovereign debt markets turn around, that is a red flag," Michael Darda, the Stamford, Connecticut-based chief economist and chief market strategist at MKM Partners LP, told Bloomberg Television. "Equity markets have gotten optimistic here. One of the things that bothers me is the euro-zone debt markets have not registered the same degree of optimism, and that's really the core of the problem."

The Markit iTraxx SovX Western Europe Index of swaps on 15 governments dropped 46 basis points to a mid-price of 287, the lowest in almost two months.

The EU agreement with investors for a voluntary 50 percent writedown on their Greek bond holdings means $3.7 billion of debt-insurance contracts won't be triggered, according to the International Swaps & Derivatives Association's rules. ISDA will decide if the credit-default swaps should pay out depending on whether it judges losses to be voluntary or compulsory.

European leaders said in the agreement they "invite Greece, private investors and all parties concerned to develop a voluntary bond exchange" into new debt.

"The moves we saw last night were clearly better than the markets anticipated, it seems to have cut out some of the risk," Jeffrey Palma, global equity strategist at UBS AG, said in an interview on Bloomberg Television's "In the Loop" with Betty Liu. "This certainly gives some sort of clarity to what is going on in Europe, but we'll probably have other iterations to come."

Treasuries

The 10-year Treasury yield climbed as high as 2.32 percent, a two-month high, while the seven-year yield increased eight basis points to 1.74 percent before the U.S. sells $29 billion of the securities, the last of three auctions this week totaling $99 billion.

Federal Reserve Bank of New York President William C. Dudley said on Oct. 24 that policy makers have the option of starting a third round of asset purchases to stimulate growth. Bank of England Markets Director Paul Fisher said yesterday expanding monetary stimulus by 75 billion pounds ($120 billion) this month was the minimum amount needed to shore up an economy that may already be shrinking.

Euro Strengthens

The euro traded at $1.4201 and climbed as much as 2.3 percent to $1.4220. The shared currency strengthened versus nine of 16 major peers, rallying 1.6 percent versus the yen. The Dollar Index, which tracks the U.S. currency against those of six trading partners, slid 1.7 percent to 74.92, the least intraday since Sept. 2.

The S&P GSCI index of 24 commodities gained 3 percent, the most in a month. Nickel jumped 4.4 percent and copper rose 6.2 percent to $8,154 a metric ton in London. December gold futures increased 1.3 percent to $1,745.20 an ounce and have gained 8.2 percent since Oct. 20. Oil in New York advanced 3.5 percent to $93.32 a barrel, erasing yesterday’s slump triggered by an increase in U.S. inventories.

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