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S.&P. 500 at Highest Close Since ’08

By CHRISTINE HAUSER
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As summer approached in 2008, oil prices were surging, the housing market was collapsing and banks were bleeding money. Soon, Lehman Brothers would collapse and shock the financial system, sending stocks plunging. Investors dug out of that hole this week.

The broad market gauge, the Standard & Poor’s 500-stock index, closed Friday at its highest level since June 2008. The 30-stock Dow Jones industrial average briefly cracked the psychological barrier of 13,000, last surpassed in spring 2008, but didn’t manage to end the session above that.

“We have come a long way,” said Nigel Gault, the chief United States economist for IHS Global Insight. “But the overall economy is clearly not back to normal yet.”

“It does not mean the economy is out of the woods,” he added. “It means that we have had almost four years where if you held on in the stock market through the period, you would be back where you started.”

The gains so far this year have pushed the S.& P. 500 nearly 25 percent higher than its most recent lowest point, on Oct. 3, 2011. The index has risen more than 100 percent since the March 9, 2009, low of 676.53. Its close at 1,365.74 on Friday is still well off its record high of 1,565.15 on October 2007.

Over time, a tug of war has ensued below the surface of the index. From June 2008 until Friday, consumer discretionary and technology stocks have been the top two gainers, surging more than 32 percent and 19 percent, while financial stocks have declined the most, falling more than 40 percent.

The technology sector has held strong since 2008 because of a cycle of “replacement technology,” with consumers switching from feature phones to smartphones, and from computers to tablets, said Michael Gartenberg, a research director at Gartner.

“The timing was right for consumers to embrace the technology, and the technology was ready for consumers to be embraced,” he said.

Apple, the world’s biggest company by market capitalization, fueled the ascent. The growth rate of the S.& P. 500 for the fourth quarter of 2011 was 5.9 percent compared with the quarter a year ago, and if Apple were removed from the equation, that number would drop to 2.8 percent, said John Butters, an earnings analyst at FactSet Research.

Apple, which closed Friday at $522.41, is up 176 percent since June 2008.

Along with weak capital markets, the big banks are still suffering from the aftereffects of issuing millions of new shares to build stronger capital buffers after the bankruptcy of Lehman in September 2008. While the banks, hobbled by toxic real estate loans and failed derivatives, succeeded in raising capital quickly and avoiding even deeper problems, those new shares diluted existing stock holdings.

“It took the Japanese banks years to recapitalize,” said Tobias Levkovich, Citigroup’s chief equity strategist. “The U.S. did it very rapidly and there was massive dilution as a lot of stocks got decimated.”

Bank of America, for example, traded at more than $35 a share as late as mid-2008. On Friday, it closed at $7.88, a huge drop from nearly four years ago, but still well above its low point just below $5 late last year.

Since bottoming out in October, financial stocks have risen some 30 percent. The rally has been sharp in part because the sell-off was so extreme, Mr. Levkovich said. “A lot of the worst performers in 2011 have been among the best performers in 2012,” he said. “The harder they fall, the bigger they bounce.”

Some analysts who have watched previous boom-and-bust cycles in the financial sector insist the group remains appealing, despite the recent jump.

“I think they are very, very undervalued,” said Christopher Kotowski, an analyst with Oppenheimer. “People are reflexively antibank. The reality is that banking isn’t like Eastman Kodak or Polaroid — five years from now, people will interact with banks pretty much the same way they did five years ago. The need for the underlying service hasn’t changed.”

While Friday brought some upbeat reports on consumer sentiment and new-home sales, the markets appeared leery of escalating oil and gasoline prices, as well as tensions with Iran and the unfinished bailout for Greece.

The Dow Jones industrial average closed at 12,982.95 on Friday, down 1.74 points. That the index temporarily breached the 13,000 ceiling this week was “certainly a statistical milestone,” said **Bernard Baumohl, chief global economist at the Economic Outlook Group.** “But not one worthy of uncorking Champagne bottles and having a celebration.”

The Nasdaq composite index rose 6.77 points, to 2,963.75. All three indexes were up less than 1 percent for the week.

The April crude oil contract jumped $1.94, to $109.77 a barrel.

Interest rates were slightly lower on Friday. The Treasury's benchmark 10-year note rose 6/32, to 100 7/32, and the yield fell to 1.98 percent from 2 percent Thursday.

Analysts noted that over the years, surges in the stock market did not often run on parallel tracks with the economy.

In the summer of 2008, the economy was months into recession, but some days the equities markets posted strong gains. In early August, the Dow surged more than 200 points in one trading session even as corporate profits were falling, layoffs were rising and economists were warning that the outlook for the year looked grim.

"There is a separation between the United States economy and stock prices," said Russell Price, a senior economist with Ameriprise Financial. He said in 2008, a lot of the market momentum came from sales growth overseas in emerging markets, and a weaker dollar that helped profits.

In 2010 and 2011, there were also gains in the early parts of the years before the markets tapered off. This was especially true last year, when the earthquake in Japan severed supply chains and oil prices surged. Stocks sank in the second half of the year because of increasing concerns over Europe's sovereign debt problems and the United States budget deficit.

"Domestically, this is the third time we are gaining momentum in this recovery," said Mr. Price.

George M. Feiger, the chief executive of Contango Capital Advisors, said much of the market’s buoyancy was “artificial,” because companies were showing better earnings from cost-cutting and the banking system had been repaired through bailouts.

“Our best guess is that we might see a pattern like last year,” he said. “The things that brought it down in the second half, they are as bad today. I would say nothing fundamentally has changed.”