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How the Dow Hit a New All-Time High

By RICK NEWMAN
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Ben Bernanke must be grinning.

Back in early 2009, when the stock market seemed to be in a free fall, the Federal Reserve chairman engineered an aggressive set of monetary stimulus measures meant to help stocks rebound, and the economy heal. It seems to have worked. The Down Jones Industrial Average has been on a tear during the last four years and it finally eclipsed its pre-recession peak, reached on October 9, 2007. The Dow's new official high is 14,254.

To some extent, it's a puzzling time for the stock market to be hitting new records, because many Wall Street analysts expect a modest pullback in stocks during the next several months. Some stocks appear to be overbought. Austerity measures in Washington, including tax hikes and spending cuts, could trim already-slow growth by a full percentage point this year. The markets seem to be shrugging that off, but skeptics worry that investors have become too complacent about risks to the economy.

Still, the Dow has mounted an impressive run so far in 2013, up nearly 9 percent for the year. That caps an extraordinary bull run during the last four years, with the Dow rising 180 percent from its low point in March 2009. Even if there is a correction soon, most analysts think the Dow will end up even higher than it is now by the end of the year.

The Fed's easy-money policies probably have a lot to do with that, since the bull market of the last four years closely tracks the roll-out and continuation of the Fed's quantitative easing policies. Rumors of a policy shift by the Fed, which would probably entail higher interest rates, typically send stocks down, while reassuring words by Bernanke, insisting that the Fed will remain friendly toward the stock market, tend to produce modest relief rallies.

Another factor that has goosed stocks is foreign revenue. Big companies these days get about 40 percent of their sales from overseas, including fast-growing developing nations such as China, India, and Brazil. That has helped many big companies offset weak sales in the U.S. or Europe, pushing their stock values higher. In that way, the performance of the stock market diverges somewhat from the state of the U.S. economy.

Big companies have also boosted profitability through relentless downsizing that began with layoffs during the recession in 2008 and 2009. That's why corporate profits have been close to record highs even though hiring remains weak. Big companies like those represented in the Dow, as well as the S&P 500 index, have become expert at cutting costs and using technology to increase productivity, which pushes stock values up but also contributes to the most profound jobless recovery on record.

Finally, the underlying economy has been improving as well, which is one big reason investors seem less worried about shenanigans in Washington than they used to be. The housing market has finally turned around, after a prolonged six-year bust. The latest manufacturing data show industrial activity at the strongest levels in nearly two years. Consumer spending has held up surprisingly well. **Bernard Baumohl of the Economic Outlook Group** sees a "take-charge mentality" emerging in the private sector and argues that "evidence is building the economy is actually gearing up for even faster growth."

Investors seem to believe stocks will head higher too, which is why they're buying even as the Dow hits new record highs. Let's hope their enthusiasm is infectious, because if the skeptics are right the markets will need a little extra boost during coming weeks.

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