Interviewee: **Michael Aronstein**
Title: **CEO**
Company: **Marketfield Asset Management**

Interviewee 2: **Dan Deming**
Title: **Managing Director**
Company: **Stutland Equities LLC**

Interviewee 3: **Klaus Kleinfeld**
Title: **CEO**
Company: **Alcoa**

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Interviewer 1: **Matt Miller**
Interviewer 2: **Dominic Chu**
Interviewer 3: **Julie Hyman**

Matt Miller
Now to help break down what drove today's trade, we have Michael Aronstein here, CEO and Portfolio Manager at Marketfield Asset Management. Also want to remind everybody that Carol Masser is still with us. She is live from our DC bureau and, of course, the whole Markets team is here, but, Michael, let me kick it off with you. It's funny; we talk about this slump today, and any piece of negative economic data, we say the recovery is slowing. But, of course, we're coming from two-year high, I'm about to show everybody here; it hasn't been a bad run.

Michael Aronstein
No, and actually the stronger the recovery gets, the more risk you have in equities. That's the contra-logical relationship between the real economy and the financial markets: as you get tightening because people are committing more capital in the real economy, you have to watch out in the financial markets.

Matt Miller
So what does that mean for right now? I would assume that means that there's not a lot of risk because the recovery hasn't been exceedingly strong. There's no risk of tightening is there?

Michael Aronstein
Not in the United States, but there's tightening going on in the rest of the world. And that's really, I would say, the risk at the moment, is you have a lot of monetary tightening going on in the emerging markets. Interbank rates in countries like China and India are very high and going higher, and that puts a lot of stress on their capital markets. And that, I think, given the fact that that's been the most popular destination for equity money over the past couple of years, that creates something of a contagion possibility.

Matt Miller
All right, hang on a second. I want to take a look at the closing numbers in these markets here. In the good old United States of America, we see red arrows across the board, but a reminder: we are coming from two-year lows here on the S&P, so a 1% drop isn't that bad if you step back and take the perspective of two years. 1281, the level there and we'll call it 1282 to make you a little bit happier, round up. The Dow Jones Industrial Average down a lot less than the S&P because there are fewer tech stocks, and tech stocks were the big heavy fallers today. The Dow down

one-tenth of one percent, at 11,825. Finally, take a look, speaking of tech stocks, at the NASDAQ, down 1.5%, 2725. Interestingly enoughð and Julieõs going to talk about this in a little bitð Apple is down after blowing away the street expectations for earnings yesterday; and weõre going to get earnings from eBay, as well, as far as tech stocks go. Letõs bring in Dan Deming, Managing Director for Stutland Equities. Heõs at the Chicago Board Options Exchange. Dan, what gives? We had great earnings from Apple yesterday. Is it, you know, Goldman Sachs is, I get that they are weighing on the indexes, but the NASDAQ is falling so much harder than the Dow. Whatõs the story?

Dan Deming
Right, youõve got the markets getting a bit of a reality check here, Matt, I think the first time for this year and really going back to November of last year where the expectations in the marketplace probably got ahead of what the market could actually deliver. We saw a very similar situation to this last year in January as well. So, I think going forward right now, you just got to kind of keep an eye on with the markets trending down. We saw the VIX up about 10% today so weõre seeing some volatility buyers coming back into this marketplace and right now, short term, weõre looking at the 10-day moving average on the S&P 500 index; that comes in around 1280 right now. A break below thereð we have not seen a break below there for six weeksð so that could be a momentum shift.

Dominic Chu
Hey, Dan, itõs Dominic here. Julie and I were talking in the commercial break about how much IBM is playing into this whole thing: you know, the Dow giving up not so much in gain strictly because IBM, as a one-hundred-plus-dollar stock contributed thirty-some points to the Dow Jones Industrial Average. How much more relevant is the Dow Jones Industrial Average than the S&P 500, or vice versa?

Dan Deming
Well, you know, I think that what we talked about this last week. I think that you see this rotation possibly taking place where youõre seeing then the small caps coming under pressure. Now look at the Russell today, down 2.5% the last time I checked, so thatõs even getting beat up worse than the NASDAQ. So youõre kind of seeing 800 being a ceiling right now for the Russell, and as we kind of see that ceiling, we see that market sell-off, you might see a shift towards some of these larger-cap names; we still have the weakness of the dollar, that kind of gives them the great benefits of their exposures overseas.

Matt Miller
Hey, you know what? I mentioned before that Julie has a little bit of detail and color on Apple, and also on IBM, which reported after the bell yesterday. Julie, why donõt you give us that in preparation of another big tech company reporting a little bit later, and sort of an explanation of what the shares are doing.

Julie Hyman
Well, we continue to see sort of this schizophrenic tech market, if you will. On the one hand, you have IBM, you have Intel, indicating that corporate demand is alive and well, the so-called ñrefresh cycleò where companies are updating their computers after not doing so during the recession. That helped IBM earnings just like it helped Intel, if you recall, and it counterbalanced, perhaps, more weakness on the consumer side that weõve seen at Intel, although itõs not seen in Apple earnings. One interesting note from the Apple conference call, the company said that more than 80 of the 100 largest companies in the world are testing or deploying the IPAD. So theyõre trying to make a foray more into the corporate world, if you will. Now, you mentioned those Apple shares, they had given up their gains by the end of the day, but they did still outperform the market, more broadly, and tech, specifically. IBM did hang on to the gains by year end and what Iõve been hearing from folks today, a lot of people were trying to figure out why we were seeing the pullback in tech. Part of it has to with what Zara talked about: some weak earnings from some smaller companies. But in addition to that, you have some of the same themes that you have for

the broader market: that is a long run in technology stocks, which are the best performers already thus far in 2011, and some concerns that maybe that run was getting a little bit ahead of itself, Matt.

Matt Miller
Hey, I want to ask you, Michael, what do you think about sectors here? Is tech one that you like? Is it one that you go with here? The earnings reports were at least positive.

Michael Aronstein
You know, I think you may see some movement into more defensive tech kind of the large-cap names, some of the legacy issues. IBM is probably emblematic of that. I think you may see a general rotation into some of the really large-cap companies that have kind of lagged behind this market. And before you get that, generally rotations are preceded by some kind of meaningful selloff, and the reason the rotation becomes apparent is the stocks that are going to lead do better; they hold up better. And, so far, thatõs kind of, at least in my cursory glance, thatõs been the case.

Matt Miller
Is there going to beé I should point out that tech as an index, as a group, up 5% already this year to date, which hasnõt been a long year, but thereõs a little bit of a correction today, if you will. Do you see a correction for the broader market or do you think that weõre going to keep going up here?

Michael Aronstein
I think youõre at the point where the market has some intermediate vulnerability. In a lot of ways, the last 30 days when people have sort of thrown in the towel about the economy and raised their forecast for this year and kind of picked up their earnings forecast is the sort of thing that happens around intermediate-term highs. I donõt think itõs permanent, but I think you probably are going to inject some uncertainty into peoplesõ picture here and my best guess is that if you got a really sort of disorderly sell-off in parts of the emerging markets, people would go back and question, okay, what does this mean for the growth theme globally and what are the spillover effects and that would be the kind of thinking that would lead to someé

Matt Miller
This is why I asked, actually, because you said thereõs a tightening risk in the emerging markets and Iõm wondering where you think the best place to have your money is right now if weõre looking at a possible correction in the US. Where do you want to be?

Michael Aronstein
Well I think the US probably is going to be more or less a safe haven, particularly the sort of bread-and-butter, large-cap US names. The one, kind of, factor thatõs a wild card is always the dollar. I happen to believe the dollar is going to be stronger over the next 60 to 90 days and probably through the bulk of this year, but you still have these emerging market currencies really running wild on the upside and that may be more of a bubble than their stocks even.

Matt Miller
By the way, as far as the economy goes, emerging markets in the US, I see weõre trying to work together right now. Thatõs what President Hu is doing with President Obama in Washington. Listen to what Klaus Kleinfeld has to say about this, CEO of aluminum giant Alcoa. He spoke with Bloomberg earlier today on President Huõs visit to the US and the opportunity he sees in the Chinese market.

Klaus Kleinfeld
I personally believe, and have seen it many times, that a sound business relationship is probably the best as a foundation for a good political relationship, and I think that this visit already today

shows that a lot has been achieved on that front, and we will all profit from it. It’s a large, growing, and emerging market, and it has a lot of opportunities for U.S. companies to go in it.

Matt Miller
So how meaningful is this visit beyond the pomp and circumstance, Michael?

Michael Aronstein
Well, I think it is symbolic of a reintegration of the world. Itôs going to take a long time, I think, before China moves around to more freedom, which is kind of the foundational aspect of the United Statesô society and economy. And I think theyôre going to have to through some rough patches before they are convinced that an open economy is, in the long run, more viable economically. Their trying to control it is a recipe for allowing imbalances to build up in portions and thatôs what theyôre seeing now. Inflation is starting to get out of control and thatôs a direct fall-off of their currency policy.

Matt Miller
This may be a lesson that every government should take heed and listen to. Let me take advantage of our final minute here and use the Alcoa segue because youôve always been kind of bang-on with your commoditiesô forecasts, and weôre looking at sort of, some people would say, a peak here. What do you think about commodities? Do they continue their climb higher?

Michael Aronstein
I think if thereôs some question about what the emerging markets are up to and some further tightening there, I think you could call the commodity flows into question at this point, but I donôt think itôs necessarily going to be homogenous.

Matt Miller
No more easing from us? No more QE3 maybe?

Michael Aronstein
No, I think thatôsé

Matt Miller
Because this fed into the rise in commodities, right? QE1 and 2?

Michael Aronstein
Yeah, I think itôs more or less beside the point now and I think the Fed, the governors are starting to prepare you. You know, theyôre out there on the road and during their speeches, theyôre mentioning, well, the economyôs quite a bit better obviously and I think theyôre not doing that accidentally. I think thatôs a prelude to suggesting that, well, maybe we have to back away from stimulus.

Matt Miller
All right, hey, Michael, thanks so much for joining us. Michael Aronstein, CEO of Marketfield Asset Management. Dan Deming, thanks as well. Weôre going to take a quick break, come back and go to Washington.