Tax deal encourages investors



RICHARD DREW / The Associated Press

Specialist Patrick Murphy directs trading in shares of Citigroup on the floor of the New York Stock Exchange this week. The Dow was the weakest of the three main stock averages for the week, gaining just 0.3 percent.

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Stocks hit highest level in two years

Trade deficit falls to lowest level in 9 months as demand for goods rises

By Matthew Craft and David K. Randall
The Associated Press

NEW YORK — An encouraging trade report and signs that a tax cut package would pass the Senate sent stocks to their highest levels in two years Friday. Bond prices fell for another day as investors expected the tax deal to lead to economic growth and higher budget deficits.

The Commerce Department reported that the U.S. trade deficit fell to its lowest level in nine months in October. Growing demand for American goods overseas pushed exports to their highest level in more than two years.

Separately, the Treasury Department said the federal government's budget shortfall hit $150.4 billion in November. Treasury prices dropped after the report was released, pushing their yields higher. The yield for the 10-year note rose to 3.33 percent, up from 3.21 percent late Thursday.

The Standard & Poor's 500 index rose 7.40, or 0.6 percent, to 1,240.40. It was the third straight day that the S&P index closed at a new high for the year. The index has gained 11.2 percent this year and is now trading at the same price it did the week before Lehman Brothers filed for bankruptcy in September 2008.

The Dow Jones industrial average rose 40.26, or 0.4 percent, to 11,410.32. General Electric Co. led the 30 stocks that make up the index with a 3.4 percent jump to $17.72. GE said it planned to raise its dividend by 17 percent.

The Nasdaq composite index rose 20.87, or 0.8 percent, to 2,637.54.

The Dow was the weakest of the three main stock average for the week, gaining just 0.3 percent. The S&P 500 added 1.3 percent and the Nasdaq rose 1.8 percent.

Investors were encouraged to see that prospects were improving that the Senate would approve legislation aimed at avoiding sweeping tax increases Jan. 1. Negotiators added a few sweeteners to promote ethanol and other forms of alternative energy. A test vote was set for Monday.

House Democrats have

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balked at the proposal to extend tax cuts, voting in a closed-door meeting Thursday not to allow the package to reach the floor for a vote without changes to scale back tax cuts for the rich.

Tom di Galoma, head of fixed income trading at Guggenheim Partners in New York, said traders see passage of the deal as nearly inevitable. "To stimulate the economy, it really has to be done," he said. "The last thing you want to do is raise taxes in the middle of a recession."

On the off chance it failed, di Galoma said, stocks would probably lose the gains made over the past two weeks. Treasurys would jump, causing their yields to plummet.

Movie rental company Netflix Inc. rose 1.9 percent to $194.63 after Standard and Poor's added it to the S&P 500 index. The company has gained 250 percent this year.

Cablevision Systems Co., F5 Networks Inc. and Newfield Exploration Co. were added to the S&P 500 as well. The index dropped The New York Times Co., Eastman Kodak Co. and Office Depot Inc.

Two stocks rose for every one that fell on the New York Stock Exchange. Volume was 975 million shares.