While the strength of 2000’s market advance was a result of the rare combination of many forces, some concerns under the surface have led to a bit of uneasiness, causing a narrowing in the broad market’s advance and raising questions about the future.

Gains indeed slowed somewhat in the second half of 2000. While the Dow was up 25% in the first half of the year, its advance since then has been relatively smaller, despite its well-publicized push over 5000. All the media attention on the Dow has actually masked weakness in the broader markets, and continuing general weakness in international markets.

The primary reason for the market uneasiness is the U.S. economic slowdown. Traders and investors are coming to grips with the likelihood that the rate of growth in corporate earnings has peaked in this phase of the expansion. This means that earnings could begin to come in lower than expected in 2001, despite the fact that third-quarter 2000 earnings once again generally met or exceeded expectations.