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WALL STREET INSIGHT

Worries over weak support for stocks

Some analysts expect a further slide in the face of a weakening economy

By ANDY MARKS IN NEW YORK

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MARKETS have the long July Fourth holiday weekend to worry further over June's disappointing jobs report and its implications for a weakening economic recovery, and it's a toss-up when traders come back to work for the holiday-shortened week tomorrow what will happen.

They could send stocks, which broke below key support levels at 1,140 on the S&P 500 last week, sliding even further down.

But if enough investors see a market that's become oversold on excessive worries of a double-dip recession, and view the low prices as a buying opportunity, stocks could just as easily bounce back in the week's four trading days.

'It's a light, quiet week for economic data so I wouldn't be surprised to see stocks move higher after such a sharp move down that we had last week, but I think this sell-off is far from over. I think you'll see the market move downward through the summer,' said **Joe Saluzzi**, co-manager of trading at **Themis Trading**.

Mr Saluzzi's bearish point of view was echoed last Friday by Len Blum, managing partner at Westwood Capital.

'The market has been holding out the hope that the fiscal stimulus takes hold, but the economic data is showing that the exit velocity isn't there, and I think last week's reports, highlighted by the jobs number, really drove that home,' said Mr Blum.

'You now have a case where Congress has lost the political will to legislate fiscal stimulus and the private sector remains unwilling to move the economy. We may not get the double-dip recession, but getting one-half per cent or one and one half per cent GDP growth is going to feel pretty awful,' he said.

Indeed, the stalemate in Washington, with President Barack Obama and most democrats in Congress pushing for more economic stimulus measures, and Republicans arguing for fiscal austerity measures, means

that little help is likely to be coming from Congress in the near future.

Many Wall Street professionals pointed in fact to Congress's failure to extend unemployment benefits in the past week, and the negative blow to GDP that implies, as the catalyst for last week's breakdown in the stock market.

Still, Marc Pado, chief investment strategist at Cantor Fitzgerald, found enough silver lining in last week's dark storm clouds to forecast a 10 per cent bounce-back for US stocks in coming weeks.

'The economic data tells us that the economy is healing, but it doesn't feel as good as it did three months ago, because expectations were raised over the winter and early spring for a stronger and faster recovery,' said Mr Pado, who like many of his colleagues forecast a so-called jobless recovery last year.

'For all the fear and concern, this is still a typical May-June correction, although the headlines have made it a deeper sell-off than I was looking for,' he said.

Mr Pado and other analysts sticking to their bullish guns believe stocks could stage a bargain hunting rally this week, and then comes second quarter earnings reporting season, which starts in the week of July 12.

'I think it may very well prove to be a big boost at least temporarily,' said Mr Pado, who is expecting stocks to recover to 1,100 and hang around that level until October, when he expects another big swoon.

John Lynch, chief market strategist at Wells Fargo, is expecting S&P 500 operating earnings to grow 40 per cent in the second quarter, which is down from the first quarter's 53 per cent jump, but would produce many positive surprises as analysts have reduced estimates in recent weeks.

But on Friday, Wall Street's vacation-bound traders and money managers certainly did not have a potential earnings-led rally in mind as they ultimately bid stocks down following the latest round of dour economic news.

The Dow Jones Industrials sank 46 points, or 0.47 per cent, it's seventh consecutive day of losses, to close at 9,686.48. The S&P 500 lost 4.8 points, or 0.47 per cent, to 1,022.58, and the Nasdaq Composite shed 9.6 points, or 0.46 per cent, to a weekend close of 2,091.70 points.

It was a miserable week for all the major indexes, each of which lost about 5 per cent, the worst weekly performance since May 7, which featured the 'flash crash'.

With the S&P 500 now a sizeable 16 per cent below its April 23 high, it will take a mighty reversal in investor psychology, trading momentum, and most importantly, economic numbers to begin to climb out of the market's bearish hole.

The coming week poses little in the way of market-moving news or data, which will likely come as a relief to beleaguered investors who would prefer to be in summer vacation mode.

The main event is the Institute of Supply Management's non-manufacturing data for June expected tomorrow. Also important will be retailer's monthly sales reports on Thursday, as well as the closely watched jobless claims data, also reported on Thursday.

Wall Street will also be taking note of the European Central Bank's rate meeting on Thursday.

Only one S&P 500 company is due to report quarterly results this week - Family Dollar Stores on Wednesday - but Wall Street will be on the lookout for earnings warnings ahead of the reporting season.

The dearth of hard news may also keep investors' attention on Congress' financial reform and its ultimate impact on banks' earnings, and BP and the Gulf oil spill.

'A week of no news would certainly come as good news for investors after all they've endured lately,' remarked Mr Pado.