TheStreet.com

February 7, 2010

Debt, Job Worries Linger in Coming Week

By Melinda Peer

NEW YORK (TheStreet) -- The coming week is light on big economic reports, which will likely give traders time to review the big data points of the past two weeks, as the Dow hangs on to the psychologically significant 10,000 level by a thread.

Friday's session was a fitting close to a week characterized by conflicting views about the recovery coming from macroeconomic reports and uncertainties coming both from abroad and from Washington. Markets initially took the January nonfarm payrolls report in stride, selling off moderately in the face of 20,000 job losses, but a slightly better unemployment rate of 9.7%.

Stocks then sold off sharply in the afternoon session, with the Dow losing 167 points at its nadir. But the major indices started climbing toward positive territory in the final hour of trading, closing with modest gains.

The coming week's lineup of economic and earnings releases lack the same attention-grabbing potential of the nonfarm payrolls report or other economic releases from the past two weeks, such as the fourth-quarter GDP report and January nonfarm payrolls -- both of which were released amid a flurry of high-profile earnings results from companies like UPS, Visa and Cisco Systems.

That will give the market plenty of time to linger on percolating fears about how debt-laden countries like Greece, Spain and Portugal will fund their deficits and how the U.S. will achieve a sustainable recovery with so many people still out of work and hesitant to spend. Magnifying these underlying fears are uncertainties regarding government regulations on the financial industry and concerns that global markets can no longer count on China to lead the way to recovery, since it is trying to rein in its rapid growth.

"I think this week has been pretty traumatic between the softening employment numbers and the issues in Europe regarding the financial health of some of the countries there. Those worries are going to persist into the next week," said Peter Tuz, president of Chase Investment Council, a Charlottesville, Va.-based money manager.

Thursday's fears about European sovereign debt and the Labor Department's report showing another 8,000 applications for unemployment benefits led investors to rush into safer assets, roiling global stock markets. Crude oil futures also fell and the Dow briefly slipped under the 10,000 mark in its biggest single-day drop in more than nine months.

Over the weekend, Treasury Secretary Timothy Geithner said that the government would never lose its pristine credit rating even as it runs large deficits. He said global investors would always seek the safe haven of U.S. Treasuries in times of crisis.

Also over the weekend, Group of Seven finance ministers said they remained committed to coordinated stimulus as the global economy continues to recover. Their statement came after a two-day meeting in Canada. European officials at the meeting reportedly said they were monitoring the debt situation in some of the weaker euro-zone economies.

Friday's January nonfarm payrolls report, while not as terrible as some feared, was hardly enough to lift market sentiment.

"While the headline: 'unemployment back under 10%' sounds pretty good, when you look at the revisions, it becomes clear that last year was much worse than we thought. I think people will have a chance to digest all this over the weekend and come to the conclusion that unemployment is probably worse than the actual unemployment rate suggests," Tuz said.

"It has become increasingly difficult to make the statement that the economy is in recovery, both in the U.S. and globally. People are going to start asking whether this could send the market back to the double dip that everyone has been worrying about for the past year. There's certainly enough ammo out there to get us there," he said.

The ambiguity of the jobs report will place increased significance on Thursday's weekly jobless claims data, according to Doug Roberts, chief investment strategist at ChannelCapitalResearch.com, who said any data related to the consumer -- such as Thursday's January retail sales report and Friday's read on February consumer sentiment from the University of Michigan -- will garner added interest since consumers are an integral part of the recovery.

"Uncertainty regarding employment and the consumer will be the focus and any pronouncements by the president or Federal Reserve officials have the potential to affect the market," Roberts said. He also sees Wednesday's December trade balance report as significant, since if affects future GDP and taps into interest in how the deficit will be funded.

Significant earnings reports next week include CVS Caremark and Electronic Arts on Monday; Pulte Holmes and Disney on Tuesday; Activision Blizzard and The New York Times Co on Wednesday and Phillip Morris International and Viacom on Thursday.

Next week also brings a handful of Treasury security auctions, which could prove interesting given the recent flight to safety, according to **Ralph Fogel**, an investment strategist at **Fogel Neale Wealth Management.**

On Tuesday, the U.S. Treasury will auction $40 billion of 3-year notes, followed by a $25 billion auction of 10-year notes and a $16 billion auction of 30-year bonds on Wednesday.

But **Fogel** believes that the news that will have the biggest impact on the market in the coming week, can't be found on any economic calendars.

"I think the market will pay a lot of attention to this Volcker rule," **Fogel** said, referencing the restrictions that the government wants to impose on the nation's largest banks to limit risk. "It seems to me that any time you change the rules of the market, the big players usually don't feel comfortable with that and so they usually pull in the reins a little bit, so I think you'll see some of that."

Fogel also says the debt worries in Greece and Portugal "is forcing people to look at the world in a very different way." Germany, one of the world's largest economies, is being impacted by its neighbors worries, which is leading to a flight to quality in the equities market, he said.

Taking a larger view, **Fogel** sees a market that's shifting gears.

"We've had a pretty stable upwards move in the market. The theme used to be China, that it was driving the recovery. They were buying lots of resources and that theme played really well. But, about three to four weeks ago, that theme changed. The focus will now be on sovereign debt and the change in the structure of the marketplace," **Fogel** said. "I can't imagine that whatever the University of Michigan says about the consumer will have a bigger impact than that."

LPL Financial chief investment strategist Burt White boiled his expectations for the market's main focus in the coming week down to one word: Growth. Continued earnings reports will speak to the domestic growth story, while data from China will center on "the real growth story of this economy," he said.

But White's real hope is that the market finally finds its stride.

"I think next week we'll be able to see whether the market has moved to an oversold level to justify all the question marks hanging out there around China, Washington and jobs. In the coming week, we'll be taking all of these things and putting them on the scale to determine whether this market has discounted enough for these uncertainties."

"We've got to find an equilibrium between the bulls and the bears," White continued. "There's a balance where we can operate between concerns about the future and the promise of the future. We didn't find it last week, we didn't find it this week, so hopefully we'll be able to find it in the next."