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REAL-TIME ANALYSIS
AND NEWS LIMITED

Real-time Analysis & News Limited (R.A.N.) is a voice delivered market analysis, news, commentary and alert service for professional traders, brokers and fund managers.

The Week In Focus

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29th June – 03rd July 2009

Investors await earnings as 2Q comes to a close

Relative calm at the end of the 2nd quarter as investors turn their focus to earnings reports

Stocks entered a period of relative calm in recent weeks as a powerful spring rally born of optimism about the economy's revival began to sputter. With the second quarter wrapping up Tuesday and earnings reports looming next month, there appears to be little coming up in this US holiday-shortened week that could exert a strong pull on the market one way or another.

Major indexes were mixed last week. The Dow Jones industrial average fell 1.2%. The Standard & Poor's 500 index dropped 0.3%, and the Nasdaq composite index rose 0.6%.

Earnings reports and profit outlooks are sure to dictate market movements in the coming weeks. Some watchers are already worrying that poor news from those reports, which start rolling out in early July, could weigh down a market that had been buoyed by hopeful signs on the economy - Over the last couple of weeks, uncertainty has been building in how earnings will play out over the next four weeks.

EARNINGS ARE KEY THIS WEEK

Earnings will give investors the best insight into whether the economy has actually bottomed and started what is expected to be a slow recovery. The market had reacted favorably to reports of improvement in consumer confidence, housing and manufacturing that suggested the economy's deterioration was slowing -- now they get a chance to see if that moderation translated into better profits for companies.

Retailers' results will show whether consumers are heading back to stores and buying new goods. Financial firms' earnings will let investors know where the battered credit markets stand. And earnings from manufacturers will prove whether factories are ramping back up production.

Investors have become cautious ahead of these reports, which helped put a halt to the market's big springtime rally that resulted in sharp gains for every sector. The average industry sector-focused equity mutual fund has gained 21.1% since the end of March, according to data compiled by Lipper. The biggest gains were seen in international real estate funds, though all 20 sectors Lipper tracks saw increases of at least 10%.

Aluminum producer Alcoa Inc is due to kick off the earnings season when it reports on July 7.

Investors will be even more focused on companies' forecasts for future growth.

Despite the uncertainty and even if earnings are weaker than expected, a sharp drop in stock prices is unlikely. There is a tremendous amount of money on the sidelines. A lot of fund managers missed this rally. Any selloffs will be met with buying because their job is to put money to work.

Traders need to note that Holiday-shortened weeks tend to be volatile. At the closing bell on Tuesday, Wall Street will write "finis" on trading for both the month of June and the second quarter. So there could be even more choppiness amid so-called "window dressing" next week. That ritual calls for money managers to dump some losers and snap up recent standouts to spruce up portfolios -- and their quarterly returns.

DON'T FORGET ECONOMIC DATA THIS WEEK

Before earnings season kicks into high gear, investors will get a smattering of economic data this week, led by the Labor Department's June unemployment figures. Though a lagging indicator of the nation's economic health, the unemployment rate should provide valuable insight into whether the economy is stabilizing or rebounding.

U.S. non-farm payrolls are forecast to lose 355,000 jobs in June versus May's slide of 345,000, according to economists polled by Thomson Reuters. It's probably going to look better than it has the last couple of months but the unemployment rate could move still higher. The jobless rate hit a 25-year high of 9.4% in May, jumping from



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8.9% the previous month. Economists polled by Thomson Reuters predict the unemployment rate rose to 9.6% in June.

Aside from the labor data, investors will also get new readings on consumer confidence and manufacturing.

June's consumer confidence figure, due out Tuesday, is expected to increase to 57 from 54.9, according to economists' polled by Thomson Reuters. Consumer confidence is considered a key indicator of whether the economy is improving since spending by consumers accounts for about two-thirds of U.S. economic activity.

In manufacturing, economists are predicting that the Institute for Supply Management's manufacturing index, due out Wednesday, improved to 44 in June from 42.8 in May.

Other reports to watch next week will include Tuesday's S&P/Case-Shiller reading on April home prices and the ADP national employment survey for June - also due on Wednesday.

AND SPEAKERS TOO

The Federal Reserve speakers' roster includes a speech by Federal Reserve Bank of St Louis President James Bullard on the Fed's exit strategies on Tuesday, the very same day that Federal Reserve Bank of Kansas City President Thomas Hoenig speaks on bankruptcy and financial crisis.

Sources: AP/RTRS