Associated Press

November 17, 2008

The week ahead in business

The stock market is trying to form a bottom, but the economic landscape keeps changing.

With the Treasury switching its financial bailout plans and Congress fighting over a potential rescue package for automakers, investors are having a tough time figuring out what the future will bring. And that will probably mean more wild swings in the market this week.

"These are tremendous dollops of uncertainty, one after the other," said Quincy Krosby, chief investment strategist for Hartford Financial Services Group Inc. "A market needs confidence that things are going to get better. And right now there is a marked, marked lack of confidence that things are going to get better."

The result of this bewilderment is that every rally is subsequently met with selling. Last week's sell-off wiped out about $800 billion in shareholder wealth, according to the Dow Jones Wilshire 5,000 index, which reflects the value of nearly all U.S. stocks.

The Dow Jones industrial average finished the week down 5% despite a 552-point surge Thursday; the Standard & Poor's 500 index sank 6.2%, and the Nasdaq composite index plunged 7.9%.

Hedge fund and mutual fund selling has been contributing to the market volatility as funds respond to redemptions -- calls from investors for their money back. Saturday was the deadline for redemptions at many hedge funds by those who want their money back by Jan. 1, but investors are not yet anticipating an end to large-scale fund selling.

But there are fundamental factors, too, behind the market's volatility, and a big one is the government's change in strategy over how to fix the weak economy and strained financial system. Without knowing what actions the government is going to take, investors cannot assess the severity of the economic downturn and price that into the market.

Last week, Treasury Secretary Henry M. Paulson said the $700-billion financial bailout money would no longer be used to buy troubled banks' toxic assets as originally planned and instead would go toward buying stakes in the banks and other rescue efforts.

And over the weekend, after House Speaker Nancy Pelosi (D-San Francisco) said the House would provide $25 billion in aid to General Motors Corp., Ford Motor Co. and Chrysler, top Republican senators said they opposed the plan. Congress will discuss the issue in a session this week.

Wall Street's anxiety over the automakers is less about the companies themselves, Krosby said, and more about the hundreds of thousands of jobs tied to the U.S. automotive industry.

"This is about jobs now," she said. "Jobs are the symbol of the real economy."

Last week brought some troubling news about the job market: The Labor Department said initial jobless claims in the previous week jumped to a seasonally adjusted 516,000, nearly matching the 517,000 claims reported in the aftermath of the Sept. 11, 2001, terrorist attacks.

This week, economists predict a drop in initial jobless claims, but still a number in excess of 500,000. And continuing claims, already above their 2001 levels, are expected to edge higher again, according to economists surveyed by Thomson Reuters.

As people lose their jobs and watch their homes and nest eggs plunge in value, they are spending much less -- a problem for the broader economy because it is driven primarily by consumer spending. The Commerce Department said last week that retail sales decreased 2.8% in October, the largest amount on record, exceeding the 2.65% drop in November 2001.

That will make investors uneasy about another round of earnings data this week, as Lowe's Cos., Target Corp. and Home Depot Inc. are among the companies scheduled to report. Computer maker Dell Inc.'s report also could provide some insight into how much consumers are willing to spend on discretionary items.

With consumers and businesses alike pulling back their spending, companies across a variety of industries are vulnerable. So far 93% of S&P 500 companies have reported third-quarter results, and on average, they saw a 19% decline in earnings, according to data complied by J.P. Morgan. The biggest losers were in the financial sector, and the biggest gainers were energy companies -- a sector that could weaken as oil prices tumble.
On the credit market front, demand remains at a trickle. Government efforts to prop up the global financial system have helped improve the functionality of the markets but have done little to draw investors, who are worried about a protracted economic downturn.

"We've seen some thawing, but we have not seen a resumption of buying into the credit markets," said Scott Fullman, director of derivatives investment strategy for WJB Capital Group Inc. in New York.

And with Congress in lame-duck mode heading into the holidays**, "there's going to be incredible reluctance by lawmakers to make controversial legislation," said Daniel Alpert, managing director at investment bank Westwood Capital. He said some "bold moves" were needed to address the huge amount of mortgages and other debt headed for default.**

Leaders from members of the Group of 20 nations met in Washington on Friday and Saturday but made no solid plans to try to resolve the global financial crisis, although they did pledge to keep providing loans to financial institutions.

.