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The market's hurdle this week: Corporate earnings

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NEW YORK (AP) -- Is Wall Street still in a bear market, or beginning a bull market? Either way, it's probably still due for a major pullback.

And this week, the market's hurdle is a big one: A flood of quarterly results and outlooks from companies ranging from banks to toy sellers to computer chip makers.

Stocks have been on a tear, gaining 23 percent over five straight weeks from 12-year lows. The Dow Jones industrial average finished last week at 8,083, a two-month high.

But the market cannot go straight up forever, especially when the economy remains so uncertain.

Since 1900, whenever the stock market has risen more than 20 percent within two months, it has dropped an average of 7 percent in the ensuing month, according to JPMorgan equity analyst Thomas J. Lee. Historical averages do not always accurately predict the future, of course, but the statistic is a glaring reminder that Wall Street is still on shaky ground.

"A bear market rally looks exactly like this - very, very quick. It sucks people in," said Robert Levitt, chief investment officer of Levitt Capital Management.

Last week's Dow performance was decent - a 0.08 percent advance - thanks to a late-week rally on upbeat profit news from Wells Fargo & Co. But earlier in the week, investors got a taste of volatility, and there could be more to come. The Dow lost 2.8 percent over Monday and Tuesday as investors became worried about the bad news that earnings reports might bring.

The market did a sharp U-turn on Thursday and jumped higher after Wells Fargo announced that it expects a record $3 billion profit for the first quarter, an encouraging sign that the banking industry might not be as damaged as many had feared. But using Wells Fargo to take the temperature of the entire banking industry is a bit like using New York's real estate market as an indicator for the whole country's: It has simply been much stronger than others.

Investors need more data points, and that is what they will get this week in the way of first-quarter results. Along with those results will come guidance from executives on how the rest of the year looks.

"If you have a market that's already starting to build in a turn, what the guidance is going to do is either confirm it, or deny it," said Quincy Krosby, chief investment strategist for The Hartford.

More banks will be releasing quarterly results this week, notably Goldman Sachs Group Inc., Citigroup Inc. and JPMorgan Chase & Co. Other industries reporting earnings include technology (Intel Corp.), media (Gannett Co., Media General), non-discretionary consumer products (Johnson & Johnson), and discretionary goods (Mattel Inc., Harley-Davidson Inc.)

Economic data will be coming in as well. The government reports this week on retail sales, inflation, industrial production and new home construction.

Over the past month, economic readings on several fronts - new and existing home sales, manufacturing activity, retail sales and even jobless claims - have suggested the economy might not be in the freefall it was in late last year.

But even if the economy has bottomed, what happens then? Does it stay stagnant, or rebound? And if it does rebound, how quickly? Without corporate or economic growth, the stock market cannot grow, either.

"The question will become, how much can we grow? We won't know the answer to that for some time," said Stuart Schweitzer, global markets strategist at J.P. Morgan Private Bank.

The Dow may be up 23 percent from its March lows, but it remains down 693 points, or 7.9 percent, for the year. And the index would have to climb 6,081 points, or 75 percent, to return to its Oct. 9, 2007 record of 14,164.53.