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Coming Week: Don't Get Fooled Again

Simon Constable

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Among the slew of economic reports due to be published next week is one that could lead some investors to believe that the worst is over for the economy.

But wise investors would do well not to be comforted, experts say. The [data](#) point in question is the Commerce Department's first read on second-quarter GDP, which will be published Thursday. The consensus estimate is that the economy grew 1.8% from April through June.

That's well above the anemic 1% in the first quarter and could lead some observers to believe the economy is on the rebound. The problem is that it likely isn't.

"It probably represents the apex in growth in 2008," says Joe Brusuelas, chief economist at Merk Investments. "This is not a story of a resilient consumer or a miraculous turnaround. This is the story of a well-timed policy response to the economic downturn."

The expected bump in growth can be attributed to the rebate checks sent out earlier this year via the economic stimulus plan. Now that the money has all been spent, there's little to support consumption for the rest of the year, Brusuelas explains.

He says the initial market reaction to the seemingly robust economic data could be a short rally. But that could quickly be torpedoed when analysts have enough time to look more closely at the details or by other new figures out a day later, namely payroll data from the Labor Department.

Brusuelas expects the employment figures to confirm the worsening economic situation with 93,000 more jobs lost, adding to the year-to-date total of 438,000. The consensus expects companies to have slashed payrolls by 68,000 during July.

Michael Darda, director of research at MKM Partners in Greenwich, Conn., agrees that the second half is going to look weak and could get worse. The key to high stock prices, he says, is the three-way interaction between valuation, sentiment and well-functioning credit markets.

He says stock market valuation levels are attractive, and sentiment is negative; as a contrary indicator, this is *bullish* for stocks. The problem he points to is in the credit markets, where lending standards are tightening and [interest rates](#) are rising. Neither is good for growth.

"If lenders and borrowers don't trust each other, then the system can't work," says Darda.

Until the credit markets start to function correctly, Darda says, investors should consider Treasury inflation protected securities, or TIPS, which now yield close to 2% above inflation.

Other economic data points coming out include consumer confidence figures for July from the Conference Board on Tuesday, as well as the Chicago Purchasing Managers index for July, to be released Thursday. The PMI measures activity in the manufacturing economy, and analysts expect a reading of under 50, which indicates a shrinking sector.

From a technical analysis viewpoint, the broad stock market, as represented by the **S&P 500**, looks particularly oversold and could be ready for a bounce.

Only 37% of market participants are now bullish, says Rich Ishida, president of Pasadena, Calif.-based Market Vane. That's up from the 24-month low of 33% bullish on July 15. The normal range of bullishness is between 30% and 72%.

Ishida says the current stock market is "extremely oversold," and that should lead to a short-covering correction of up to two months in duration. More simply, a rally will likely be induced by speculators buying back shares they had previously sold short.

And of course, earnings season continues apace. With the bulk of the financial companies having reported, the key now is to look at the consumer **staples** such as **Kellogg** K and **Kraft Foods** KFT, says Alan Gayle, senior investment strategist at RidgeWorth Investments in Richmond, Va.

"Specifically, what I will be watching for are reports about overseas sales and guidance for the remainder of the year," says Gayle.

One thing he is concerned about is possible softness coming out of Europe. The weakening dollar has been boosting profits at some multinational corporations, but as the greenback has stabilized recently, the question going forward is how much more can they grow if overseas economies weaken?

Additionally, market observers will want to take a look at earnings from telecom giant **Verizon** VZ and tech firms **EDS** EDS and **Motorola** MOT.

Homebuilder **Centex**CTX also reports next week, as do pharmaceutical company **AstraZeneca** AZN and credit-card processors **MasterCard** MA and **Visa** V.


Notable earnings releases in the commodities and energy space include reports from **Barrick Gold** ABX, **U.S. Steel** X, **Exxon Mobil** XOM, **Chevron** CVX and **International Paper**IP.

"The energy stocks are going to garner a lot of headlines [because of their high profits], but I am not sure we'll get a lot of useful information," says Gayle. "Politically it's going to be a painful time for them."

When looking at the earnings reports, investors and traders alike would do well to beware of company officers low-balling analysts with their outlooks for the next period in the hope of exceeding expectations at a later date. Such statements can hurt the stocks in the short term.

"There has been a very strong tendency to guide us to very low numbers in the next quarter," says Hugh Johnson, chairman and chief investment officer of Johnson Illington Advisors in Albany, N.Y. "The question is whether you believe them."

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1 What would best describe your stance heading into the coming week of trading?

☐ Bullish

☐ Bearish

☐ Neutral

2 Which of these sectors do you think is set to move up in the coming week?

--Choose One--