

Weak Retail, Falling Banks Bring Market Back to Earth

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Wall Street's rally got a dose of reality Wednesday when retail sales numbers showed what many market watchers have been arguing: The economy is far from recovery.

The stock market's sharp move lower underscored the belief among some that until economic data actually turns positive—as opposed to better than dreary expectations—the gains in equities will be limited as well.

"We needed a pullback," said David Twibell, president of wealth management for Colorado Capital Bank in Denver. "If it's the retail numbers, that's fine. It could have been about anything."



Coming off a stunning three-week rally that pushed up the major indexes 25 percent or more from their March lows, stocks have wobbled since last week's government stress test results on the nation's 19 largest banks.

While the initial reaction to tests bordered on euphoric, the market has backtracked this week amid the sobering realization that stock prices will get hit as the banks are forced to sell more shares in order to raise capital.

The one-two punch of the stress tests and the weaker-than-expected retail sales numbers drove home the message that Wall Street has much work to do before it can start seeing the kinds of advances that preceded the most recent bear market.

"The news has to go from being less bad to overtly positive, and we haven't gotten there yet, at least not on very many things," said David Resler, chief economist at Nomura Global Economics. "There are some things that are not quite as bad as they were, but they're certainly not good."

The 0.4 percent drop in retail sales surprised most economists, including Resler, who thought weekly trends were pointing toward a stabilization of the numbers.

Should the trend continue, it could erase the recent wave of positive sentiment that had many thinking the economy would steadily improve, and the equity markets would move steadily higher. Noted Goldman Sachs analyst Abby Joseph Cohen told CNBC on Tuesday that she foresees a gradual "staircase" climb for the markets that could see the **Standard & Poor's 500** hit 1,050 within the year, a 15 percent gain that by popular theory would usher in a new bull market.

Another leg lower for economic trends might alter some of those bullish forecasts.

"I think it's part of what can change perception," Resler said. "The whole manner of things are starting to cast a shadow over these green shoots, or putting too much light on them. This is a big surprise to me."

"These data just underscore again that the recovery is probably going to be pretty tepid, because the economy still faces some significant headwinds," added Joshua Fineman, economist for Deutsche Asset Management, in remarks on CNBC.

Traders, though, were interpreting Wednesday's tumble in the market as a natural pullback from a rally that had gotten ahead of itself.

"At the end of the day I think it's a one-off event to be perfectly honest. We've got some profit-taking going on," said David Lutz, managing director of trading for Stifel Nicolaus. "This is a normal consolidating process."

Still, Lutz said he'll be watching some trend lines to see whether there is deeper cause for concern. Both the [Nasdaq](#) and the euro-yen spreads are beneath their 200-day trends, indicating trouble there particularly since the relationship between the currencies often serves as a barometer for stock moves.

Should the **Chicago Board Options Exchange's Volatility Index** start to move higher, that could foretell a sharper move lower for stocks.

The tenuousness of the rally has some portfolio managers also bracing for a move lower.

"This downturn has been anticipated for some time, and when the rally within the bear market was on its sixth week, our firm had already thought we were due for a pullback," said Emily Sanders, president of Sanders Financial Management in Atlanta.

Lack of faith in the stress tests combined with unease over the economy has Sanders shorting the market, using the ProShares **Ultra Short S&P 500** ETF to capitalize on a move lower for the broad index.

Even with that, however, she thinks the market's correction won't go much beyond 15 percent and sees no chance of a retest of the March lows.

"What happens through the rest of the year with real estate and financial services could have an impact on whether we retest the March lows," Sanders said. "With information we have currently we don't see that in the cards."