

## Bank stress test results to try market's advance

By SARA LEPRO – May 3, 2009

NEW YORK (AP) — A week laden with key economic reports and results of stress tests on banks will determine whether Wall Street is ready to rally further or take a sharp U-turn.

The government's assessment of the health of 19 big banks plus April employment data and retail sales reports will be the latest challenges to a rally that has driven stocks to their best two-month performance in nearly 35 years. Since March 9, the Dow Jones industrials are up 25.4 percent and the Standard & Poor's 500 index is up 29.7 percent.

Since the rally began, investors have been questioning whether Wall Street has indeed seen a bottom after the devastating losses of the fall and winter, or whether the advance has really been based on faulty speculation. But as the gains stretch into a third month, and data continues to suggest that the economy's slide is slowing, confidence is building that the market has the potential to keep moving higher.

"It takes a while for market participants to shift gears and really believe in what we're seeing," said Keith Walter, portfolio manager of the Artio Global Equity Fund.

While some observers are still skeptical or at the least cautious about the rally, the market's performance during previous recession has shows that stocks tend to hit bottom an average of four months before a recession ends.

Investors have kept buying although first-quarter earnings reports have been mixed, layoffs continue and worries persist about some of the nation's biggest banks. Concerns about a potential swine flu pandemic and the bankruptcy filing of Chrysler LLC did little to throw the market off course last week. The major indexes rose about 1.5 percent over the five-day period.

**"The market is looking higher and efforts to sell it off are constantly failing," said David Kreinces, portfolio manager at Newbury Park, Calif.-based ETF Portfolio Management, which specializes in exchange-traded funds. "This week coming up will be very telling to see if the market can hold on to these gains without any meaningful pullbacks."**

The biggest threat to the rally this week is likely to be the results of the stress tests the government is performing on the 19 largest U.S. banks. The government is expected release its findings on Thursday.

The tests are designed to determine which banks would need more cash if the economy weakens further. Federal Reserve officials have said the banks will be required to keep extra capital on hand in case losses escalate, which means some banks would be forced to raise money.

Investors are already nervous about results for Citigroup Inc. and Bank of America Corp., two of the most troubled U.S. banks.

"(The stress tests) have the potential for being a massively disruptive market event," Walter said. "But I don't think it will be because it's not in the government's best interest to paint a picture like that."

Tim Speiss, chairman of the personal wealth advisers division at Ensnare LLP, an accounting and business advisory services firm based in New York, echoed that sentiment.

"I'm extremely confident that the U.S. government is going to be standing behind the balance sheets of these banks," he said.

The April employment report, to be issued Friday, will be another hurdle for the market.

Employers cut 663,000 jobs in March sending the unemployment rate up to 8.5 percent — the highest level in more than 25 years. But investors were able to look past those grim numbers, sending the Dow above 8,000 for the first time in nearly two months the day the report was released.

"The market has looked through these as being lagging indicators," Walter said of the jobs report, adding that unemployment does not usually peak until an economic recovery is well under way.

The market also will get more insight into consumers' willingness to spend this week when major retailers report April sales results. How retailers are doing is critical because consumer spending accounts for more than two-thirds of economic.

Also due are reports on pending home sales and construction spending, as well as earnings reports from major companies including Kraft Foods Inc., troubled insurer American International Group Inc., homebuilders Pulte Homes Inc. and D.R. Horton Inc. and networking company Cisco Inc.

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