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Coming Week: No Escaping Volatility

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Updated from 5/15/2010. Update includes information on major indices and the European rescue package.

Next week brings a fresh dose of macroeconomic data and earnings releases -- too bad the market will likely continue to ignore them, opting to instead focus on uncertainties surrounding Europe's sovereign debt crisis.

"I think that the currency and sovereign debt dog is wagging the equity market tail, and that's very uncomfortable for most equity players," said James Dailey, portfolio manager of TEAMX. "Most participants in the equity market aren't really macro-oriented, so when these big macro events are unfolding, it's a very uncomfortable environment for them."

The current week got off to a promising start with a rally spurred by the European Union's $1 trillion financial rescue package, but the market quickly deemed the plan as little more than a strong show of support. According to UBS economist Larry Hatheway, the high levels of uncertainty and resulting volatility roiling through the market of late stem from the plan's failure to eliminate concerns about sovereign risk and fiscal adjustments. Since the plan does nothing in the way of providing stimulus, investors are now concerned that eurozone tightening measures will strangle growth.

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"The combination of fiscal tightening in the eurozone, coupled with an indefinite period of easy monetary policy, suggest an even weaker euro," Hatheway said, adding, "While euro depreciation will boost net exports, the structure of the eurozone suggests the benefits may be unevenly distributed. Fiscal retrenchment will be skewed toward Greece, Portugal, Spain, Ireland and -- possibly -- France or Italy. Meanwhile, the competitiveness benefits of a lower euro will disproportionately benefit Germany."

In other words, volatility is something markets will have to deal with for a while.

"The uncertainty in European markets is going to continue and I don't think we've seen the last of the bad news," said Christian Wagner, chief executive of Longview Capital Management.

On Sunday German chancellor Angela Merkel warned that the $1 trillion rescue package has only bought eurozone countries more time, and has not solved their underlying debt problems.

With rocky trading persisting into next week, macroeconomic releases will likely get put to the back burner.

The coming week brings April building permits and housing starts data on Tuesday, a read on inflation pressures on Tuesday and Wednesday with April producer and consumer price indices. Minutes from the **Federal Open Market Committee's** April 27-28 meeting will be available on Wednesday. Regional manufacturing reports bookend the week with the Empire State Manufacturing Survey on Monday and the Philadelphia Fed Survey on Friday. The April Leading Indicators report will also be released on Friday.

"Unfortunately this market is going to continue to track global markets like they have today," said Peter Cardillo, chief market economist at Avalon Partners. "Everything came in either inline or better, but the market is still gripped with volatility due to the fear factors over in Europe. I don't think we're in any jeopardy of collapsing, but I do think we'll continue to be subject to this volatile trade."

On Friday's close, the Dow Jones Industrial Average was down more than 160 points and other major U.S. indices had lost around 2%. Earlier in the session, the euro fell to its lowest point since 2008 and the stronger U.S. dollar -- in addition to reduced risk appetites -- pushed oil to a dismal close of $71.61 a barrel.

Rob Farmer, managing director at Kaufman Brothers, thinks investors will pay attention to upcoming macroeconomic reports, but only for signs that the domestic economic recovery is sustainable.

"Last month, we got a strong Empire State Manufacturing number, so investors are going to want to see that growth is sustainable, particularly for a go-forward look on jobs and the housing market," Farmer said.

Strong earnings reports have also been overlooked amid the roller coaster that European debt stress has had markets riding. Next week brings results from big consumer sector stocks like **Lowe's**(LOW), **Home Depot**(HD), **Wal-Mart**(WMT), **BJ's Wholesale**(BJ), **Staples**(SPLS) and **Target**(TGT).

Wagner, of Longview Capital Management, began exiting euro positions in November 2009 and pulled out of his international positions, citing high risks. He does, however, continue to see opportunities in the U.S. market. Wagner is overweight on the consumer discretionary sector and says he views increased volatility as a chance to buy into the market.

Analysts expect Lowe's and Home Depot to post earnings of 30 cents and 40 cents a share, respectively, while Wal-Mart, BJ's Wholesale, Staples and Target are projected to report profits of 85 cents, 43 cents, 27 cents and 86 cents a share.

-- Written by Melinda Peer in New York.

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