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WILL THE MARKET LOSE MOMENTUM?

Some analysts question how well stocks can perform this fall.

Provided by Frank DeMaio*

Are fresh headwinds buffeting Wall Street? Stocks performed surprisingly well in the first three quarters of 2012, but developments in the fourth quarter are giving analysts pause. While no one sees the bulls turning tail and running, there are emerging factors that may challenge their advance in the near term.

This earnings season isn't shaping up so well. The *Wall Street Journal* believes it will be the poorest we've seen in almost three years, with an overall decrease in profitability for S&P 500 firms. Thomson Reuters has forecast a 2.9% drop in earnings. Alcoa kicked it off by beating estimates, but it cited lessening demand in China for aluminum. Then, Chevron warned the market that its earnings would be "substantially lower" than what was forecast. Even shares of some market leaders have declined in value since September.^{1,2}

The IMF sees some gloom ahead. On October 11, International Monetary Fund director Christine Lagarde stated that the "slowdown of economic growth is affecting not only advanced countries but also emerging countries, particularly in Asia." This comment came on the heels of the IMF downgrading its global growth forecast for 2012 and 2013; it now projects global GDP of 3.3% this year and 3.6% next year.^{3,4}

Political question marks abound. The presidential race has narrowed in the last couple of weeks, and that has added another degree of uncertainty to the future of the Bush-era tax cuts and scheduled health care reforms.

Profit taking might be popular. In only three quarters, stocks have had the equivalent of an excellent year - the S&P 500 ended September up 14.56% YTD. So if the bulls trot rather than run this quarter, institutional and retail investors may be predisposed to lock in some gains.⁵

These warning lights aside, Wall Street has swept away pessimism before. It may do so again. Although the S&P 500 was down approximately half a percentage point from its final September close in mid-October, indicators apart from corporate earnings might surprise to the upside and push stocks a bit higher.⁶

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Citations.

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