# 10 ALL-CLEAR SIGNALS FOR STOCK MARKET

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Steep stock market downturns, like the 15% plunge to start 2016, don’t disappear overnight. Rebounds with staying power require a catalyst, or a reason for investors to buy. Here’s a list of potential catalysts Wall Street pros say could revive the stock market and boost the odds that the bounce that began last Friday is sustainable.


1 A BETTER ECONOMY. The “R” word — shorthand for recession — which got a lot of airplay during the earlyyear stock dive, must go bye-bye. In short, a cessation of recession fears is needed.

“I would like to see continued economic improvement, (and) more tangible evidence that the pump price dividend that Americans are receiving is finding its way to American cash registers,” says Jack Ablin, chief investment officer at BMO Private Bank. “Thursday’s (full-year sales downgrade by) Walmart, while concentrated on the (fallout from a) strong dollar, was disappointing.”

2 CONTINUED CONSUMER STRENGTH. Signs that consumers remain confident and are spending money saved at the gas pump on other stuff would also be a positive driver, adds Russ Koesterich, global chief investment strategist at BlackRock. “I would like to see more evidence — last week’s retail sales number was a good data point — that the U.S. household sector is still expanding,” Koesterich says. “That will help alleviate fears of a recession.”

3 STABILIZATION IN THE OIL PATCH. Simply put, prices have to stop going down if the market — dragged down by oil-related stocks and big industrial companies — wants to keep going up.

“This will indicate that the drag that the industrial sector’s downturn has had on corporate earnings will begin to subside,” says Erik Davidson, chief investment officer at Wells Fargo Private Bank.

4 CALM IN CURRENCY MARKETS. Stocks have been under pressure since China devalued

its currency, the yuan, in August. Since then, currency devaluations for the purpose of boosting growth via cheaper exports has become the norm. The downside? It has caused a lot of volatility in currency markets, a trend that needs to reverse.

David Bianco, chief U.S. equity strategist at Deutsche Bank, is already seeing signs of stabilization.

“Currencies are stabilizing, particularly the euro,” he says. “And (China’s yuan) is unlikely to devalue in a large or disorderly way.”

5 MARKET LEADERS START LEADING. So-called bull market sectors have to reclaim their leadership spot from more defensive sectors, such as utilities and consumer discretionary, says Jonathan Golub, chief equity strategist at RBC Capital Markets.

“I always look for market leadership to support market moves,” Golub says. “For example, if the market is higher accompanied by rising interest rates and oil prices, leadership in financials, industrials, materials and energy, then I’m more convinced the move will take hold and continue.”

6 MORE CLARITY AROUND CHINA. Plunging stock prices. Slowing economy. Policy confusion. That has been the story of China in 2016. All that uncertainty has to end if the world’s secondbiggest economy is to stop weighing negatively on markets, says Bill Hornbarger, chief investment strategist at Moneta Group.

“We need more clarity surrounding China in terms of the yuan-dollar policy and other fiscal policies, as well as better economic data,” he says.

7 CORPORATE EARNINGS REBOUND. Profits are the fuel that powers the stock market. But the past two quarters Corporate America has posted negative profit growth. A return to a positive earnings trajectory will go a long way toward luring investors back into the market and bringing above-valuations back down.

Wall Street wants better “visibility on earnings growth,” says Bob Doll, chief equity strategist at Nuveen Asset Management. Adds Hornbarger: “No more downward profit revisions” from Wall Street analysts.

8 HEALING IN CREDIT MARKETS. “Watch the credit markets, particularly U.S. high yield bonds,” Koesterich says. “A narrowing of credit spreads would confirm the sustainability of a stock market rally.” Why? “Spreads have more to do with the risk of lending to riskier borrowers,” Koesterich says. “Narrower credit spreads suggest that investors are less worried about companies defaulting on their debt.”

9 GRADUAL RISE IN LONG-TERM RATES. Despite the Federal Reserve raising short-term rates in December for the first time in nearly a decade, yields on long-term government bonds have come down amid growing investor fears and economic weakness. A gradual rise in rates could boost confidence, Davidson says.

10 FED CERTAINTY. If talk of four rate hikes — and the prospect of negative rates — fade away for good, markets could levitate.

“Most people have the Fed somewhat off the table for this year (maybe one or two hikes),” Hornbarger says.