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What to watch

Earnings season could cause volatility spike

Adam Shell
@adamshell
USA TODAY

You've heard all about investor complacency and the lack of wild gyrations in the stock market. But the calm is likely to be broken after the earnings season kicks off and Wall Street is bombarded with new information on the health of companies and U.S. economy.

The unofficial kickoff to the second-quarter profit season occurs today after the closing bell, when aluminum giant Alcoa reports earnings and weighs in on the health of business at home and overseas, as well as the outlook for the second half of 2014.

With thousands of companies set to report earnings in coming weeks, there's bound to be individual company results that spook investors, as well as reports that speak to an economy on the rise. But results will reflect both ends of the good-bad continuum, resulting in a corresponding violent reaction from stocks on any given day.

Currently, analysts polled by Thomson Reuters forecast profit growth of 6.2% for the Standard & Poor's 500-stock index, up from 5.6% last quartet. Heading into the week, the number of companies warning of profit shortfalls outnumbered those predicting upside earnings surprises by a 4 to 1 ratio, above the long-term average of 2.6 negative pre-announcements for every positive one.

With the forward four-quarter price-to-earnings ratio currently 15.6, above the long-term average of 14.8, a good earnings season is needed to keep stock bulls happy and stock prices buoyant.