Is market rally likely to end soon?

Experts: Dangers continue but economy is stronger

By Matthew Craft
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NEW YORK — The pattern looks eerily familiar.

The stock market scampers up to historical heights to start the year then gets knocked on its back. Last year, worries about Greece and the U.S. economy helped flatten a rally by June. The year before, it was an earthquake and tsunami in Japan along with a political fight in Washington.

This year, the stock market raced off to its best start since 1997. So, what could squash the good cheer this time?

The top candidates are two of the same culprits from the previous years: Europe and Washington. But the big difference is that the U.S. economy, corporate America and Europe are all in much better shape, investors say. A slump this year shouldn't be as bad.

"Even if we're tired of hearing about the dangers, dismissing them hasn't been a smart thing to do for the past few years," said Dan Greenhaus, chief global strategist at the brokerage BTIG.

History never repeats itself, exactly, but people who play with numbers for a living see patterns.

Last year, strong corporate earnings and steady growth in the U.S. economy drove the S&P 500 index up 8 percent by the middle of February. Less than three months later, fears that Greece would drop the euro currency and a surprisingly weak employment report left the index back where it started.

In 2011, the broad-market index staggered higher to start the year, reaching a peak in May with a 9 percent gain. By August, it was all gone. That echoed the year before, and the year before that.

"It's funny how at the beginning of the year everybody gets excited and then by the middle of the year it's, 'Everything stinks,'" Greenhaus says.

Over the past week, Europe's troubles have recaptured investors' attention. In Spain, charges of bribery have put pressure on Prime Minister Mariano Rajoy to resign. In Italy, polls show strong support for Silvio Berlusconi, the former prime minister, in elections later this month. The scandal-plagued Berlusconi has called for billions in tax rebates and amnesty for Italians who haven't paid them.

The other major concern for investors stems from Washington, where drawn-out budget battles have turned into an annual event.

Steep spending cuts are scheduled to kick in March 1, unless Congress and the White House find a way to avoid them. Previous high-stakes talks have rattled financial markets.

There's little agreement about what will happen this time, except that it won't be nearly as bad. Some think that investors have seen enough budget brawls that they won't be fazed by another one.

"People are pretty much sick of hearing about this," says Joseph Tanious, the global market strategist at JPMorgan Funds.

Jeffrey Kleintop, chief market strategist at LPL Financial, says the buoyant mood is unlikely to last. If more companies keep warning of slower earnings in the coming weeks, the pileup of worries could unnerve investors.

Without another last-minute deal between Congress and the White House to avoid the budget cuts, the stock market's gains could be erased as early as March, Kleintop says.