What to watch

New worries as earnings season winds down

Adam Shell
@adamshell
USA TODAY

The good news is the frenzy of the first-quarter earnings season is winding down and the profit picture has stabilized. The bad news is earnings are likely to take a back seat to Federal Reserve policy, incoming economic data and geopolitical risks as summer approaches. And that means the current trendless market might have a downside bias in the near term.

That's the message Gina Martin Adams, senior analyst at Wells Fargo Securities, delivered to clients Monday in a research note.

She warns of trials to come in the days ahead, based in part on the notion that there will be a host of negative drivers that could upend stocks in the coming weeks as attention turns away from earnings season. First-quarter earnings for the Standard & Poor's 500-stock index came in better than expected, with 5.5% growth. And growth is expected to pick up in each of the final three quarters and climb to an estimated 11.7% growth rate in the final quarter of the year.

But there are always caveats on Wall Street. The earnings stability that has emerged might come under pressure, Adams says. She points out that there's been little, if any, upward momentum in CEO guidance or upward analyst revisions.

With the Fed taking its foot off the stimulus gas pedal and stocks trading at above-average valuations, it would take "an outright increase in forward earnings expectations to get stocks trading meaningfully above their recent range," she says.