REUTERS

Eurozone woes to make for erratic market

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By Angela Moon

NEW YORK (Reuters) - Volatility will be the name of the game on Wall Street next week as uncertainty over the euro-zone debt crisis remains and investors will need nerves of steel to make bets on risky assets like stocks.

The Standard & Poor's 500 index's drop this week of 10 percent from recent highs meant the benchmark index is now in a correction amid a rally that started on March 2009.

"This is a tough market. And if you don't have a strong stomach and you are not one of those people who thrive on volatility ... this is not the time you should be trading," said Randy Frederick, director of derivatives at the Schwab Center for Financial Research in Texas, Austin.

On Friday, stocks snapped a three-day losing streak as investors bought beaten-down shares including banks. But for the week, the Dow and the S&P were off around 4 percent and the Nasdaq fell 5 percent.

Analysts said economic data due next week and investors' speculation that equities may have fallen too much could lead to a rebound in the market. But with the downside momentum strong on anxiety over European debt issues, the market can easily turn and create increased volatility.

BIGGER SWINGS?

On the week, the Chicago Board Options Exchange Volatility Index <.VIX>, Wall Street's favorite yardstick of investor anxiety, rose 30 percent.

The measure of U.S. stock market volatility closed at 40.10 on Friday, down 12.43 percent, after rising as high as 48.20, the highest since March 10, 2009.

"Every bear market starts off as a correction so in this kind of environment, investors get anxious about whether this is just a correction or a start of the bear market. The unknown is what makes people uncomfortable, leading to bigger swings," said Frederick.

He said that the index could swing between mid-30s and high 40s next week.

The VIX is a 30-day risk forecast of stock market volatility. The index typically has an inverse relationship with the S&P benchmark as it tracks option prices that investors are willing to pay as a protection on the underlying stocks.

GEITHNER IN EUROPE

U.S. Treasury Secretary Timothy Geithner will make a stop in Britain and Germany next week to discuss troubled economic conditions there en route home from China.

"Of course, there is no quick fix to the debt crisis, but the visit is at a good time. We don't know what will come out of the meetings, but it will probably be some sort of a coordinated effort to address the liquidity issue in Europe," said Jeff Kleintop, chief market strategist at LPL Financial in Boston.

"If it shows that the worst of the financial market pressure is starting to be relieved, it will not only be good for stocks but for all risky assets."

Global markets across all assets have been pressured for months on concerns that huge deficits in Greece will spread into a wave of debt crisis in the euro zone and eventually jeopardize the global financial system.

Fear that fiscal tightening would kill the economic recovery pummeled equity and commodity prices during the week and caused investors to pay up for safe-haven U.S. government debt.

DATA IN FOCUS

Investors will look for clues on the state of the labor market when jobless claims data comes out on Thursday.

The number of U.S. workers filing new applications for unemployment insurance unexpectedly rose on the week that ended May 14, government data showed. The increase was the first time since early April, dealing a blow to the labor market recovery.

"The improvements that we have seen in jobless claims have flattened out recently, especially after last week. This week's data will be a major indicator of whether this is a temporary slump or a long-term decline," said Frederick.

Housing-related data will also be in focus next week. April's new home sales data on Wednesday is expected to extend the March uptrend as buyers were spurred on by the impending tax credit deadline. Sales are seen rising to 420,000 units in April from 411,000 in March.

Home prices are seen rising this year and next, though they may dip first and it will take years to recover to pre-crash levels.

Existing home sales, due on Monday, are seen rising 6.0 percent to 5.62 million units after growing by 6.8 percent in March, with forecasts between 5.42 million and 5.80 million.

The S&P/Case-Shiller 20-city index, which will come out on Tuesday, is seen declining 0.3 percent, seasonally adjusted, in March after a 0.1 percent dip, and increasing 2.4 percent year-over-year after a 0.6 percent rise.

"With so much uncertainty in the bigger global picture, good housing indicators can be seen as an instant trigger to a market rally next week," said Steven Hagenbuckle, founder of TerraCap Partners, a private equity fund based in New York and Florida.

On Thursday, the government will release its revised estimate of first-quarter gross domestic product. Analysts forecast a reading of 3.4 percent growth, slightly up from the first reading of 3.2 percent.