Stocks: New Year, same problems

After a whirlwind end-of-year rally, investors are back to playing it cautious as the economic news worsens.

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NEW YORK (CNNMoney.com) -- As Friday's abysmal jobs report made all too clear, Wall Street's whirlwind holiday romance has ended. Investors are back to reality.

Stocks, as demonstrated by the S&P 500, rallied 8% in the last week of December and start of January. But in the first full week of 2009 trading on Wall Street, stocks erased half of those gains. A brutal jobs report, a rash of miserable retail-sales numbers, and profit warnings or job cut announcements from venerable firms such as Alcoa, Intel and Wal-Mart Stores were to blame.

The week ahead is likely to bring further testaments to the ongoing recession, specifically the weak consumer spending environment. Retail sales are expected to have dwindled in December, and reports on pricing pressures at both the consumer and wholesale levels are expected to show declines. With so many people out of work and cash-strapped, there's little room for prices to move up.

Next week also brings the start of the quarterly reporting period, which begins with Dow component Alcoa, as is traditional. Intel and Merrill Lynch are the only other marquee names due to report next week, with the bulk of earnings releases due closer to the end of January. (For a preview of bank earnings due out later this month, click here.)

"The worst damage to the economy has probably already happened, but we're going to keep seeing the messy aftermath in the months ahead," said Larry Glazer, managing director at Mayflower Advisors.

Wall Street has almost gone through its own version of the stages of grief in regards to the recession, he said: "Earlier in 2008 there was a denial of what was happening, then panic set in during the fall, and now we are in a period of acceptance."

Glazer belives that 2009 will be a year of investors trying to rebuild confidence in the market.

On the docket

Monday: Alcoa (AA, Fortune 500) is expected to report a quarterly loss of 5 cents per share after the close Monday, according to a survey of analysts by Thomson Reuters. The aluminum producer and Dow component earned 36 cents per share a year ago.

Tuesday: Federal Reserve Chairman Ben Bernanke speaks at the London School of Economics before the start of U.S. trading.

The House Financial Services Committee holds a hearing on usage of the Troubled Asset Relief Program (TARP) funds, a.k.a. the $700-billion bank bailout.

Wednesday: The nation's chain stores released dismal December sales figures last week. This week, the Commerce Department releases the composite number, and it's expected to be equally gloomy. Retail sales are expected to have fallen 1.1% after falling 1.8% in November. Sales, excluding volatile autos, are expected to have fallen 1.2% after falling 1.6% in November.

Also Wednesday, the government releases its November business inventories report. Inventories are expected to have fallen 0.5% after falling 0.6% in October.

And in the afternoon, the Federal Reserve releases its periodic "beige book" survey of the economy.

Thursday: While pricing pressure hasn't been much of an issue at this point in the recession, investors will still keep an eye on the week's inflation reports.

The Producer Price index (PPI), a measure of wholesale inflation, is expected to have fallen 1.9% in December after falling 2.2% in the previous month. Prices, excluding volatile food and energy costs, or the Core PPI, are expected to have risen 0.1% after rising 0.1% in November.

The Philadelphia Fed index, a regional manufacturing report, is also due Thursday. The January index is expected to have fallen to negative 35 from negative 32.9 in December.

Merrill Lynch (MER, Fortune 500) reports results before the start of trading and is expected to have lost 16 cents per share after losing $12.57 cents a year ago. Intel (INTC, Fortune 500) reports results after the close. The chipmaker is expected to have earned 10 cents per share after earningsof 38 cents per share a year ago.

Hearings on the nominations of various members of Obama's cabinet are happening in Congress this week. On Thursday, the Senate Finance Committee holds the confirmation hearing for Timothy Geithner as Treasury Secretary.

Friday: The December Consumer Price index (CPI), a measure of consumer inflation, is expected to have fallen 1% after falling 1.7% in November. Core CPI is expected to have risen 0.1% following a flat reading in November.

Later in the morning, the University of Michigan releases its preliminary consumer sentiment index for January. Sentiment is expected to have dipped fractionally to 60.0 from 60.1 in December. ■

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