China a Scapegoat for U.S. Stocks?

From MarketBeat:

So did China really ignite the stock selloff in U.S.? Or was the world’s second largest economy merely the scapegoat for a long overdue pullback?

We’ll take the latter.

Stocks fell on Wednesday, although the selloff wasn’t nearly as bad as initially feared. Worries over China’s growth prospects were widely cited as the catalyst for the declines.

The Dow Jones Industrial Average finished down 69 points, or 0.5%, at 13170.19. At one point the blue-chip index was down as much as 116 points. But it inched back throughout much of the day. The damage was less significant for the S&P 500, which fell 0.3% to 1406. The tech-heavy Nasdaq trickled down 0.1% to 3074.

“Early weakness gave way to strength most of the rest of the day, like so many other sessions in the past few months,” said Jason Goepfert of Sundial Capital Research.

So what about China: Should we be worried? An executive at Australian mining giant BHP Billiton warned that China’s demand for iron ore will flatten as the country’s economy slows. That caution flag sent ripple effects through global markets. Dennis Gartman, an investor and newsletter writer, even went so far as to describe China as the market’s “most serious concern.”

If that’s truly the case, stock investors really don’t have anything too troubling on their plates these days.

Sure, China previously slashed its 2012 GDP growth target to 7.5%, an eight-year low. And higher gas prices in the region will undoubtedly weigh on Chinese consumers.

But China’s growth concerns have been well documented. We don’t mean to pooh-pooh these worries, but with Europe recently moving out of the spotlight, investors have been craving for a reason to briefly take some chips off the table.

China initially proved to be the perfect catalyst. However concerns were fleeting and stocks finished well off session lows.

The Dow and S&P 500 have only suffered two declines in the last 10 trading days. Phil Roth, chief technical market analyst at Miller Tabak & Co., says he must see evidence of “increasing selling pressure on pullbacks” before predicting the market is poised for a sustained downturn.

That evidence has not presented itself yet.

Trading volume fell yesterday compared to Monday’s activity when stocks rose. And volume figures – although
still down from a year ago — have shown small signs of picking up when the market has risen as opposed to when it has dropped. This suggests momentum is still in the bulls favor.

“Picking a top is still a loser’s game,” Mr. Roth says.

– Steven Russolillo