

**Daily Market Notes****Market Update:****DJIA:** 9424**S&P 500:** 1016**Nasdaq:** 2010**10YR T-Note:** 3.85%**EUR/USD:** 1.417**Gold:** 956**Crude Oil:** 71.56

The market made a slight decline yesterday, its second in two days, as trading turned cautious ahead of the all-important jobs report today. But similar to Wednesday, the Dow was able to close above its intraday worst levels, and we have now seen this on every intraday decline during the past two weeks. In other words, there appear to be willing buyers who want to enter into the market on any sort of dip in prices. And sure enough yesterday the same script was evident, as an intraday loss of -72 Dow points was improved to end with a closing loss of -24.

What did provide the market with some support was that weekly initial jobless claims continued to decline, and at 550,000 was the lowest this year. This factor was being offered by those who think that things are improving on the jobs front and more ammunition that the labor market is showing improvement.

Prices Current as of  
2:07 PM

Source: Bloomberg

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And was this line of thinking ever justified today, as a surprisingly better July non-farm payroll report has gotten stocks in a strong upward mode. The report showed that "only" -247,000 jobs were lost against the consensus of -325,000 and more striking against the once-again off base prediction by ADP on Wednesday that the figure would come in at -371,000 jobs lost. And what was even more surprising was that the unemployment rate actually declined from 9.5% to 9.4%, and this is the first time that this has declined since April 2008. In addition, revised job losses for May and June showed that 43,000 fewer jobs were lost than previously reported.

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The main factor that got this report better than expected was that manufacturing employment declined by -52,000, which was the first time since September that losses in this area were less than -100,000. And it compares to losses of -131,000 manufacturing jobs in June. This was most likely the result of the re-opening of General Motors and Chrysler assembly plants after bankruptcy closures. This was the 19th straight month of job declines, to put this all in perspective.

It is no surprise that stocks are taking off to the upside as a result of this report, to no one's surprise. This is a classic example of the fact that it is always better that a

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market sells off going into a major event, and remember that things sold off the two days before the release of this report. Also helping is that of the 446 of the 500 companies in the S&P that have reported results, 75% of them have beaten the estimates. Now it is estimated that companies in the S&P will earn around \$75 a share next year. This would be a 21% increase from this year.

Every group in the S&P is up today, with financials doing the best, continuing the strong advances that they have made this year as they were the first ones out of the gate to gain back in March and April.

And the biggest surprise of all is that the dollar is finally going higher on a day when stocks are up, as the good news for the U.S. economy and for stocks is finally causing the dollar to go up as well. As we all recall, the dollar has only gone up recently when the economic news has been bad and the stock market declines because people buy it as the supposed "safe haven". And as we also know, throughout the spring and summer the dollar has declined as companies release better than expected earnings and the stock market rallies because so-called "risk aversion" increases, so sell out of the safe-haven dollar.

The reason that the dollar is finally rallying on good news is that if this report shows that the economy is really improving, it means that the Fed will have to finally raise rates from the record low levels that they are at now and therefore investors will go into a currency that has a higher yield. We are seeing this in the fact that the yield curve is narrowing on a day when the bond market declines and interest rates in general rise. In other words, the yield on the two-year note is actually going up faster than the yields on the longer term maturities, of between 10 to 30 years. This is because the two-year note is closely tied to the federal funds rate, so here is an example of the bond market trying to force the Fed's hand, in other words to make them raise interest rates.

And as the dollar makes very large gains against both the Euro and the yen, gold and

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oil prices are both declining, and this is the ideal universe for stocks, namely a stronger dollar, less inflationary risks and lower energy prices, which have to be good for consumer sentiment.

Of the 446 S&P companies to have reported so far, 75% of them have beaten the estimates, which is a record for any one quarter being above consensus and have surpassed projections by +9.7% against the prior best surpassing number of +7% in the first quarter of 2004.

Now that the second quarter reporting period is winding down, stocks in the S&P 500 are expected to report profit declines of -31%. This is after a first quarter decline of -33%. The projection is for a -20% decline in the third quarter, before a rousing gain of +62% for the fourth quarter, when the comparisons to the fourth quarter of 2008 should be somewhat easy to overcome. The only problem with this projected gain is that the bulk of it is supposed to come from financials, because the comparisons to the disastrous 4Q of 2008 should allow for good upside.

We have now seen eight straight quarters of profit declines for companies in the S&P 500, starting with the last two quarters of 2007, all four quarters of 2008 and the first two quarters of 2009. Earnings have never been down for eight consecutive quarters. If earnings do come in lower for the third quarter of 2009, this will be the first time ever that there have been nine consecutive quarterly profit declines.

We now have four consecutive quarters of negative G.D.P. growth which started in the third-quarter of 2008, and has now extended through the first two quarters of 2009 and could continue through the third quarter of 2009, although most forecasters are now predicting positive growth for the third quarter. This would be the first time ever that the U.S. economy has contracted for five consecutive quarters, if that were in fact to take place. In fact, this is the first time that there have been four straight quarters of negative growth since records have been kept since 1947.

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### Disclosures

*Don Selkin is the Chief Market Strategist at National Securities Corporation, member FINRA/SIPC, (NSC) and provides the Fair Value analysis for CNBC each morning. The commentary provided in this Market Letter is intended to provide our customers with timely market analysis and should not be considered a research report. This Market Letter may contain, and is limited to: Discussions of broad based indices; Commentaries on economic, political or market conditions; Technical analyses concerning the demand and supply for a sector, index or industry based in trading volume and price; Statistical summaries of multiple companies' financial data, including listings of current ratings; and, Recommendations regarding increasing or decreasing holdings in particular industries or securities. This Market Letter does not make a financial or investment recommendation or otherwise promotes a product or service of the firm. This Market Letter contains only news, facts, and commentary on information previously reported from a news source believed to be accurate and reliable by the author. These news sources include the following: {PROVIDE SOURCES}. It is possible that at any given point in time, the author, NSC, or one or more of its employees or registered individuals associated with NSC, may hold a position, either long, or short, as well as options, bonds, or other instruments in the companies noted in this report. This Market Letter is intended strictly for current National Securities Corporation customers only.*