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Daily Market Notes

Market Update:

DJIA:	**12233**
S&P 500:	**1308**
Nasdaq:	**2734**
10YR T-Note:	**3.35%**
VIX:	**16.12**
EUR/USD:	**1.432**
Gold	**1495**
Crude Oil:	**108.20**

Prices Current as of 1:05 PM

Source: Bloomberg

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Yesterday was a perfect example of the old expression about the "chickens coming home to roost", in the sense that the stock market was faced with a VIX that closed right at support on Friday, crude oil prices were on their merry way higher and that extracts more pain from consumers, the dollar was continuing its collapse against the Euro, and gold and silver prices were skyrocketing higher as indicators of more inflation anxieties. This toxic combination was setting the market up for some sort of setback, and a series of events, however transitory they might ultimately prove to be, combined to give equities a good beating as a result. You also had the situation where the four major companies to report earnings last week all sold off as a result, and three of them were Dow components (the aluminum company and two bank stocks), in addition to the always important largest Internet company. This was not the best prelude to a week in which over 100 S&P companies are scheduled to report their first-quarter results.

In addition, there was the ostensible drama surrounding the True Finns political party. What happened here with this erstwhile organization is that they won some sort of election which now qualifies them to be part of the coalition government in that country, and their main platform is that taxpayers in that country should not have helped rescue Greece or Ireland. So this weakened the Euro, which had been strengthening lately to 15 month highs against the dollar and pulling commodity prices higher as well. So the perception was that these election results in a somewhat obscure country like Finland, which came 11 days after Portugal became the third Euro member to seek a bailout, could threaten to disrupt efforts to push through Europe's crisis-handling measures. And how do you like that for some drama! In addition, China raised reserve requirements that banks have to hold for the fourth time this year. The Finland situation hurt the Euro and the China situation had the various stock index futures indicating a lower opening of around 100 Dow points.

Then right after 9am, a real bombshell dropped, namely that Standard & Poor's cut the long-term U.S. credit outlook from stable to negative on the risk that

U.S. policymakers may not reach agreement on how to address long-term fiscal problems. This obviously political move by a ratings agency resulted in them assigning a one-in three chance that it will lower the U.S. rating in the next two years by saying that the credit crisis and recession that began in 2008 have worsened the deterioration in public finances. In addition, budget differences among the two political parties remain wide and it may take until after the 2012 elections to get a proposal that addresses the concern.

So this mini-panic situation resulted in the Dow hitting its worst level around 11am, with a loss of 248 points and a VIX that rose from the unsustainable 15.32 close to as high as 19.07, a gain of 3.75, obviously more than it should have risen relative to the Dow's decline. Breadth numbers were horrible as well, with a 1 to 9 negative ratio at the time of the market's low.

After the panic sellers were satisfied on those lows, bargain hunting came in and as a result, the market was able to sort of claw its way back from its worst levels for the rest of the session to end with a closing loss of 140 points, and the VIX also fell back from its panic highs to end with a closing loss of 1.64, to 16.96. Breadth numbers "improved" to end with a closing negative 1 to 6 ratio and individual stocks that did well were few and far between.

The bank stock that is going to be reverse-splitting next month became the fifth major (and even calling it "major" becomes a questionable description) stock to not go anywhere after its earnings report, as during the day it had the nerve to gain as much as .10 before rewarding its optimistic buyers with an unchanged close for their efforts. .

After yesterday's downside blast, things have tried to stabilize today, with the Dow being able to gain as much as 48 points at its best level around 10:30am, helped by a good reaction for the first time this season to an earnings report, and that came from a Dow medical products component, a stock that goes nowhere but at least it holds steady. Since that high, things have started to

deteriorate a bit, as the Dow declined to only unchanged at 11:30am before gaining 15 points as this is being written. On the other hand, the Nasdaq is lower and the VIX is down by more than it should be relative to the Dow's small gain. This lower VIX while the market does nothing is not good because it moves the VIX closer once again to the 15.30 support level while stocks go nowhere.

After finally getting a major stock that is rising after its report, the two other important stocks that reported today are both lower, following the recent pattern, and they are the always controversial bank holding company that is an investment banking and securities firm, in addition to a global semiconductor company.

The market tried to put a positive spin on the March housing starts report, which showed a gain relative to the February report, which was the lowest on record, so what is so great about the current report? And that pesky Euro, which had declined a bit because of the stupendous events in Finland, is back to its recent ways of rallying again on the prospect of further rate hikes in that part of the world, helped by a German Purchasing Managers' report that showed a gain last month. And never mind that the cost to insure Greek debt rose to a record, which once again shows the very tenuous state of some of the Euro members, for sure.

And crude oil prices are back to their gaining ways after having been lower by $1.50 a barrel to around $105.50. They are currently up around 50 cents to $107.50 and not even the newest member of the energy analyst fraternity, otherwise known as Barack Obama, could prevent their rise when he said that there is enough oil in world markets to meet demand, implying that speculators were to blame for rising prices, something that I have maintained for months now, so it is nice to see the President finally put his two cents in, and let's see if it has any effect.

Otherwise, things might just sort of drift around after yesterday's drama on this holiday-type of day, as we get ready for technology-type companies that report after the close, and they are Dow component IBM, in addition to INTC, ISRG, JNPR and YHOO.

This week sees the real heavy earnings reporting, with the following lineup – Wednesday: Dow components AXP, UTX and T, plus ABT, AMGN, AAPL, FFIV, FCX, MAR, WFC, YUM, EMC, DAL, OMC and CMG; Thursday: Dow components GE, DD, MCD and VZ, plus AMD, BX, COF, HON, JBLU, MS, PNC, LUV, MO, SLB, COL, RAI, XRX, NUE and SNDK. And it certainly would be nice to see another one of these companies produce results that cause its stock to rise, unlike what we have seen from the first four large companies to report so far.

The S&P trades at 13.6 times forward earnings, and 15.6 times current earnings, as 2010 earnings are going to be $85 for the S&P and $99 for 2011, according to the analysts who follow these companies. The average P/E multiple for the S&P going back to 1954 has been 16.2.

For all of 2010, earnings increased by +30%, which was the most since 1995. For 2011 the analysts are forecasting increases of +12% for the first-quarter of 2011 and +16% for the entire year, as reported by Bloomberg Financial and this would be the largest two-year advance since the period ended in 1995. This means that S&P earnings for 2010 were $85 and projected to be $98 in 2011. This would equate to around a 17% gain this year. The highest ever earnings for the S&P in one year took place in 2006, at $88.

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After four consecutive quarters of negative G.D.P. growth, we now have six consecutive quarters of positive growth, starting with the third-quarter of 2009 and continuing with every quarter in 2010 according to the Commerce Department. For all of 2010, G.D.P. rose at a 2.9% rate, which was the highest since 2006 after a decline of 2.6% in 2009. For 2011, the prediction is G.D.P. growth of 3.5% and it is 3.9% in 2012.

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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: {Bloomberg Financial, Reuters, Associated Press}. 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.