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Daily Market Notes

Market Update:

DJIA:	**12702**
S&P 500:	**1347**
Nasdaq:	**2846**
10YR T-Note:	**3.14%**
VIX:	**17.29**
EUR/USD:	**1.431**
Gold	**1507**
Crude Oil:	**101.10**

Prices Current as of 12:48 PM

Source: Bloomberg

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After four straight days of losses to start the month of May, the first time that this has taken place since October 2008, stocks finally got their act together on Friday courtesy of a better than expected April jobs report. But it was not easy, as once again that same sick direct relationship between stocks, the Euro and commodities made its presence felt as the day wore on.

For instance, after a gain of as much as 174 points by 11:30am, the Dow gave almost all of it back as at 2:30pm it was ahead by only 15 points before clawing its way back to end with an advance of 55, which almost felt as if it were snatching defeat from the jaws of victory. And what turned the market off of its best early levels was another decline in commodity prices as the day wore on, as for instance when stocks were on those morning highs, crude oil was ahead by $2 a barrel to over $102. Then when crude oil prices declined to end with closing losses of around $2.60 a barrel to just above $97, stocks also decided that lower energy prices for consumers was negative for stocks, instead of being what one would like to believe would be supportive for equities. And naturally when silver prices also underwent another large downside shellacking, instead of also being positive for stocks by showing less of a concern for inflation, this was also interpreted as negative.

Of course the reason for many commodities getting whacked to the downside was that the Euro, which had reached a 17-month high early last week at over 1.49, also made a sharp downside move to 1.43 on a story published in a German magazine that Greece is considering abandoning the Euro. Let us remember that Greece was rescued from the brink of bankruptcy last year by a $160 billion package of bailout loans from the other E.U. countries and the I.M.F. In return, it has imposed a strict austerity policy. Since then, Ireland and more recently Portugal have also received similar bailouts. There has been

recent speculation that Greece will eventually have to restructure its debt because of the belief in some quarters that the country will not be able to service its debt, which is currently at around $350 billion Euros. But both the Greek government and E.U. officials have repeatedly denied that a restructuring is in the cards. The Greek finance ministry quickly and emphatically denied the story and said that "such reports are a provocation, undermine efforts by Greece and the E.U. and service speculative games."

The VIX was sort of flexing its muscles during the session, as after declining by 2.08 to 16.12 when the Dow was on its high of being up by those 174 points, a little more than it should have, it then it actually rose by 1.09 to 19.29 when the Dow fell to its low of the day with that gain of only 15 points as mentioned above. This was an unusual situation to say the least, as the huge jump in the VIX even when the major averages were still higher was perhaps a sign of some real problems that were about to surface, but as the major averages clawed their way back from the 2:15pm lows, the VIX calmed down a bit as well, ending with a gain of .20 to 18.40, still a bit unusual for a Dow closing gain of 55 points.

Breadth numbers were good at an almost 2 to 1 upside ratio, and the Dow was led by its food and beverage component on a good earnings report, in addition to some of the industrial, resource and energy stocks that had taken a large beating the first four days of the week on those lower commodity prices.

What I found very disturbing was that throughout the course of the entire day, the various financial media television stations sort of became obsessed with the one-year anniversary of the infamous "flash crash" of May 6, 2010, and kept on bringing it up with various bloviators sticking in their two-cents about causes, solutions and so on. It was almost as if these media outlets were sort of hoping for a repeat of this disaster in order that more viewers would tune

into their stations to be kept "up to date" on what was happening during another potential crisis similar to last year's.

The market today was primed for a better opening, as the stock index futures were trading above fair value earlier in the morning, making up for a strange very late selloff in these various contracts on Friday after stocks themselves had closed. Then a little more than an hour before the opening, Standard & Poor's lowered the credit rating of Greece by two levels to B from BB- and said that future rate cuts are possible. This caused the various stock index futures to retreat from their best early levels and has resulted in a choppy, mixed session with small moves so far today. For instance, at its best level, the Dow was higher by 31 points and lower by 18 points on its low. Gainers include some of the better industrial and energy type stocks that are continuing their recovery off of the beating that they took for most of last week.

The Euro is continuing to sell off on the Greek downgrade but most commodity prices are recovering from the large beating that they took last week. For instance, copper and crude oil are rising, along with silver as well. This rise of around $3 back to $100 for crude oil is helping some of the stocks as mentioned above.

Otherwise, there is newfound caution in the market despite the better than expected jobs report, as investors are looking at the severe commodity price decline as something negative instead of the correct way to look at it, namely as something positive, and I do not want to get into that whole story again, as it has been mentioned ad infinitum over these past several weeks and months. As this is being written, the Dow is right in the middle of the aforementioned range with a small gain of 15 points. The VIX is cooling its heels with a loss of around .40 to 18 or so after getting nervous to the upside on Friday was mentioned above as well.

Daily Market Notes

Earnings season is drawing to a close, with Dow components DIS tomorrow and CSCO on Wednesday, along with many retailers who always bring the earnings season to a close, such as M and JWN later this week as well.

Economic reports this week are not as dramatic as last week, and we get: Tuesday – April import price index, March wholesale inventories; Wednesday – March trade deficit; Thursday – weekly jobless claims, April P.P.I., April retail sales; Friday – April C.P.I. and preliminary May U. of Michigan Consumer Sentiment Survey.

he S&P trades at 13.5 times forward earnings, and 15.5 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 $97 in 2011. This would equate to around a 14% gain this year. The highest ever earnings for the S&P in one year took place in 2006, at $88.

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 3.1% 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.