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# Daily Market Notes

**Market Update:**

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| **DJIA:** | **12526** |
| **S&P 500:** | **1334** |
| **Nasdaq:** | **2845** |
| **10YR T-Note:** | **2.96%** |
| **VIX:** | **19.88** |
| **EUR/USD:** | **1.450** |
| **Gold** | **1614** |
| **Crude Oil:** | **100.25** |

Prices Current as of 12:50 PM

*Source: CNBC*

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**After last week's rally induced by better earnings, the completion of the second Greek bailout and optimism that the debt and budget issues here can be resolved, anxieties over the lack of progress on the latter issue resulted in the market starting off the week on a down note. The Dow began with an opening loss of 145 points to the low of the day, from which level it was able to claw its way back to show a decline of only 29 points at its best level at 1:10pm. At this point the Nasdaq actually stuck its head into positive territory on strength in several of its high-priced technology-type leaders such as the large mobile telecom and computer company at a new all-time high, the largest Chinese internet stock also at a new all-time high ahead of its earnings, the largest search engine stock of all continuing to do well, the online movie rental company up ahead of their reports and the largest software company, which has actually done well since the middle of June.**

**But this rally sagged from these best levels and the excuse was that Senator Schumer of New York criticized a new two-step plan put forward by House Republican leader Boehner to cut the budget deficit, and this added to the perception that the August 2nd deadline was approaching without any progress toward the resolution of these issues. As a result, the Dow fell once again and ended with a closing loss of 88 points while the Nasdaq declined by 16, and breadth numbers were awful at a negative 1 to 4 downside ratio. So in a sense, the overall market did worse than the major averages, which were supported to some extent by gains in these larger type stocks.**

**One aspect of the market that did not show any mercy was the VIX, which was much higher than it should have been all day, and obviously reflected the anxiety that some investors feel over the current stalemate in Washington, D.C. Even when the major averages moved to their best levels of the day as mentioned above, the VIX was up by much more than it should have been relative to these modest declines at the time. For instance, when the Dow was lower by those 29 points at its high, the VIX was up by around 1.75 points and ended with a closing gain of 1.83, to 19.35. Either these VIX buyers of puts are**

**going to be proved to be very prescient in their perception that things are going to get worse on the downside for equities as we move closer to the deadline, or their buying of this so-called "downside protection" is going to be for naught, as it invariably is, and only time will tell on this issue, the resolution of which will be with us sooner rather than later.**

**And the bond market continued its recent neurotic pattern of yields going back and forth around that 3% level for the 10-year Treasury Note, as yesterday these yields decided to rise as the political jousting failed to reach a deal on the debt ceiling, which fueled concern that the U.S. faces a credit-rating cut. The reason that these yields rose is that the cost to protect against a U.S. default for five years increased to the highest since February 2010, and the 10-year ended at 3.02%, still within that recent range of rotating around the 3% mark. The Treasury Secretary said the government will run out of options to prevent a default on August 2nd unless the debt ceiling is increased and this impasse has boosted the chance that Standard & Poor's will cut the U.S. credit rating from AAA within three months to 50%, according to what they said last week.**

**Boehner's plan would raise the debt limit in stages, forcing Congress to confront the issue once again before the November 2012 election when the President will be seeking a second term. The plan would cut $1.2 trillion in spending over 10 years and provide a short-term $1 trillion increase in the government's borrowing limit, but would have no tax increases. Obama has said he is against the short-term debt limit hike and instead wants around $2.4 trillion in new borrowing authority which would extent through 2012.**

**Senate Majority leader Reid laid out a $2.7 trillion spending-cut plan that includes savings from both domestic and defense programs and would provide borrowing authority to meet needs through 2012. It would include $1.2 trillion in savings that Democrats say Republicans already had agreed to. And the beat goes on.**

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**The President's speech last night did not seem to help, as he re-iterated that the U.S. may experience a "deep economic crisis" if there is a failure to reach a deal and the U.S. defaults, and things did not get any better when Boehner said that the president "wants a blank check" to keep spending. In addition, a weak earnings report from a Dow component that is a diversified manufacturing outfit, is accounting for 33 Dow points of losses just by itself. Not helping either are losses in stocks such as the online movie rental company, a large package deliverer, and some steel stocks after their reports. On the other hand, two semiconductor makers are helping that group to do better.**

**As a result of all of the uncertainty swirling around, we are getting a day somewhat similar to yesterday, with the Dow declining at its worst level to a loss of 99 points at 10:15am after the release of the June new home sales report which "unexpectedly" fell by 1%, but the median sales price did rise. The July Richmond Fed Manufacturing Index also declined, but July Consumer Confidence rose from a lower than originally reported June level, but the present conditions component did show another decline. As this is being written, the Dow has been able to climb back a little and is currently lower by 65 points and breadth numbers are a little better than a 1 to 2 downside ratio.**

**Of course there are certain stocks that have forgotten the meaning of "decline", as the large mobile telecom and computer company is at another new all-time high and the largest search engine stock is adding to its recent gains. Other stocks are doing well on their reports, highlighted by the largest Chinese internet stock also at a new all-time high. The Nasdaq has actually moved into positive territory with a gain of 1 point because of this strong action in some of these high-priced issues, among a few others, but the Dow is being distorted to the downside by the large losses in one stock as mentioned above, similar to what happened on Friday when a big decline in a machinery company also distorted it lower even as the Nasdaq showed a nice gain.**

And the impasse over the debt and budget issues continues to throw a wet blanket over the market, as the dollar once again slid to a record low against the Swiss franc and the cost of insuring U.S. debt rose to a 17-month high. And continuing its recent back and forth pattern as mentioned above, today the bond market decided that it wants to rally and push yields below that 3% level for the 10-year once again on today's "reasoning" that the deadlock on the federal debt limit will slow economic growth. Wasn't the same issue with us yesterday, but at that time the bond market declined and yields rose because of the fear of a U.S. credit-rating downgrade, so which angle is the correct one?

It would appear as if the market will sort of do what it did yesterday, namely show these moderate declines, which has to be a victory in and of itself as the nervous nelly crowd is still out there pushing the VIX higher, but at least today it is rising by about what it should be relative to the Dow's decline, with a current advance of .53 to 19.88 as this is being written.

The earnings parade continues this week with: tonight - AMZN, BWLD, JNPR; Wednesday: AET, BA, GLW, MCO, SBUX, V, WFM; Thursday: AOL, ADP, AVP, BMY, CL, DD, XOM, K, MET, ROK, TWC; Friday: CVX, MRK, NEM. This means that we hear from 6 Dow companies.

The economic calendar has some important reports, with the lineup looking as follows: Wednesday: June durable goods orders, Fed Beige Book; Thursday: weekly jobless claims, June pending home sales; Friday: first estimate of second-quarter G.D.P., July Chicago Purchasing Managers' Index, NAPM July Milwaukee Index and final July U. of Michigan Consumer Sentiment Survey.

The market has taken on a resemblance to last year, when things reached their highs in late April, and then took a dive in May and June, which marked the lows for the year, and it was the same causes last year as well, with European sovereign-debt issues responsible for much of the comedown, although let us also remember that we started the decline this year from higher levels, which left the market more vulnerable to some sort of setback from the misplaced mind-set of higher commodity prices somehow being good for stocks. Let us hope that this year also sees the market low during this time period as well. And one sign for optimism in this regard is that the May and June declines this year were nowhere near as severe as they were last year and July was actually an up-month before another decline in August.

The S&P trades at 12.4 times forward earnings, which could bring a measure of support to stocks. Earnings were $85 in 2010 and are projected to be $105 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. Since 2006, the average P/E multiple has been 14.7

For all of 2010, earnings increased by +38%, which was the most since 1995. For 2011, first-quarter earnings gained +19% and are projected to gain +9% for the second quarter as reported by Bloomberg Financial and the 14% projected gain for 2011 would be the largest two-year advance since the period ended in 1995. The highest ever earnings for the S&P in one year so far took place in 2006, at $88.

After four consecutive quarters of negative G.D.P. growth, we now have seven consecutive quarters of positive growth, starting with the third-quarter of 2009, every quarter in 2010 and the first quarter of this year, 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 now for G.D.P. growth of 2.5% and it is 3% in 2012, although estimates for this number vary widely and are constantly changing.

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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.*