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Daily Market Notes

Market Update :

DJIA:	**11593**
S&P 500:	**1199**
Nasdaq:	**2521**
10YR T-Note:	**2.01%**
EUR/USD:	**1.33**
VIX:	**32.29**
Gold:	**1713**
Crude Oil:	**99.66**

Prices Current as of 12:40PM

Source: CNBC

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In the Bible, it says that on the seventh day, the Creator rested after making heaven and earth. In the stock market, it took more than that to finally produce an up-day, as after seven awful down days in a row, which last week produced the worst Thanksgiving week performance since 1932 and the worst weekly performance in two months, the bullish forces finally said "enough is enough." As a result, the market started higher and never looked back and the Dow ended with a strong advance of 291 points after being as high as 331 points ahead at its best level at 10:30am. From those best levels, it declined over 100 points intraday to show a gain of "only" 215 at the 3:15pm low, and in a dramatic reversal from the very late collapses last Wednesday and Friday, it finally extracted a measure of revenge against the bearish crowd and charged ahead in the last 10 minutes to finish with that 291 point close. And the Nasdaq did even better, as those recently beaten-down high-priced technology leaders, who had put in a really awful performance during the seven prior down days, also took out a measure of revenge against their detractors as well, and ended with a very strong gain of 85 points.

Breadth numbers were at a positive 5 to 1 ratio and the VIX fell by 2.34 to 32.13, a little less than it should have relative to the Dow's gain, but let us also remember, as was pointed out in yesterday's notes, that during the recent two-week downside disaster, it rose by only half of what it should have, so this was equalization of some sort.

Retailers led the upside charge, no surprise considering the strong start to the holiday shopping season, and these statistics were detailed in yesterday's notes as well. In addition, shares of energy companies, which have also taken a recent beating, were strong along with two other recently sold-off groups as well, namely industrial cyclicals and technology as mentioned above.

So why all of a sudden did the ongoing bearishness turn into bullishness, at least for one day? The first answer is that it is very common to have sharp up-days within the context of an overall negative scenario, so what happened yesterday was not out of the historical norms. Let us also remember that right on Friday's close, similar to what happened on Wednesday the day before Thanksgiving, not only did the market collapse in the last 10 minutes, but the various stock index futures also plunged and kept going lower after the 4pm close of stocks themselves, which indicated a negative tone for the next session. Thankfully, this did not come about yesterday. Secondly, the beaten-down Euro, which had declined to a seven-week low against the dollar on all of the negativity in that part of the world, finally decided that it wanted to rally as well, and once again we had that sick symbiotic relationship between stocks here and the Euro, as for instance when the Dow hit its best level of the day as mentioned above, the Euro was also on its high, up to 1.339. Then when the Dow declined to its low of the day, the Euro also fell to its worst level, down to 1.329, and then when the Dow made that very late rally, the Euro improved as well, back up to 1.331, and what else is new?

Also changing the mood from bearish to bullish, aside from the fact that by themselves, stock valuations are historically low, with the S&P trading at 11 times next year's earnings projections was some optimism in you-know-where, and yesterday the news was a little better in that part of the world, with a report about potential I.M.F. funding for Italy. In addition, there was news of a German and French plan to fast-track new rules to tighten Euro-zone budgetary discipline.

Germany will propose that E.U. countries set up national funds to house debt exceeding the E.U.'s limit of 60% of G.D.P. as part of a drive to restore confidence in the region's finances. This is ahead of the next summit meeting on December 9th. On the other hand, the negatives are still out there, as these "fiscal integration" plans seem to be focused on the triple-A countries, leaving Italy and Spain out of the loop, so to speak.

This was evidenced by a weak Italian bond auction which saw rates for their 12-year maturity rise to 7..2% compared to only 2.7% last month, which certainly is indicative of the worsening situation in that country. In addition, any push for E.U. treaty changes needed for the creation of broader fiscal union could face strong opposition from other members, and let us remember that there are 17 countries that use the Euro and 27 that are members of the E.U. itself.

And let us also not forget the potentially pernicious effect that higher oil prices could have on the American consumer as well, with crude oil gaining up to $98 a barrel yesterday, and as we have pointed out so many times, if stocks rally on a stronger Euro, this means that crude oil prices are going to rally as well, and how is that going to be good for the consumer, as we saw what happened to stocks when oil prices reached their yearly highs of $114 a barrel in late April and we all know what happened to stocks over the next six months.

After yesterday's upside moonshot, the market is having the nerve to try to make it two gains in a row, something that has not happened since November 10-11th. Earlier this morning, the S&P futures were ahead by almost 15 points at their best level despite yesterday's U.S. debt warning from Fitch Ratings Agency. They maintained their triple-A credit rating, but lowered the outlook to negative from stable, citing the congressional super committee's failure to agree on budget cuts and the bankruptcy of the largest U.S. airline. And was it any surprise that when this best S&P level was reached around 6am, the Euro was also on its high, up to 1.344?

The Dow started out mixed but then reached its best level of the day after the release of the November Consumer Confidence report, which showed the largest one-month gain since April 2003 and reached a four-month high in the process. This 96 point gain was not as widespread as yesterday's advance because the Nasdaq was not really participating.

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It seemed to be pulled reluctantly higher by the better performance of the Dow, once again due to weakness in those high-priced technology leaders which did so well yesterday. In fact, as this is being written, with the Dow ahead by 80 points, the Nasdaq is actually negative by 2 points, and this is not what one wants to see.

The news from Europe is sort of quite today, as the effort of the E.U. to expand its bailout fund to $1 trillion Euros is falling short and finance ministers will meet tonight to discuss pushing E.C.B. loans to the weaker countries through the I.M.F. And what would a day be without the tour bus stopping in Italy to observe the bond auction there and yields rose a bit with the 10year at 7.24%. For a change, the Euro itself is sort of quiet, and is moving slightly higher as this is being written.

The Dow is being supported by gains in energy stocks while financials once again are weak after being dragged higher a bit yesterday by the overall strength of the market. Unfortunately, they are once again showing their true colors today. Most retailers are weak after a strong performance yesterday, as the luxury diamond retailer warned of weaker European sales, surprise, surprise. And the VIX is lower by just about what it should be relative to the Dow's advances, while breadth numbers are decent at a positive 17/11 ratio.

It would be nice if the market can make it two in a row and it will be interesting to watch the last 15 minutes because this is where there has been dramatic movement for the past three days, but that weak Nasdaq/Dow ratio is something that is going to be difficult to overcome today.

With earnings season over, the focus outside of Europe will be the economic reports issued here, culminating with Friday's November jobs report, but more on that later in the week.

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The lineup is as follows – Wednesday: ADP jobs report estimate, November Chicago Purchasing Managers' Survey, October pending home sales, November NAPM Milwaukee Survey, Fed Beige Book; Thursday: weekly jobless claims, October construction spending, November ISM Manufacturing Survey, November auto sales; Friday: November jobs report.

For what it is worth, there is a statistic that says the S&P has gained on average 5% in the fourth-quarter after third-quarter losses of greater than 8% since 1924. There is another statistic that says when the S&P declines by 14% or more during the third –quarter, as what occurred this year, it has an 89% chance of advancing during the fourth-quarter. Let's see if history repeats itself this year, although this probability is getting less after the horrible November we have seen so far.

The S&P trades at 11 times projected 2012 earnings of $108, which could bring a measure of support to stocks. Earnings were $85 in 2010 and are projected to be $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. 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 the first three-quarters of 2011, earnings gained +17% as reported by Bloomberg Financial and the 16% overall projected gain for 2011 would be the largest two-year advance since the period ended in 1995. Fourth-quarter earnings are projected to rise by 11%. The highest ever earnings for the S&P in one year so far took place in 2006, at $88. For 2012, earnings are still projected to be $108 for the S&P.

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After four consecutive quarters of negative G.D.P. growth, we now have nine consecutive quarters of positive growth, starting with the third-quarter of 2009, every quarter in 2010 and the first three quarters of this year, although these numbers are weaker than earlier estimates, according to the Commerce Department. For all of 2010, G.D.P. rose at a 3% rate, which was the highest since 2006 after a worse than originally estimated decline of 3.5% in 2009 and an overall decline of 0.3% in 2008. For 2011, the prediction is now for G.D.P. growth of 1.6% and it is 2.6% 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.