

**Daily Market Notes**

Market Update :

DJIA: 12601

S&amp;P 500: 1309

Nasdaq: 2806

10YR T-Note: 1.80%

EUR/USD: 1.30

VIX: 19.72

Gold: 1733

Crude Oil: 98.80

Prices Current as of

12:45 PM

Source: CNBC

Even the rise in Portuguese 10-year yields to a record 17% could not prevent the market from making a very nice comeback from its worst early levels yesterday, and these early lows came primarily from new “worries” about the lack of progress on resolving the Greek debt issues. In fact, the Germans went so far as to suggest that Greece should relinquish control over its budget policy to some sort of European regulatory body, to which the Greek Finance Minister said that this was an assault on his country’s “national dignity”, take that you outside meddlers!

The Dow started out the session with a large loss of 130 points at its 10:15AM low, from which it was able to battle its way back to only a 1 point loss at 3:30pm before ending 7 points lower. It seemed as if the VIX was in a nasty mood by rising more than it should have with a gain of 1.80 points up to 20.33 when the Dow was on its low. Despite the major averages all closing with very nominal losses, the VIX still did not want to give up its gains, as it finally ended up .87, to 19.40. This once again shows that the air for equities making further advances when the VIX got under 18 last week starts to get a little thin, which is why we have seen a pullback from recent best market levels in the past few days.

**Donald M. Selkin**

Chief Market Strategist

(212) 417-8017

[dselkin@nationalsecurities.com](mailto:dselkin@nationalsecurities.com)

Breadth numbers were actually worse than the major averages were indicating, at a negative 11/18 ratio, so it was better performances from many larger stocks that resulted in this somewhat distorted relationship.

And the outside markets reacted in their usual knee-jerk reaction to lower equities, as the Euro finally declined from a six-week high, down to around 1.3100 and the bond market rallied on the softer economic scenario that the weaker report on 4Q G.D.P. and the European troubles brought forth. And as the Euro and our stock market were lower, so were commodities for the most part, as crude oil seems to be stuck between the high \$90’s and low \$100’s level. The yield on the five-year U.S. note reached a new all-time low at .75%.

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Perhaps the fact that the yields on Italian 10-year notes declined all the way back to close to 6% after reaching a record high of almost 8% late last year helped the market come back from its worst level because they are the largest debtors in the E.U., with an astounding \$1.9 trillion.

The fact that the Dow finished with less than a triple-digit loss meant that it was the 18<sup>th</sup> day in a row that this has happened, namely a move of less than 100 points in either direction, which is now the longest such stretch since 34 consecutive days that began on December 3, 2010. This relatively calm nature of the recent market has been one of the factors that pushed the VIX to last week's low under 18.

After yesterday's strong comeback off of its worst levels, today we are seeing the exact opposite, as early optimism over "progress" in the Greek debt drama pushed the Dow to an early gain of 66 points right out of the opening gate. Unfortunately things turned southward very steadily from those highs, as economic reports here came in worse than expected, which is a change from the better reports for the most part that we have seen these past couple of months.

For instance, January Consumer Confidence unexpectedly declined, the January Chicago Purchasing Managers' Survey also came in below expectations, and the November CaseShiller Home Price Index also fell slightly more than predicted. These three reports caught what had been a bullish market attitude off guard, and the Dow has declined as much as 86 points at its worst level.

And once again, it is a negative reaction to a Dow earnings report that is weighing on that index, as XOM by itself is accounting for 14 points of Dow losses, and declines in other industrial and cyclical types of stocks are also weighing on it as well.

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And in other knee-jerk reactions to lower stocks, the bond market is up once again, sending yields on the 10-year note to their lowest level in five weeks, down to 1.81%. And the Euro, which had risen back up to 1.3200 early in the session on that Greek optimism, has now reversed course and is trading around 1.3070, a loss of .0075 for the day. The common currency had risen earlier as E.U. leaders completed a fiscal-discipline treaty that accelerates sanctions on high-deficit countries. In addition, the Greek Prime Minister had said that he is “strongly committed” to reaching a debt-swap with bondholders. But all of a sudden there was new “concern” that Portugal might need a second bailout, which is the reason being put forward why the Euro has given up its gains, and once again we are in that “risk-off” mode where stocks here used this negative turnaround in the Euro, in addition to the disappointing economic reports here, to turn lower.

As this is being written, the Dow is trying to make another comeback from its worst levels, as it is currently lower by 48 points, led upward a bit, by the financials, of all things, after a few large houses have made very negative comments about them this week. Breadth numbers are actually at a slight positive ratio of 15/13, so today might end as another one of those recent mixed sessions that we have seen lately, and we will give the final statistics for the various market measures in tomorrow’s report, as the focus will now turn to Friday’s jobs report, which we will comment on in more detail as we move closer to it.

Earnings season is moving along, with - tonight – AMZN; Wednesday – AET, AOL, LVS, CMG; Thursday – CAH, CME, CI, IP, CMI, HOT, DOW K, MA, NVLS, Dow component MRK; Friday – CLX, EL.

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Economic reports will be highlighted by Friday's January jobs report, and more on this later in the week: Wednesday: December construction spending, January ISM Manufacturing Index, domestic auto sales, ADP estimate for Friday's jobs report; Thursday: weekly jobless claims, January chain store sales; Friday: December factory orders, January ISM Non-Manufacturing Survey and the jobs report, for which the estimate currently stands at 145,000 overall with 163,000 private sector jobs versus 200,000 and 212,000 respectively in December, both of which are subject to revisions.

The S&P trades at 12 times projected 2012 earnings of \$105, 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 4%. The highest ever earnings for the S&P in one year so far took place in 2006, at \$88. For 2012, earnings are projected to be \$105 for the S&P.

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. In 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.

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For 2011, G.D.P. rose at a 1.7% rate, and it is projected to grow by 2.3% 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.*