

## Daily Market Notes

**Market Update :**

**DJIA:** 12819  
**S&P 500:** 1341  
**Nasdaq:** 2897

**10YR T-Note:** 1.91%

**EUR/USD:** 1.31

**VIX:** 17.91

**Gold:** 1725

**Crude Oil:** 97.01

Prices Current as of

12:15 PM

Source: CNBC

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Well, well, well – after all of the anxiety producing events of last year, such as the first ever downgrade of the U.S. credit rating, the collapse of stocks into a bear market decline of 20% at the intraday low on October 4<sup>th</sup> of 1075 for the S&P, the ongoing obsession with Italian and Spanish bond yields, the Greek bailout anxieties, the ongoing outflow of money from equity mutual funds for the past five years even going into this year – what happened – the Dow finished at its highest close since May 2008 and the Nasdaq is at its highest since December 2000, when it was on the way down from its record high over 5000 earlier that year. Talk about the market climbing the proverbial “wall of worry”!

The major averages have now advanced for five straight weeks, except for one lower 60 point week for the Dow, and the S&P has now made its best start to a year since 1987. The Nasdaq had its best week since early December, the S&P Small-Cap Index (SML) closed at an all-time high, there are now 86% of stocks that are above their 50-day moving average and 73% that are above their 200-day moving averages and this is the highest percentage since the market made that furious October rally off of the aforementioned lows before setting back once again in November. Could some sort of correction be on the way?

There were two positive reports on Friday which continued to get the upside juices flowing, as the January jobs report came in well above expectations, with the number of jobs created at the fastest pace in nine months and the unemployment rate declined to near a three-year low. The overall number rose by 243,000 and manufacturing jobs rose by the most in a year. These numbers could also lessen the likelihood of further action from the Federal Reserve to initiate further stimulus measures. In addition, both the November and December numbers were revised higher to show 60,000 more jobs were created during those months. Private payroll jobs increased by 257,000, the largest gain since April as government jobs declined once again by 14,000. The service- producing sector rose by the most since January 2006.

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The jobless rate fell for the fifth straight month, down to 8.3%, which was a combination of unemployed workers giving up looking for jobs and therefore officially leaving the workforce but also because there are people who are finding work as well.

In addition to this report, the January ISM Non-Manufacturing Survey rose to its best level since February 2011, and this represents 70% of the economy, and these numbers got the Dow to its highs of the day, which it was able to maintain into the close with a 156 point advance and the Nasdaq did even better with a 46 point gain. Breadth numbers were strong at a 4 to 1 positive ratio as a result of the assistance from that powerful Nasdaq/Dow ratio, and this dynamic also ensured that things would go the distance.

As a result, the VIX declined to its lowest level since July 8<sup>th</sup>, down by .88 to 17.10, which is less than it should have but also the S&P is just about where it was on that date as well (1345 versus 1344 in the summer), so after all of the gyrations, this relationship has sort of equalized, but in July the VIX was dipping into the high 15 area, which means that the market at present could keep grinding a bit higher.

And naturally as stocks have had this terrific start to the new year, bond yields finally rose from record lows in some maturities or close to record lows, in the old knee-jerk reaction to the fact that the economy is showing continuing strength, which means that there might not be a further QE3 stimulus type of program. And the Euro actually ended slightly higher around 1.3150 after having initially been lower on the hope that the E.C.B. will use its bond holdings to support a Greek rescue program.

Earnings season continues to plod along, with almost 300 S&P companies having reported average profit gains of 3.3% with 60% of them having beaten the estimates, which is below the recent average of around 70%.

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After Friday's and last week upside fireworks, things are taking a breather so far today, as once again the Greek issues are front and center, as there has been a delay in accepting the terms of the bailout. German Chancellor Merkel told them to make a decision fast on accepting the terms but Greece's political leaders responded by delaying their response for another day. Merkel has expressed increasing dismay at the seemingly endless wrangling that has yet to produce a definitive acceptance of the austerity and reform conditions demanded by the lenders. The Greek politicians have balked at accepting another package of deeply unpopular wage and pension reductions, job cuts and tougher tax enforcement measures ahead of the general elections in April.

The Dow is around 40 points lower as this is being written, within its range so far of the day, and breadth numbers are at a negative 11/18 ratio. The VIX is higher by .80 to 17.90, as it starts to price in some kind of worse market reaction if nothing gets done in Greece soon, as in addition to falling by less than it should have on Friday, it is up by more than it should be today. On the other hand, if things work out in Greece, then this type of action provides the market with further upside room to advance. This week is light on both earnings and economic reports (see below) and so the major drama will turn to Europe once again. This is being reflected by the fact that the Euro is down but still closer to the higher end of its recent range, currently at 1.3111 which is below the 1.3200 resistance level.

Earnings will be finishing up soon, as the lineup for the week is: Tuesday – Dow components DIS, KO plus BDX, EMR, OPEN, PNRA, WU; Wednesday: Dow component CSCO plus CTSH, CVS, GRPN, ORLY, PRU, RL, TWX, TRIP, V, WFM; Thursday: EXPE, NBL, PEP, PM, PB I, SEE; Friday: LH, NYX.

Economic reports are on the light side with; Thursday – weekly jobless claims; Friday: December trade balance and preliminary U. of Michigan Consumer Sentiment Survey.

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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. 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.*