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Daily Market Notes

Market Update:

DJIA:	**12483**
S&P 500:	**1336**
Nasdaq:	**2816**
10YR T-Note:	**3.39%**
VIX:	**14.66**
EUR/USD:	**1.457**
Gold	**1503**
Crude Oil:	**111.78**

Prices Current as of 1:31 PM

Source: Bloomberg

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In an astounding display of strength, worldwide equity markets exploded to the upside yesterday, along with metal prices as well as and most currencies against the dollar. This continued and accelerated the symbiotic relationship between these three areas which has basically been in effect since the start of the Q.E.2 program by the Fed last August and whose goal was to raise the prices of all assets, and damn the consequences such as the higher energy and food prices that all of us are paying for.

The major market averages took off right on the opening and basically never looked back, as the Dow reached its highest level since June 2008, as if the financial crisis never took place, and the Nasdaq put in its best one-day performance since last September. The Euro reached a 16-month high against the dollar as "interest in stocks lessened demand for holding the dollar", according to one major financial news organization. Never mind that the cost of insuring Greek debt rose to a record, and imagine how this news would have rocked the stock market to the downside last year when the Euro got as low as 1.19 versus the 1.45 that it is now. But the positive spin for the Euro was that apparently there was a Spanish bond auction that was met by good demand, hip hip hooray! Of course, the reason for this ongoing weakness in the dollar is the perception that the U.S. Federal Reserve appears to be the only central bank that is not concerned about inflation and is not going to raise rates. And how about crude oil joining in the bullish upside party, as it rose to over $111 a barrel, the most in a month because of "increased optimism that the economic recovery is accelerating", according to that same news source, which implies that we cannot have economic recovery without higher crude oil prices. This sort of goes against the history of this particular commodity, and one would like to believe that lower energy prices would be more conducive to economic recoveries rather than what is taking place at the present time. Of course, rising crude oil prices have been a function of the weaker dollar as well, in addition to the turmoil in the Middle East despite the fact that demand in the U.S. has been declining. And when all else fails, one can always use one of the oldest "explanations" in the books, namely Nigeria, the largest African

producer, where apparently there were some post-election riots, and so what else is new in that place of corruption, fraudulent schemes and overall dishonesty. And how about those precious metals prices, with gold at a new high over $1,500 and silver in a literally non-stop upside explosion, and if these are rising on the perceptions of higher inflation, how is this supposed to be good for stocks?

The primary driver of the upside explosion in stocks was that the first-quarter earnings season, after a very inauspicious start last week, has come roaring back with a vengeance, as of the 59 S&P companies to have reported as of yesterday, 76% of them beat their estimates, and there were some prominent companies in this category yesterday, particularly in technology, which is why the Nasdaq did so well as described above. These included Dow components such as the largest semiconductor company and a manufacturer, other non-Nasdaq technology companies like two large data-storage ones. The slightly better than projected March existing home sales report was also offered as a reason for the advance.

The Dow never went lower than a gain of 165 points during the day and ended with a 186 point close. Breadth numbers were very powerful at a positive ratio of 5 to 1 and the VIX declined to 15.07, a loss of .76, less than it should have relative to the Dow's advance, and the reason is that as the VIX gets to these very low levels, its downward path might be more difficult to sustain. This close broke the mid-February low and now clears the path for perhaps more declines which will also put the market in a more overbought position than it already is.

What is bizarre about these stock market gains is that they have come despite the long list of supposed worries that are present in the world today, such as the sustainability of European debt levels and whether countries like Greece will soon default; rising inflation in many parts of the world, the weaker dollar, continued unrest in North Africa and the Middle East with its pushing up of oil

prices, and concern over the U.S. budget, which certainly took the markets sharply lower on Monday after the downgrade of U.S. debt by Standard & Poor's.

Yet it is these sharp market declines because of the events of Monday and the sharp selloff in mid-March because of the Japanese earthquake disaster and nuclear situation that makes investors who sell because of these events look foolish because of the immediate turnarounds that occur. When these negative market events do take place, you get all of the hand-wringing from market experts about how investors are rushing to buy supposed "downside protection", which spikes up the price of the VIX, and then these people are left with nothing to show as a result of their buying this inflated protection. It is almost as if these declines are just setups so that stocks get to lower prices levels where they are then immediately bought. As an example, from Monday's Dow low to yesterday's high, the Dow rebounded by 382 points in three and a half days after all of the negative analysis that we were subjected to as a result of that U.S. debt downgrade. It appears that in a sense it was just a setup to get the market lower ahead of these important earnings, because as the old expression goes – "So, nu, what did you accomplish?" through sales of stocks at that low.

After yesterday's upside moonshot, things are continuing mainly higher today, but not with the same intensity, as earnings reports continue to dominate investors' thinking. In fact, of the 115 S&P companies that have now reported, 81% have beaten the forecasts and these earnings are ahead by 19% so far, higher than the original projections. In addition, revenues have gained by 4.9% and 72% of these companies have beaten in this category as well. Of course, the champ today is the large mobile telecom and computer maker, which had been in an irregular downtrend since reaching its all-time high of 365 in February and got as low as 320 in the panic S & P debt downgrade selling on Monday morning. So then it turns around in the days leading up to last night's report and is now at 351, and once again we can ask all of the sellers of the

past two months the old "what did you accomplish?" question as well. In addition, the Nasdaq is being supported by good reports from a cloud computing leader and a wireless communications equipment maker. There are actually a number of Dow stocks lower after their numbers, such as the diversified financial services and manufacturing company, the fast-food hamburger chain and an integrated telecom company, but the highest –priced technology Dow component is rebounding strongly after getting sold off yesterday on its report.

Breadth numbers are positive at 18/11 and the VIX continues to slide lower, down .44 to 14.62, another new low, as the Dow is currently ahead by 35 points.

And those other markets continue their merry upside ways as well, with gold at another new high, silver completely going crazy on the upside and crude oil prices slightly higher as well, courtesy of the dollar which is taking another beating with the Euro at a new 16 month high. And the argument here set forth by news organizations is that "global growth boosted demand for higher-yielding assets", which is why the poor dollar is getting left out of the upside party, as Brazil and Sweden raised rates today. So it is the old interest-rate differential argument that is causing this ongoing dollar weakness, which of course raises commodity prices, but never mind, this is the new formula for higher stock prices. And the Euro kept rising despite German business confidence declining for the second month in a row in April and Greek, Irish and Portuguese bond yields rising to record highs.

Next week is another blockbuster parade of earnings with Monday: Dow component PG, plus BIDU and NFLX; Tuesday: Dow components KO and 3M, plus LMT; Wednesday: COP, EBAY and ROK; Thursday: Dow components MSFT and XOM, plus AET, CL, OXY and PEP; Friday: Dow components CAT and CVX.

The S&P trades at 13.3 times forward earnings, and 15.3 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 $98 in 2011. This would equate to around a 17% 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 3.5% 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.