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Daily Market Notes

Market Update:

DJIA:	12471
S&P 500:	1334
Nasdaq:	2820
10YR T-Note:	3.36%
VIX:	15.85
EUR/USD:	1.457
Gold	1512
Crude Oil:	111.87

Prices Current as of 12:27 PM

Source: Bloomberg

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After Wednesday's upside moonshot, things cooled off a bit on Thursday before the long Easter weekend, but the major averages continued their merry climb higher nonetheless. After a slight dip to the Dow low of being down by 5 points after a weaker than expected April Philadelphia Fed Manufacturing Index, which declined to the lowest since November, the Dow rose a fast 30 points on continued earnings optimism. It stayed around this level until 3:30pm, when a late upward burst resulted in a closing gain of 52 points, its highest since June 5, 2008, as if the financial meltdown was some sort of mirage.

Also helping things go the distance was a strong Nasdaq/Dow ratio, as the former finished with a 17 point advance, and breadth numbers were positive at a 2 to1 ratio. The last three sessions of the week were somewhat astounding in the sense that Monday's sharp selloff, courtesy of that Standard & Poor's downgrade of U.S. debt, was almost completely forgotten. And in a pattern that has been continuing since the highs of the year in the VIX were reached on the Japan earthquake and nuclear situation panic stock market selling in mid-March, the VIX declined to its lowest level since June 2007, closing at 14.69.

And of course what I believe is that sick symbiotic relationship between equities and commodities continued once again on Thursday, as the higher that gold and silver prices rose, the former at a new all-time high over $1,500 and the latter at a new 31-year high, and crude oil at $112.31, a gut punch to the American consumer, the higher that stocks went as well, as all of the abovementioned items reached their best levels as the day wore on.

Stocks have been ignoring the various supposed trouble spots currently on the horizon, 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 a week ago after the downgrade of

U.S. debt by Standard & Poor's.

The main issue driving equities higher has been the better level of earnings that have been reported so far for the first-quarter, as of the 121 S&P companies to have announced, 82% of them have beaten their numbers as these earnings have gained 19%, which is 7% better than projections. Revenues have also done better, with a gain of 5%.

I was quoted in Reuters on Thursday at which time I said that "I do not see how we can maintain these (stock market) gains" and the reason I said it is that with the VIX at 14.69 and the stock market rallying because commodity prices are going up, that this is not the best background for ongoing equity gains, despite Fed Chairman Bernanke slapping himself on the back with glee because the markets have fulfilled his goal of creating higher asset prices across the equity and commodity sectors, the latter on the devaluation of the dollar, which is what the Q.E.2 program was supposed to being about. But this type of policy action has its downside consequences, as one of the reasons for the low popularity rating of the President, among other issues which we do not have to get into, is that these rising commodity prices, which was the object of Fed policy because of their completely misplaced "fear" of deflation, are hurting consumers in a big way, as we all can attest to when we fill up our gas tanks. And the old shibboleths by the President that he is going to set up a task-force to "investigate" price gouging at the pump and perhaps release supplies from the Strategic Petroleum Reserve is political pandering at its worst. The best way to get oil prices to come down is to put position limits on the number of oil contracts that these hedge funds can buy and that will solve the problem, but this sort of proposal could not get by the Republican-controlled House of Representatives, which wants as little government regulation as possible in any event, so these ineffective pronouncements by the President is probably the best he can do, and neither one of them is going to take place in any event. This means that the best we can hope for to get relief from these ridiculous gas prices is that the market eventually declines of its own weight, so to speak.

Today things started out somewhat steady, although the best that the Dow could do near the opening was a loss of 10 points, which has deteriorated so far to a decline of 60 points at the low. The S&P got as high as steady near the opening and has deteriorated as well, while the Nasdaq was ahead by 5 points early and has also declined to a current loss of 3 points. This is the main week for earnings, as no less than 180 S&P companies report. In addition, we will get a number of important economic reports, and the most prominent of them will be the F.O.M.C. interest rate statement on Wednesday afternoon at 2:15pm, and this time we actually have to suffer through a press conference by the Chainman, who will be asked questions similar to a Presidential press conference. In addition, we will get the initial estimate of first-quarter G.D.P. on Thursday, which is expected to decline to a growth rate of 1.9% compared to the fourth-quarter of 2010 rate of 3.1%.

And if the reason that equities have slipped lower today is that those ridiculous commodity prices of crude oil, gold and silver have also declined from extremely high opening levels, then the stock market is really out of joint, in my opinion. Perhaps a more valid explanation for the decline is that the VIX was much too low to sustain further equity advances, and at least it is rebounding back to around 16 from that lowest close since June 2007 on Thursday afternoon. We really need the VIX to rise by more than the Dow declines, such as it is doing today, in order to set the ground for further market advances. I find it hard to believe that the “explanations” for the market pullback today are because a retail consumer electronics exchange, a perennial underperformer for years, and a large consumer products company, another one of those large consumer stocks which do nothing except pay dividends, came up short on their earnings. There is probably some validity to the fact that the consumer stock did cite higher raw material costs, and let that be a warning to Chairman Bernanke, who sees no inflation and is obviously trying to get the dollar lower and lower.

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Otherwise the stocks that are selling off the most are the ones that have been the best performers so far this year, such as the Dow energy and material components, while those awful financials are trying to stabilize after the beatings they have taken this year. And those high-flying Chinese Internet stocks continue to do well on a good report from one of that country's Internet portal companies, at a new all-time high.

As mentioned above, in addition to the large number of earnings reports this week, and today we already have seen March new home sales rebounding somewhat from their February lows, which were the worst ever since records have been kept in 1963. Tomorrow we get: February CaseShiller Home Price Index, April Consumer Confidence and April Richmond Fed Manufacturing Index; Wednesday: March durable goods orders and the Fed interest rate statement and press conference; Thursday: initial estimate of 1Q G.D.P., weekly jobless claims, March pending home sales; Friday: March PCE inflation numbers, March personal income and spending, April Chicago Purchasing Managers, April Milwaukee NAPM Survey, and the final April U. of Michigan Consumer Sentiment Survey. So these are items that could move the market as well as the large number of earnings reports that we will see this week.

Some of the more important companies to report this week include: tonight - NFLX; Tuesday: Dow components KO and 3M, plus LMT; Wednesday: BIDU, COP, EBAY and ROK; Thursday: Dow components MSFT, PG 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.

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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 $97 in 2011. This would equate to around a 14% 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.