

## Daily Market Notes

### Market Update :

DJIA: 12642  
 S&P 500: 1312  
 Nasdaq: 2807  
 10YR T-Note: 1.92%

EUR/USD: 1.31  
 VIX: 18.82  
 Gold: 1732  
 Crude Oil: 99.39  
 Prices Current as of  
 1:00 PM  
 Source: CNBC

If one wants to argue that this is a Dow double-top over 12,840, then so be it, and the VIX under 18 did not help either, so as a result of this near-term overbought condition after a 24% rally in the S&P from that October low, some sort of cooling-off process has perhaps gotten underway. Because of these overbought readings, the December new home sales numbers were trotted out as the excuse for the market to come off of those highs, as it showed the first decline in four months and ended the worst year on record for this category.

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As a result, the market chopped irregularly lower from those highs and the Dow reached its worst level of the session with a 61 point decline at 3:30pm before rallying back a bit to end 22 points lower. Also contributing to the comedown was the old looking at the Euro indicator, as the common currency fell back from those early highs to end around unchanged at 1.3110. There were other negative dynamics at work as well, as when the Nasdaq went lower at 10:30am, the Dow was still 24 points higher at that time, and we all know who wins that battle. In fact, the Dow was somewhat artificially distorted higher than the losses in the broader market because two components by themselves, namely CAT and 3M, accounted for 25 points of Dow gains on their good earnings report reactions. And not helping either was a reversal of the recent pattern in the financials, where they have tended to start lower and then rally. Yesterday, they all gapped open and then closed moderately lower, perhaps signaling a near-term top in this group as well.

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The VIX ended higher with a .26 point addition to 18.57, in line with the Dow's decline, and breadth numbers were not terrible at a slightly negative 14.7/15.3 ratio. Yields on U.S. debt obligations also declined on the Fed's dramatic record low federal funds rate extension, but the 10 and 30-year maturities are still above their record lows.

And crude oil and gold continued their rallies, with the former up to \$99.87, still within recent ranges but starting to get motivated to the upside as a result of the dollar getting weaker as a result of the Fed's action. And if the Fed thinks that inflation is going to be contained, how about the gold market rallying \$75 an ounce in two days, up to \$1,725.

After yesterday's toppy market action, things are taking another journey into negative territory today, although one can argue that the picture is very mixed once again. For instance, the Dow is under the most pressure, unlike yesterday when it was the relatively most stable of all the averages, as a weak report from CVX alone is accounting for 21 negative points. The S&P is also lower because of weakness in the energy and industrial components, but the Nasdaq is higher on strength in some of its high-priced leaders and most importantly of all, breadth numbers are positive at a 16/13 ratio, so is the market lower or higher?

The reason for the ostensibly "lower" market is that the first estimate of 4Q G.D.P. came in at 2.8% versus a forecast of 3%. This was still the fastest pace in 1 ½ years, but most of the gain came from higher inventories. In addition, business spending rose at a slower rate. The growth was the highest since the second-quarter of 2010, as the inventory buildup was the largest since the 3Q of 2010 and followed a 3Q decline that was the first since late 2009. If one excludes inventories, the growth would have been only 0.8%, which is a sign of weak demand. As mentioned, business spending on capital goods was the slowest since 2009, which could be a sign that the European debt crisis is starting to take its toll and perhaps can be construed as a sign of weakness ahead.

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Consumer spending, which accounts for around 70% of U.S. economic activity, rose to a 2% rate, up from the 3Q rate of 1.7%, largely driven by automobile sales. This was a sign of pent-up demand after the Japanese earthquake earlier in the year resulted in supply shortages. A price index for personal spending rose by 0.7%, which was the slowest increase in 1 ½ years after rising by 2.3% in the 3Q. A core inflation measure, which excludes food and energy costs, rose at a 1.1% rate after rising by 2.1% in 3Q. Business spending rose by only 1.7%, which was a sharp pullback from the 15.7% rate in 3Q.

Also, home construction rose by the fastest pace since the 2Q of 2010, helped by the unusually mild weather and government spending shrank for the fifth consecutive quarter, the result of lower defense spending and cutbacks in state and local government outlays.

The Dow has been chopping irregularly lower and is slightly above its worst level of the day as this is being written, with a loss of 83, while the Nasdaq is holding steady with a gain of 4 points, so this really shows a mixed picture. The VIX continues to rise, up to 18.80 for a gain of .23, once again holding at support below 18.

Meanwhile, the Euro rose for the fifth straight day versus the dollar, which was the longest streak in three months on a report that Greece was “close” to reaching agreement with its creditors. Not even a Johnny-come-lately downgrade by Fitch Ratings of Spain, Italy, and mighty Slovenia and Cyprus could stop the rise of the common currency, which is now close to 1.3200 and has to be causing consternation against all of the experts who have made record bets against it, perceiving its “fair value” to be 1.2000, and good luck to them as their losses mount. Helping the Euro to rally as well was an Italian auction of six-month bills at a rate of 1.97%, down sharply from the 3.25% rate that borrowers demanded a month ago.

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Earnings season is moving along, with 184 S&P companies having reported so far, and 60% of them have beaten the estimates, which is lower than the 70% rate for the past several quarters.

Next week sees the following: Monday – BIDU, MCK, RAI; Tuesday – AFL, AMZN, ADM, Dow component XOM, in addition to UPS, X, and VL0; Wednesday – AOL; Thursday – CAH, K, MA, Dow component MRK; Friday – EL.

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. 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.

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For 2011, G.D.P. the projection is for G.D.P. growth of 1.6% and it is 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.*