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Daily Market Notes

Market Update :

DJIA:	**12911**
S&P 500:	**1376**
Nasdaq:	**3020**
10YR T-Note:	**1.99%**
EUR/USD:	**1.30**
VIX:	**18.97**
Gold:	**1655**
Crude Oil:	**102.95**

Prices Current as of 1:20 PM

Source: CNBC

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What's going on here? After the largest five-day decline since last November, the S&P has now undergone its best two consecutive day advance this year and once again that measure is back above its 50-day moving average after falling below it for the first time since December. It now appears as if a person followed what is obviously a lagging indicator, they would have gotten chopped to pieces this week, in other words, selling out at Tuesday's low and buying at yesterday's high.

The Dow opened better yesterday and just kept going to the upside and ended at its high with a 181 point close. Breadth numbers were outstanding at a 5 to 1 positive ratio and the VIX made a huge percentage decline, losing 2.82 down to 17.20, its largest such move since last October. Its price action lately still keeps it within that 14.30 to 21 range.

And once again on a big up-day, the leaders invariably are the financials and the industrial cyclical type stocks such as energy, resources and materials. As is also typical of an up-day in stocks, we had the outside sycophantic markets acting in their predictable ways, as commodities such as crude oil and gold rallied, bond yields went higher and the Euro strengthened on a classic "risk-off" scenario.

What got the market motivated to the upside were some favorable overseas developments in addition to a good economic report here as well. China got the positive ball rolling with a report that it was easing its credit conditions. This was followed by those two bad-boys of the E.U., namely Spain and Italy, seeing their yield levels decline for the second day in a row, with the 10-year yield of the latter lower by .13 basis points to 5.40%. This resulted in a strong rally in the Euro which reached a one-week high of 1.3186 against the dollar.

The favorable development here was that the February trade deficit narrowed to its lowest since October as a result of record U.S. exports and a decline in Chinese imports and a fall in oil import volume by its largest amount in 15 years. A narrower trade deficit will add to the first-quarter G.D.P. number. This offset the fact that weekly jobless claims rose by 13,000 up to 380,000, the highest in two months.

Then for good measure there were some favorably interpreted comments from top Fed officials, who said that interest rates are likely to stay low through 2014, which is basically what they have said for a long time now. Unfortunately Chairman Bernanke's blunderous statement last Tuesday put some doubt into that scenario, and was the first of a few reasons why the market underwent its recent five straight days of declines, and his statement was negatively exacerbated by last Friday's poor jobs report and then the re-emergence of the E.U. difficulties regarding Spain and Italy earlier this week.

And it is interesting to note that Dow component HPQ underwent its largest one-day rise in several months as a report said that it accounted for over 17% of worldwide PC shipments, which rose by 1.9% to 89 million after predictions for a 1.2% decline. It was pointed out earlier this week in the daily market notes that even on the two worst down days on Monday and Tuesday, this stock actually ended slightly higher which give credence to the scenario that there were some investors out there who were so "smart" that they knew that good news was coming for this stock.

After yesterday's upside moonshot, the various stock index futures started out higher last evening, and for those who keep an eye on such things, just before 10pm last night the S&P futures were ahead by around 2 points after having closed above fair value yesterday. This would have meant a higher opening today assuming they were able to sustain or better those levels. But alas this was not to be as at 10pm the first-quarter China G.D.P. report was released, and heaven forbid,

it came out with a gain of 8.1% versus expectations for a gain of 8.3%, the horror of it all. And this compares to an 8.9% advance in the fourth-quarter of 2012, which shows that the trend from their astounding growth of as high as 11-12% of the past few years is continuing to moderate somewhat. This gain was the smallest since 2009.

Then the market shifted its attention to Europe, as the cost of insuring Spanish debt rose to a record high at 500 basis points and it was reported that Spanish banks borrowed a record $316 billion Euros from the E.C.B. last month. Then we got the U. of Michigan mid-April Consumer Sentiment Survey, which had the nerve to decline slightly from last month's 76.2 down to 75.7, and what does this extremely nominal change mean? So on a day when things were leaning to the downside after the various events as described above, it was reported that the reason for the slight decline was that gasoline prices were having a negative effect on consumer attitudes.

And then there were some important earnings as well, as mighty GOOG reported last night numbers that beat the consensus and announced a 2 for 1 stock split. The after-hours reaction to this was positive as the stock rose a few points and all of the analysts jumped on the bullish bandwagon by raising their upside price targets to as high as 850. Then this morning we got ostensibly good numbers from both Dow component JPM in addition to WFC, both of whose stocks initially traded higher in the pre-market as well.

So what happened to cause the market to shift gears rapidly to the downside were the ostensibly negative factors as mentioned above, and as a result the Dow hit its low for the day with a decline of 109 points a few times in the morning but has managed to improve somewhat from those worst levels and is now 70 points lower as this is being written. Breadth numbers are a negative 1 to 3 to the downside and the VIX is getting its revenge for yesterday's large down move with a gain of 1.63 to 18.86, or twice as much as it should be.

And in typical sycophantic fashion once again, commodities are lower following the Euro, with both crude oil and gold on the downside as the Euro falls sharply because of the Spanish difficulties and our bond market is lowering yields once again, with the 10-year Note back down to 1.99%. This means that yesterday's "risk-off" day has now become today's "risk-on" day, and doesn't that make things difficult for the typical investor? And the stocks that did the best yesterday as mentioned above are all getting sold off today as well.

And the irony is that those three important stocks who all traded higher initially after their reports are all lower –GOOG, JPM and WFC, go figure. Now the negative rap against the former is that the 2 for 1 split allows the company to issue new shares without diluting the founder's voting power, which has raised concern about corporate good-governance, and the financials are getting whacked around because of the latest Spanish financial difficulties. Perhaps a better explanation is that there were an astounding number of BAC 9 calls for today's expiration, over 133,000 at the 9 strike price, and yesterday all of their holders were counting their blessings as to how high BAC would go over 9 to increase the value of these options, and this sentiment got even more excitable after the good results from JPM. So instead of going higher as initially thought this morning, these options will now leave their owners with worthless merchandise at today's close. And the same will be true of the JPM 44 and 45 strikes as well, also with large open interest and the GOOG calls, which were bought so heavily over the past two days as a result of the extremely strong price action of this stock going into its numbers, are a complete disaster for their all too eager buyers, and what else is new with any of this?

For what it is worth, the current 50-day moving average for the S&P is now at 1375.85 and it is slightly above this level as this is being written. So let's hope that we do not get more negative drama with this one as it hopefully will close above it.

Next week sees a huge earnings calendar, and we will list Monday's reports today and then complete the rest of the week's lineup in that day's daily market notes. Thus, the week will kick off with C, GCI, JBLU, MAT, OMC and SCHW, among other smaller ones.

As the first-quarter reporting season is getting underway this week, the current expectation is for an overall profit gain of 3.2% but this will only be 1.8% without the predicted strong results from AAPL. In contrast, the fourth-quarter of 2011 saw a 9.2% gain.

Now that we have passed the third anniversary of the bear market low earlier this month, there is a statistic which says that of the eight previous bull markets since 1928 lasting at least three years, which this one now has, seven rose in the fourth year (i.e. 2012), with an average gain of 14%.

The S&P trades at 14 times projected 2012 earnings of $104, which has been a major supporter of stocks lately. Earnings were $85 in 2010 and were $93 in 2011, according to the analysts who follow these companies. The estimate for 2013 is $107. The average P/E multiple for the S&P going back to 1954 has been 16.4.

After four consecutive quarters of negative G.D.P. growth, we now have 10 consecutive quarters of positive growth, starting with the third-quarter of 2009, every quarter in 2010 and every quarter in 2011 as well. For 2011, G.D.P. rose at a 1.7% rate, and it is projected to grow by 2.2% 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.