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Daily Market Notes

Market Update :

DJIA:	**13051**
S&P 500:	**1397**
Nasdaq:	**3079**
10YR T-Note:	**2.18%**
EUR/USD:	**1.30**
VIX:	**16.72**
Gold:	**1629**
Crude Oil:	**103.03**

Prices Current as of 1:30 PM

Source: CNBC

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In a classic example of a "risk-off" day, the market declined yesterday as per its pattern of the last three weeks (up on Monday and lower on Tuesday and Wednesday), dragging commodities such as crude oil and gold along with it, in addition to lowering bond yields on the so-called "flight to safety." In addition, the Euro sold off on the old Europe is going down the drain scenario.

It was also a reminder of the damage that usually takes place after Fed Chairman Ben Bernanke says something, and as was mentioned in yesterday's daily market notes, the strong upward market reaction to his comments on Monday, March 26th must have gone to his head and he thought that additional comments would work the same magic – not!

So what did he say on both days that caused a positive reaction the first time and a negative one on Tuesday and yesterday? The Fed in its statement on Tuesday put forth the idea that they will hold off on increasing monetary accommodation unless economic expansion falters or inflation rises at a slower than its target 2% rate. I have pointed out that another QE3 program is not going to be in the cards in any event, so it is a little surprising that investors got so rattled by this news. The market made that strong gain on March 26th after Chairman Bernanke said that stimulative monetary policy is still needed to spur job growth. So it now appears as if he backed off from that unrealistic promise of early last week.

And when all else fails, one can always turn to Europe to explain our market's woes and yesterday was no different, as that negative European tour bus departed Athens, Greece and ended up in Madrid, Spain where a bond auction resulted in their 10-year yield up to its highest level since December, up to 5.71%. Also hurting the Euro, which declined to a three- week low against the dollar, was a statement from the E.C.B. President that the economic outlook there is subject to "downside risks".

And naturally on a "risk-off" day like yesterday, commodities decided that the path of least resistance was lower as well, with crude oil selling off to just over $101 a barrel on the weekly inventory report showing that domestic output rose to its highest level in 12 years and overall supplies showed their largest increase in four years, so the question naturally becomes – why are gasoline prices so high in the first place? And the gold market, which some believers think is the second coming of the Holy Grail, declined to a 12-weel low for good measure as well.

And on a day when these risk assets get sold off, naturally investors run to the so-called "safety" of bonds, where yields declined back down again after a large rise on Tuesday, and reached 2.22% for the 10-year.

The Dow reached its worst level of the day with a 178 point loss at 11am, from which it bounced back somewhat to end 125 points lower, its second worst loss of the year and breadth numbers were awful at a negative 1/4 ratio. The VIX sort of behaved itself, rising by only .78 to 16.44 after once again failing in the mid-17 range, which has become a near-term resistance level and when it gets that high, the market has shown a recent tendency to be able to recover to the upside when the VIX is at those levels. It has now advanced for five straight days, while the market has been higher on three of them and lower for the past two sessions, and once again it looks like that 14.30 downside support level is going to be very formidable in preventing further overall market advances if it were to get down to that level again.

Today things started out lower on the newfound obsession with Europe, as both Italian and Spanish bond yields rose and a French bond auction went poorly. It appears as if that negative tour bus, after having left Athens, did not know where to go next as it had so many choices. As a result, the Euro has continued to decline, trading as low as 1.3035, the weakest since mid-March.

So now the same commodities that declined yesterday because of the dollar strength decided that enough is enough on the downside, with gold rising a bit after its recent sharp declines on its new-found role as another "safe-haven", which appears to be a strange justification because it got sold off very sharply yesterday because of the Euro weakness, so if the Euro is even lower today, how does this make sense? But never mind, because crude oil is also higher as well, and the reason given for its rise is that the small decline in weekly jobless claims is going to raise demand for energy products, would you believe it?

After a lower opening of 62 points because of the supposed European worries, the Dow made a nice recovery to trade as its best level so far of a gain of 13 points at 11:15am,from which level it has turned back down somewhat and is currently lower by 17 points as this is being written. Breadth numbers are turning a bit more negative at a 12/16 ratio but the Nasdaq is higher once again on a new all-time best level in you-know who and a multi-year high in another upside flyer, PCLN, plus more modest gains in old-timers MSFT and ORCL. The S&P is nominally lower, following the Dow to some extent.

Bond yields are declining again, on the old flight to safety concerns in regard to what is going on in Europe, with the 10-year yield down to 2.18%. In fact, the Spanish Prime Minister had to berate his own country, the fourth-largest economy in Europe, by saying that they are in "extreme difficulty", as their budget deficit widens and public debt as a % of G.D.P. will reach a record 80% this year.

Weekly jobless claims did decline this week as mentioned above, and are locked into that 350,000 to 365,000 range for the time being, but let us also remember that the survey week for tomorrow's jobs report is based on the middle of the month, not the last week of the month. And as everyone will be preparing for their respective holidays tomorrow, the consensus is that the March jobs report will be 205,000 with private payrolls at 218,000

and the difference will once again be a function of seven straight months of government job losses. The unemployment rate is expected to remain unchanged at 8.3% while average hourly earnings are expected to move up by a very small amount. Of course there will be revisions to the prior two months as well, and I would imagine that the market will not like a number that does not have a "2" in front of it, so we shall see. Everyone who will be observing Good Friday or preparing for the first Passover Seder that evening will have to keep their eyes glued to the 8:30am release of this report and the bond market (which will be open as well as banks because it is not a government holiday) reaction to it, and then instead of getting an immediate sense of joy or disappointment as the case may be in stocks on Friday morning, everyone will have the anxiety of knowing how equities are going to do on Monday to color their religious observances over the weekend, and won't that either be fun or gloom depending on how a person has positioned him or herself ahead of this report.

And the reporting season for first-quarter earnings begins next week, with perennially weak lead-off hitter and Dow component AA opening up the season on Tuesday, along with TLB; Wednesday sees ADTN and Thursday will be the most exciting with GOOG and this is one stock that the experts can never get right as it invariably makes a large move one way or the other after its numbers. In addition, FAST, JBHT and RAD also report. Friday will see the second Dow stock of the week reporting, the always important JPM, in addition to WFC, so these two numbers might give a good sense of what is in store for this very important group.

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 14.5 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.