



Weekly Market Commentary



March 7, 2011

Cinderella: The Last Chapter

Jeffrey Kleintop, CFA

Chief Market Strategist
LPL Financial

Highlights

It is appropriate that this past Friday, March 4, marked both the 61st anniversary of the release of Disney's *Cinderella* and the release of the February employment report that helps to tell the final chapter of the Cinderella story of the economic and market turnaround of the past two years.

While GDP, consumer spending, and the stock market are at or near all-time highs and the manufacturing sector is booming, job growth has lagged in this economic rags-to-riches story leaving it incomplete.

Friday's market action and soaring oil prices serve as a reminder that even as the last chapter of this Cinderella story unfolds, new stories are being written that may be less favorable for the markets.

It is appropriate that this past Friday, March 4, marked both the 61st anniversary of the release of Disney's *Cinderella* and the release of the February employment report that helps to tell the final chapter of the Cinderella story of the economic and market turnaround of the past two years.

While gross domestic product (GDP), consumer spending, and the stock market are at or near all-time highs and the manufacturing sector is booming, job growth has lagged in this economic rags-to-riches story leaving it incomplete. The U.S. economy lost 8.75 million jobs during the downturn, but has only gained 1.25 million back since then. But, February's rise in employment by about 200,000 workers was the biggest number yet for this recovery, when adjusted for the census hiring that bloated the numbers in the first half of 2010, suggesting job growth may finally be starting to turn the corner.

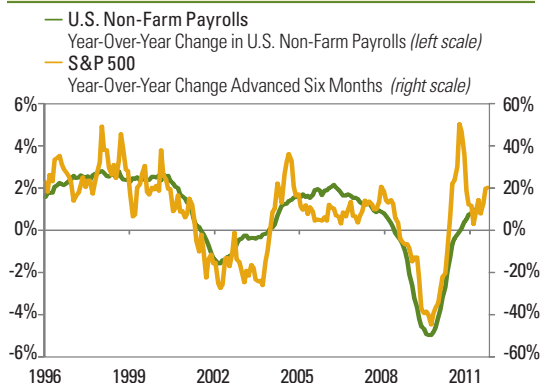
This episode is not unusual when it comes to employment. Historically, job growth tends to lag a recovery in the economy and markets by about six months, as you can see in [Chart 1]. Currently, the 20% year-over-year gain in the S&P 500 is pointing to a 2% year-over-year gain in jobs over the next six months, equivalent to the creation of an additional two million jobs.

This week marks the two-year anniversary of the S&P 500 closing low of 676 that took place on March 9, 2009. The past two years have marked a dramatic recovery in the economy and markets. The S&P 500 is up 97% since then, and is now only about 15% from the all-time high set in October 2007. When including dividends, the S&P 500 has recovered all but about 9% of the losses since the peak.

What helps to make the good news in the February employment report from the Bureau of Labor Statistics more believable is the corroborating evidence, including:

- The decline in unemployment claims back to their 10-year average
- Strong employment readings in the Institute for Supply Management (ISM) indexes
- The positive University of Michigan jobs survey
- Rising number of temporary workers
- An increasing number of overtime hours

1 Stock Market Leads Job Growth by Six Months



Source: LPL Financial, Bloomberg Data 03/04/11

The S&P 500 is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.



The stock market has been anticipating the return of job growth with a 12% gain over the past three months despite monthly reports of lackluster, weaker-than-expected job creation. Friday's solid employment report was welcome news, justifying much of the 12% gain seen in the stock market. Yet stocks slid on Friday, giving back some of the powerful gains achieved the day before. Rather than being tied to the report on the job market, fear of escalating unrest in the Middle East over the weekend pushed the price of oil up sharply and this pulled the stock market lower in lock step.

Friday's market action and soaring oil prices serve as a reminder that even as the last chapter of this Cinderella story unfolds, new stories are being written that may be less favorable for the markets. We continue to expect high single-digit gains for stocks and low single-digit gains for bonds this year accompanied by higher-than-average market volatility.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance reference is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

Stock investing may involve risk including loss of principal.

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The ISM index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys.

This research material has been prepared by LPL Financial.

The LPL Financial family of affiliated companies includes LPL Financial and UVEST Financial Services Group, Inc., each of which is a member of FINRA/SIPC.

To the extent you are receiving investment advice from a separately registered independent investment advisor, please note that LPL Financial is not an affiliate of and makes no representation with respect to such entity.

Not FDIC or NCUA/NCUSIF Insured | No Bank or Credit Union Guarantee | May Lose Value | Not Guaranteed by any Government Agency | Not a Bank/Credit Union Deposit