



Weekly Market Commentary



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Judgment Day

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Highlights

The events predicted for the purported Judgment Day, this past Saturday, did not come to pass. Nevertheless, early last week market participants acted as if the end was near.

As we pass judgment on the recent market and economic performance, we find the evidence to be much less than apocalyptic.

The most important conditions are much better now than a year ago and, as investor sentiment rebounds, we expect commodity prices to rise after the sharp pullback over the past several weeks.

Contrary to warnings on trains, billboards and the radio, the apocalypse did not take place on Saturday, May 21, 2011. The events predicted for the purported Judgment Day did not come to pass. Nevertheless, early last week market participants acted as if the end was near:

- Investors drove the yield on the 10-year Treasury down to 3.11%, threatening to break the 3% threshold for the first time since last summer when fears of a return to recession gripped market participants.
- Investor sentiment, measured by the American Association of Individual Investors, plunged to one of the weakest readings since the low of the financial crisis and recession in March 2009.
- Individual investors continued to sell domestic stock funds, with outflows reported by the Investment Company Institute last week totaling over \$2 billion for the prior week. Stocks fell for a third straight week, although only slightly.

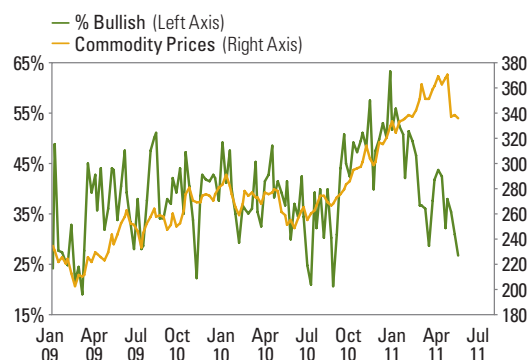
As we pass judgment on the recent market and economic performance, we find the evidence to be much less than apocalyptic. In general, last week's economic data was again weaker than the consensus of economists' expectations. But the data does not prompt us to revise our economic, earnings, or market outlook for the year. Our expectations for 2011 were below consensus at the start of the year and included GDP growth of 2.5-3%, earnings growth of about 10%, and single-digit gains for stocks and bonds. We believe the economy remains on track toward these predictions.

Last spring, the economic data softened and markets pulled back sharply as the fear grew that a debt meltdown in Europe would reignite a global banking crisis. While European debt problems have once again intensified, economic conditions are more robust in the United States than a year ago and better able to withstand any pressures. For example:

- A year ago as the soft spot emerged, the economy had shed jobs during 10 of the prior 12 months, whereas this year new jobs have been added in every one of the past twelve months totaling 1.7 million.
- Deflation was a major concern of policy makers a year ago with the year-over-year change in the Consumer Price Index sliding to 1.1% by June, in sharp contrast CPI is now in line with the 30-year average of 3.2%.
- In the spring of last year, business lending was falling at a 20% year-over-year pace as businesses were unwilling to borrow and bank credit standards

1 Investor Sentiment Nears Lows of the Past Few Years

American Association of Individual Investors Percent Bullish and Commodity Research Bureau Commodity Index



Source: LPL Financial, Bloomberg Data 05/20/11



were tight. Now commercial and industrial loan demand has turned positive as businesses seek to fund growth and banks have eased standards.

The most important conditions are much better now than a year ago. As investor sentiment rebounds in the coming weeks, we expect commodity prices to rise after the sharp pullback over the past several weeks. We expect the market volatility to continue while markets remain range-bound.

IMPORTANT DISCLOSURES

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The Commodity Research Bureau (CRB) Index is an index that measures the overall direction of commodity sectors. The CRB was designed to isolate and reveal the directional movement of prices in overall commodity trades.

Stock investing may involve risk including loss of principal.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

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