Weekly Market Commentary

June 7, 2010

One Hit Wonder

Jeffrey Kleintop, CFA
Chief Market Strategist
LPL Financial

Highlights

- Like a performer that can't string together a series of big hits, the stock market has provided investors with big one-day moves with no follow up lately.
- We believe the big hit the stock market took on Friday has become a familiar tune and is likely to be just another one hit wonder.
- Improvement in measures of financial stress tied to the European debt markets are needed before the stock market can put together a hit parade of a rebound.

Like a performer that can't string together a series of big hits, the stock market has provided investors with big one-day moves with no follow up lately. Last week was another example of the one hit wonder stock market. On Wednesday, stocks jumped 2.6% only to be flat on Thursday and then on Friday stocks dropped 3.4%. Prior to this past Friday, over the past four weeks we have had at least one big day each week where the S&P 500 moved more than 2%, following each of these days the market showed no momentum and was flat or reversed direction. Two of those days were to the downside and three were to the upside. These days have all been one hit wonders, rather than the start of a trend, as the S&P 500 has remained in a range of about 1040-1100. We believe the big hit the stock market took on Friday has become a familiar tune and is likely to be just another one hit wonder.

Last Four Weeks Percentage Change in S&P 500 Highlighting the Days with Greater Than 2% Moves

Week of	Monday	Tuesday	Wednesday	Thursday	Friday
5/10-5/14	**+4.4%**	-0.3%	+1.4%	-1.2%	-1.9%
5/17-5/21	+0.1%	-1.4%	-0.5%	**-3.9%**	+1.5%
5/24-5/28	-1.3%	+0.0%	-0.6%	**+3.3%**	-1.2%
5/31-6/4		-1.7%	**+2.6%**	+0.4%	**-3.4%**

Source: LPL Financial, Bloomberg 06/07/10
The S&P 500 is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

Prior to this past Friday, over the past four weeks we have had at least one big day each week where the S&P 500 moved more than 2%, following each of these days the market showed no momentum and was flat or reversed direction.

Good and bad news buffeted markets in recent weeks, but overall growth remains on track for a successful transition from recovery to sustainable growth.

Bad news last week:

- Lackluster jobs report for May – After a string of solid job reports in recent months the May report disappointingly reflected a stall in private sector employment. (See this week's *Weekly Economic Commentary* for more insights.)
- Peaking leading economic indicators – Institute for Supply Management (ISM) index fell slightly in May, dropping back below 60 a level that often marks the peak of the growth momentum in a recovery.

- European debt problems - Comments from the new leadership in Hungary lowered the bar by noting that they continue to face financial troubles (Hungary got the first European Union (EU) bailout back in 2008).

Good news last week:

- Big-ticket sales improving - Auto and pending home sales had stronger-than-expected gains in May. Also, lower gasoline prices and mortgage rates are helping consumers.
- Progress on oil spill - Progress was made in containing the Gulf of Mexico oil spill.
- Bank fundamentals improving - Two large U.S. banks assured investors that they held very little European sovereign debt and that loan demand is stabilizing and consumer delinquencies and defaults continue to improve.

This week we expect more volatility. On the schedule this week are economic data including retail sales, the return of legislators to Washington after the Memorial Day recess with a full agenda, the release of the Federal Reserve's Beige Book which may offer some insights ahead of their June 22-23 meeting, and further geopolitical developments involving conflicts on the Korean Peninsula and in the mid-east. All of these may be market moving.

Until we see more of a change in the LPL Financial Current Conditions Index, TED spread (a measure of stress in the banking system based on the willingness of banks to lend to each other), the level of European interest rates and credit default swaps, corporate bond issuance, and the volume of central bank liquidity swaps, we expect the market will be singing the same old song as it remains range bound and unable to sustain a move in either direction. We continue to believe a rebound is in store for investors. However, improvement in measures of financial stress tied to the European debt markets are needed before the stock market can put together a hit parade of a rebound.