



Weekly Market Commentary

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Highlights

- Recent economic and company reports reaffirm strong growth in Asia and solid growth here in the United States easing investor fears that weakness in Europe spells the end of global economic and profit growth.
- Europe may be sneezing, but the rest of the world does not appear to be catching the cold.
- As more evidence of this nature mounts over the coming weeks, we expect the markets to rebound from the recent pullback.

Last week's data included surging retail sales in the United States. While soft in May, sales at retail chain stores have rebounded sharply over the past two weeks posting the strongest weekly gains of 2010.

Europe is Not the World

With the markets' movements in recent weeks driven almost entirely by news coming out of Europe it would seem that the European outlook must be central to the prospects for global economic and profit growth. However, evidence to the contrary was abundant last week as the stock, bond, and commodity markets posted a gain despite the ongoing growth and solvency risks among some European nations.

Recent economic and company reports reaffirm strong growth in Asia and solid growth here in the United States. This data helped to ease investor fears that a weak outlook for Europe spells the end of global economic and profit growth. Last week's data included:

- The largest rise in China's exports in six years was reported for May, bolstering confidence that global demand remains solid, fueling the fastest-growing major economy.
- Surging retail sales in the United States. While soft in May, sales at retail chain stores have rebounded sharply over the past two weeks posting the strongest weekly gains of 2010.
- The Organization for Economic Cooperation and Development (OECD) raised its forecast for global growth to 4.6% in 2010 and 4.5% in 2011. These forecasts are up from six months ago when it predicted growth of 3.4% this year and 3.7% in 2011. In addition, the OECD reported that unemployment among the 31 member countries may have peaked at around 8.5%, much lower than its previous prediction of almost 10%.
- The fastest rate of growth in Japan in three quarters. Japan's Cabinet Office reported that the economy expanded at a strong 5% annualized rate in the first quarter driven by exports to Asia.
- Solid job growth in South Korea and Australia. South Korea's unemployment rate declined to 3.2% in May, the lowest level since October 2008, down from 3.7% in April and a 10-year high of 4.8% in January. Australia's unemployment rate fell to 5.2% from 5.4% as the strengthening global economy prompted companies to hire.
- Some economies are growing fast enough for policy makers to begin raising borrowing costs. New Zealand's central bank increased the official cash rate to 2.75% from a record low 2.5%, the first boost in three years. New Zealand is joining other nations hiking rates including Australia and India.



Analysts revised earnings for S&P 500 companies slightly higher last week. Upward revisions have continued even as stocks pulled back. Since the stock market peaked this year on April 23, S&P 500 earnings expectations for the next 12 months have risen 3.6% from \$85.69 to \$88.78. This has compressed the price-to-earnings ratio to just below 12, well below the historical average.

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- There was no sign that emerging European banking problems are spreading beyond the Eurozone to the rest of the world. U.S. LIBOR has remained flat for the past two weeks after initially rising along with European LIBOR for much of May.

Europe may be sneezing, but the rest of the world does not appear to be catching the cold. We will continue to watch real-time indicators for the impact that Europe's problems, and the efforts to combat them, are having on economic conditions. As more evidence of this nature mounts over the coming weeks, we expect the markets to rebound from the recent pullback.

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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 involves 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.

London Interbank Offered Rate (LIBOR): An interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market. The LIBOR is fixed on a daily basis by the British Bankers' Association. The LIBOR is derived from a filtered average of the world's most creditworthy banks' interbank deposit rates for larger loans with maturities between overnight and one full year.

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