Weekly Market Commentary

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A More Durable Rally

Jeffrey Kleintop, CFA
Chief Market Strategist
LPL Financial

Highlights

There are several reasons why this stock market rally may be more durable than those that preceded it in recent months.

It is possible that the substantial developments in Europe are taking the fear of a repeat of the financial crisis of 2008 off the table and solid economic data in the United States is taking the fear of a double-dip recession off the table.

Other signs that this rally may be more durable include: global cyclical sector leadership, declining European "TED spread", and the rising yield on the 10-year Treasury note.

The stock market, as measured by the S&P 500 Index, has returned to the high-end of the trading range of the past two months, as you can see in Chart 1. This is the fourth time the Index has rebounded to around the 1220 level. Each of the prior three rebounds were reversed as the market was pulled lower again by fears of financial crisis and recession. Rather than retreat back to the low end of the trading range over the next week or two, there are several reasons why this rally may be more durable than those that preceded it in recent months and may sustain much of the of the gains, as the S&P 500 Index takes a volatile path back toward a modest, single-digit gain for the year.

The substantial positive policy developments in Europe are taking the fear of a repeat of the financial crisis of 2008 off the table. In addition, solid economic data in the United States are taking the fear of a double-dip recession off the table. These positive developments may allow the stock market to breakout of the range to the upside, given support from still very low valuations.

Other signs that this rally may be more durable that those that preceded it over the past couple of months include:

- **Global cyclical sector leadership**–The global economically sensitive Energy and Materials sectors have led the rally while these sectors were in the middle of the pack during prior rallies.

1 S&P 500 Index Back at Top of Two Month Trading Range

Source: LPL Financial, Bloomberg 10/14/11

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

Global Cyclical Sectors Materials and Energy No Longer Stuck in the Middle

Current Stock Market Rally 10/3-10/14		Average of Three Prior Stock Market Rallies*	
Sector	% Gain	Sector	% Gain
Materials	**17.2**	Financials	8.7
Energy	**16.3**	Industrials	8.4
Consumer Discretionary	14.2	Consumer Discretionary	8.0
Information Technology	14.1	Information Technology	7.6
Industrials	13.3	**Energy**	**7.3**
Financials	11.9	**Materials**	**7.3**
Health Care	6.8	Health Care	6.2
Consumer Staples	5.4	Utilities	5.6
Telecommunications	3.8	Consumer Staples	4.4
Utilities	3.3	Telecommunications	4.0

*S&P 500 Rallies 8/10/11-8/15/11, 8/22/11-8/31/11, 9/9/11-9/16/11
Source: LPL Financial, Thomson Financial, Bloomberg data as of 10/14/11

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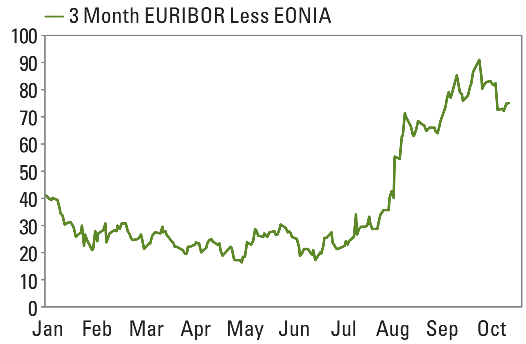
2 European "TED Spread" No Longer Rising



Source: LPL Financial, Bloomberg 10/14/11

3 Yield on 10-Year Treasury Note Stopped Falling

Source: LPL Financial, Bloomberg 10/14/11

- **Declining European "TED Spread"** – The key gauge of stress in the financial sector during the financial crisis in 2008 was the widely-watched TED Spread, which measured banks' willingness to lend to one another. The European equivalent of the TED Spread (EURIBOR less the EONIA rate) had been rising during the stock market rallies that failed to break out of the trading range over the past couple of months. However, over the past three weeks, the European "TED Spread" has been on the decline as financial risks recede in Europe, as illustrated in Chart 2.
- **Rising yield on 10-year Treasury note** – The 10-year Treasury note yield had been steadily declining during the summer stock market rallies that failed to break out of the trading range. Stocks are unlikely to make a sustainable rebound when yields are low and falling. The fear of impending economic doom in the United States weighed on the yield, pulling it to levels last seen just prior to the United States entering WWII. However, economic data providing evidence that the United States was not in a recession nor likely to experience a return to recession anytime soon helped to change the direction of Treasury yields. [Chart 3]

While the current stock market level has marked an attractive point to sell over the past couple of months as stocks returned to the lows of the year, we believe signs increasingly point to a market that is likely to retain much of the powerful 10% gain achieved over the past two weeks as it begins a volatile, upward-sloping path back to a gain for the year. Key drivers to watch this week regarding the prospects for a breakout are: the start of the flood of third-quarter corporate earnings reports and announcements surrounding the October 23 European summit.

manufacturers and distributors of food, beverages and tobacco, and producers of non-durable household goods and personal products. It also includes food and drug retailing companies.

Energy Sector: Companies whose businesses are dominated by either of the following activities: The construction or provision of oil rigs, drilling equipment and other energy-related service and equipment, including seismic data collection. The exploration, production, marketing, refining and/or transportation of oil and gas products, coal and consumable fuels.

Financials Sector: Companies involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, insurance and investment, and real estate, including REITs.

Health Care Sector: Companies are in two main industry groups—Health Care equipment and supplies or companies that provide health care-related services, including distributors of health care products, providers of basic health care services, and owners and operators of health care facilities and organizations. Companies primarily involved in the research, development, production, and marketing of pharmaceuticals and biotechnology products.

Industrials Sector: Companies whose businesses manufacture and distribute capital goods, including aerospace and defense, construction, engineering and building products, electrical equipment and industrial machinery. Provide commercial services and supplies, including printing, employment, environmental and office services. Provide transportation services, including airlines, couriers, marine, road and rail, and transportation infrastructure.

Materials Sector: Companies that are engaged in a wide range of commodity-related manufacturing. Included in this sector are companies that manufacture chemicals, construction materials, glass, paper, forest products and related packaging products, metals, minerals and mining companies, including producers of steel.

Technology Software & Services Sector: Companies include those that primarily develop software in various fields such as the Internet, applications, systems and/or database management and companies that provide information technology consulting and services; technology hardware & Equipment, including manufacturers and distributors of communications equipment, computers and peripherals, electronic equipment and related instruments, and semiconductor equipment and products.

Telecommunications Services Sector: Companies that provide communications services primarily through a fixed line, cellular, wireless, high bandwidth and/or fiber-optic cable network.

Utilities Sector: Companies considered electric, gas or water utilities, or companies that operate as independent producers and/or distributors of power.

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