



Weekly Market Commentary



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Stocks Catch Up

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Highlights

After last week's bounce, this week we would like to see a pause with the market holding on to the gains.

One of the factors supporting our view last week that stocks had overreacted to the downside was that the stock market had continued to make new lows while other key components of the macro environment had not. Last week's stock market bounce was not mirrored in similar improvement in credit spreads or commodity prices, suggesting it was just the stock market catching up.

We continue to recommend a defensive posture with regard to stock market exposure. We believe that there may be more volatility to come before a sustained rise will emerge from the bottoming process the stock market is undergoing.

In last week's commentary, we offered Five Reasons Not to Panic and suggested that the stock market was due for a bounce, rewarding those that stayed invested. After last week's bounce of greater than 10% this week we would like to see a pause with the market holding on to the gains. That is because big up or down moves in the markets are often quickly reversed leading to a volatile, rollercoaster ride that fails to inspire the confidence of long-term investors.

While volatility is the new normal for markets, there are three reasons why the bounce may pause and the stock market may consolidate last week's gain.

1. Stocks are no longer the outlier. One of the factors supporting our view last week that stocks had overreacted to the downside was that the stock market had continued to make new lows while other key components of the macro environment had not. For example, credit spreads, leading economic data, and measures of economically sensitive commodity markets all reflected some recent improvement. Now that stocks are also off their worst levels, the stock market is aligned with other indicators, reflecting agreement that conditions are at deep recession levels, but showing some modest improvement from the worst levels of the crisis. Last week's stock market bounce was not mirrored in similar improvement in credit spreads or commodity prices, suggesting it was just the stock market catching up.

STOCK MARKET NOW ALIGNED WITH OTHER MACRO INDICATORS WITH 10-20% IMPROVEMENT OFF THE WORST LEVELS OF THE CRISIS

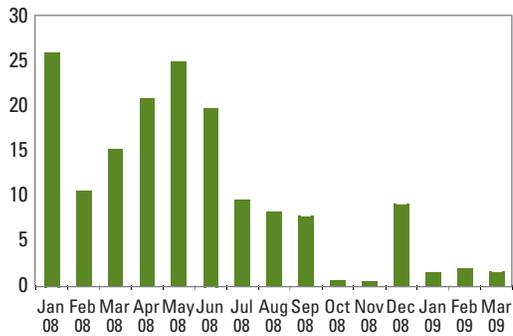
	Baa-Rated Corporate Bond Spread*	CRB Industrial Metal Commodity Price Index	Weekly Retail Sales Year-Over-Year Change	ISM PMI Manufacturing Index	S&P 500 Index
Best Level	155.71	964.75	4.9	52.9	1565.15
Worst Level	622.25	391.44	-2.5	32.9	676.53
Current Level	549.9	453.75	-0.9	35.8	765.7
Percent Improvement	15.5%	10.9%	21.8%	14.5%	10.0%

Note: lower bond spreads reflect better financial conditions than higher spreads

Source: LPL Financial, Bloomberg



1 TALF to Boost Securitized Lending
U.S. Asset-Backed Issuance in Billions for Past 15 Months



Source: Bloomberg, LPL Financial

2. Policy actions are being implemented, but it may take at least a few weeks to begin to measure whether they are being successful. For example, the mortgage modification plan went into effect two weeks ago and has the potential to reduce the number of foreclosures by a substantial amount and alleviate some pressure on home prices. Also, the first round of the TALF capital is being raised this week and will begin to help restore lending to consumers on March 25 as it becomes available to fund new loans. Market participants may await reports on the number of foreclosure starts and the pace of securitization-funded lending before having a fundamentally-supported reason for moving stocks significantly up or down.
3. There is a lot of news on the horizon that investors may await before taking action. Over the next month, a lot of market shaping data and events will provide some much needed clarity for investors such as the start of the first quarter earnings season, the outcome of the bank stress tests, the modification of the mark-to-market accounting rules, and the reintroduction of a form of the uptick rule for shorting, in addition to important economic indicators.

We continue to recommend a defensive posture with regard to stock market exposure. We believe that there may be more volatility to come before a sustained rise will emerge from the bottoming process the stock market is undergoing. A sharp movement—in either direction—may be just as easily reversed and fail to converge in an agreement among buyers and sellers on fundamental value. However, if stocks pause to consolidate the recent gains we would view that as a positive development in the bottoming process.

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*Such a plan involves continuous investment in securities. An investor should consider their ability to continue purchasing through periods of low price levels. Such a plan does not assure a profit and does not protect against loss in declining markets.

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