



Weekly Market Commentary



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Figure Fatigue

Jeffrey Kleintop, CFA

Chief Market Strategist
LPL Financial

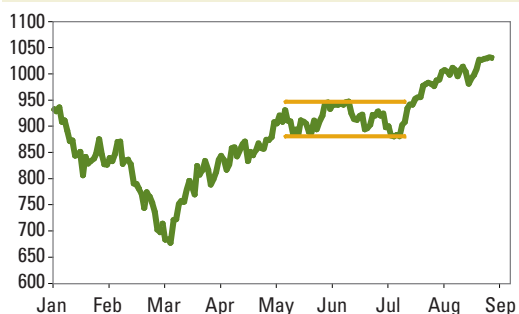
Highlights

Positive economic data is becoming less influential in moving the markets. In fact, so much of the news of the recovery is now priced into the market that with the S&P 500 hovering around 1025, the continuing run of better-than-forecast data is having only a limited impact.

The market appears to have become saturated with good news and is beginning to show signs of fatigue after rising 52% above the closing low of March 9, 2009.

This low energy could lead to another period of consolidation much like that which occurred from mid-May to mid-July when the S&P 500 index hovered around 900 for two months. We believe further consolidation is likely in the weeks ahead, rather than any sharp moves.

1 Stocks Consolidated from Mid-May to Mid-July S&P 500 Index in 2009



Source: LPL Financial, Bloomberg

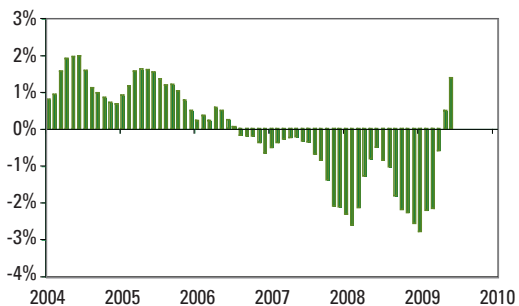
Recent evidence suggests that positive economic figures are becoming less influential in moving the markets, which could lead to another period of consolidation, or range-bound trading, much like that which occurred from mid-May to mid-July when the S&P 500 index hovered around 900 for two months. That period of consolidation came after a powerful rally that began in early March as market participants went from pricing in a depression to a typical recession. As the data merely confirmed the prevailing sentiment that conditions were not sliding into recession, the improving data became less potent at boosting stocks. [Chart 1]

Since mid-July, investors may have gone from pricing in a recession to a recovery as positive data increasingly revealed that the recession was over in the first half of the year. In fact, so much of the news of the recovery is now priced into the market, that with the S&P 500 hovering around 1025, the continuing run of better-than-forecast data is having only a limited impact. In the past week, this run of positive data has included:

- **Manufacturing** –The overall business activity index for mid-Atlantic region factories from the Federal Reserve Bank of Richmond showed growth in manufacturing rebounded to the level last reached back at the prior peak in September 2007. The report followed by just a week the Philadelphia Fed's first positive reading this year on manufacturing activity in the region.
- **Home prices** - The S&P/Case-Shiller 20-city home-price index gained for the second month in a row, posting by the largest month gain in four years. New home sales were reported to rise over 9% in July following a similar gain in June and putting together a string of rising sales in five out of the last six months. [Chart 2]
- **Business Spending** - Orders for business equipment known as durable goods jumped in July, climbing 4.9%, exceeding forecasts and the most since July 2007. Excluding transportation gear, orders increased 0.8 percent, a third consecutive gain. While the administration's \$3 billion "cash-for-clunkers" plan has revived orders associated with the rebound in auto sales, even excluding transportation-related businesses, orders were up for the third month in a row. [Chart 3]
- **Consumer Spending** –The International Council of Shopping Centers reported retail sales for the week ending August 25 were up 0.6%. Consumer sentiment, measured by both the University of Michigan and the Conference board, rose in the month of August.

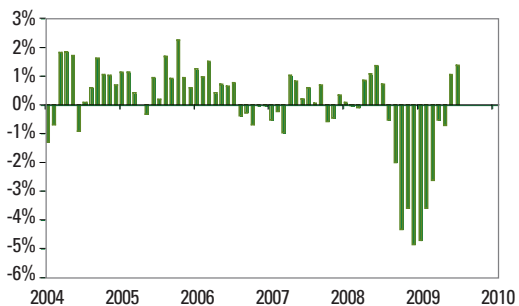


2 Home Prices Start to Rebound
Case-Shiller Composite 20 City Home Price Index Monthly Change



Source: LPL Financial, Bloomberg

3 Business Spending on the Rebound
Monthly Change in Durable Goods Orders Ex-Transportation (3 month moving average)



Source: LPL Financial, Bloomberg

Despite this data reflecting strength in key areas of the economy and a number of companies upgrading their outlook and guidance for earnings growth, stocks were basically unchanged for the week. The market appears to have become saturated with good news and is beginning to show signs of fatigue after rising 52% above the closing low of March 9, 2009.

Many of these economic data points have been rising for two or more months now and are losing their potency to move the markets higher, as investors become increasingly desensitized to such news. In addition, the LPL Financial Current Conditions Index, which measures the real-time conditions that drive the market, has stalled out at 0.8 for the past three weeks after a long and steady rise since early March. Newsflow outside the economic data was light, and commodity prices, bond yields, and currencies were basically unchanged for the week.

The return of higher trading volumes this week will put the consolidation to the test with more buyers and sellers to influence market direction. Nonetheless, we believe further consolidation is likely in the weeks ahead, rather than any sharp moves. Although the overall trend of improving risk appetite will continue as pessimism slowly gives way to optimism for individual investors, it is already becoming evident that it may take more to drive stocks above the current range than a steady stream of data reflecting an economic recovery.

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