



Market Insight...

... Performance

Economic Update

Charts of Interest

May 9, 2011

Market Performance:

Week ending 5-6-2011

Sector	week	1mo	YTD
S&P 500	-1.8%	0.4%	7.2%
Russell 2000	-3.6%	-2.4%	6.7%
MSCI EAFE USD	-2.1%	2.4%	7.2%
MSCI EM	-3.4%	-3.3%	1.0%
Bar Ag. US Bonds	0.6%	2.1%	2.3%
GLD (nav)	-4.6%	2.0%	5.0%
Real Estate	-2.0%	3.0	10.8
Energy	-7.3%	-5.8	10.8



Economy:

- **Jobs Report:** Payroll employment continued to grow solidly in April, and while the Fed probably needs to see payrolls even stronger before considering tightening, a gain in employment of +244,000 m/m is certainly solidly in the territory that bond investors would view as a threat to the level of rates (especially after the recent rally). Unemployment Rate: Ticked Up to 9.0% in April. The increase in unemployment level driven mostly by decline in labor force. Productivity: Slowed to 1.6% Q/Q AR in 1Q (old news, but consistent with employment returning). Little change in hours worked or avg hourly earnings.

- **FRB Senior Loan Survey:** Continued increased willingness to lend to consumers, but still a weak percentage of banks reporting stronger demand for consumer loans

- **US to Press China on Bank Reform:** the U.S. is continuing to push China to allow its currency to appreciate more rapidly and that the U.S.

Markets: “ Buy the Dips Thesis” still in place

- DESPITE RECENT VOLATILITY, MARKET TREND STILL POSITIVE...
- History suggests it's very difficult to get paid on the short side when stocks are not making new 52-week lows. Through the first 4 days of last week, **133 unique S&P issues have made a new 52-week high, only 2 have made a new 52-week low.**
- 89% of S&P 500 constituents still have their 50-day moving average above their 200-day moving average – internally, this is a healthy set-up. **Past, corrections against the backdrop of upward sloping moving averages are rarely climactic events.**
- Key S&P 500 Levels: The market still has a solid support base just beneath it.** First support is at 1335 (last week's breakout point), followed by 1320 (the 50-day moving average). Beneath 1320, the S&P will begin to develop a short-term oversold condition as it approaches the 1300-1305 floor (the 100-day moving average).

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Market View: Strategas

Bullish until these factors change significantly.....

We're Bullish Until...

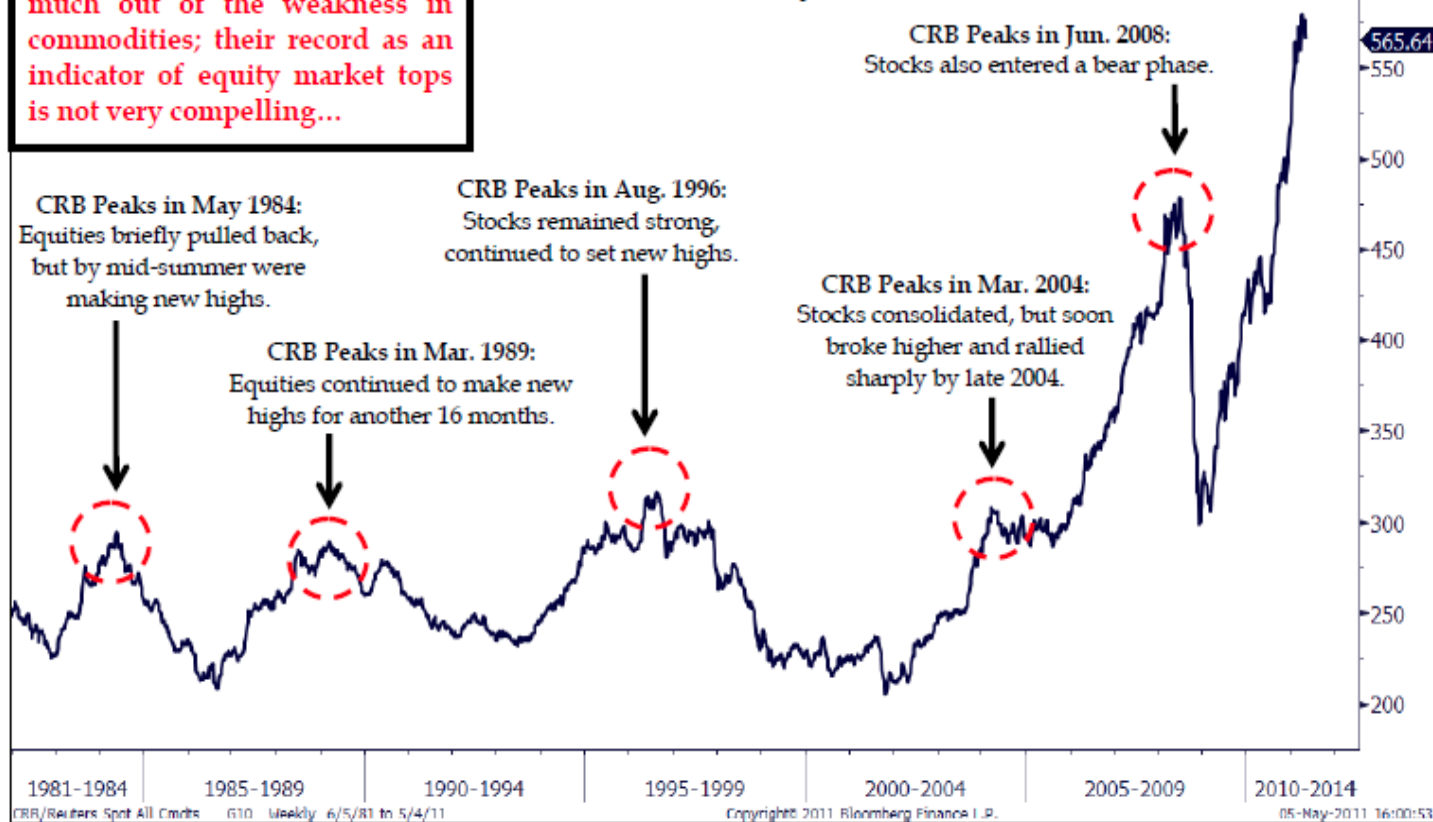
- **30/10 Spread** (*Watching 10-Year yields alone is unlikely to give the early warning signs of incipient increases in inflationary expectations*). ✓
- **3-Month US\$ Libor Flashes Signs of Financial Stress** (*Despite problems in Europe, Libor is actually declining*). ✓
- **Mortgage Rates Push Back Towards 6%** (*All clear here, now roughly 5%*). ✓
- **Commodity Price Inflation Forces China to Meaningfully Slow Economic Growth** (*This has started*). ✗
- **Our Proprietary Bellwether Index of Economically Sensitive Stocks Breaks Down** (*No signs of structural weakness*). ✓
- **Signs of Protectionism Creep into Global Policy** (*Although this remains a concern, there is little evidence of this - yet*). ✓

Commodities:

HISTORY TELLS US THAT A TOP IN COMMODITIES NOT OFTEN ASSOCIATED WITH A TOP IN STOCKS

We don't want to extrapolate too much out of the weakness in commodities; their record as an indicator of equity market tops is not very compelling...

CRB Commodity Index



Markets:

STRENGTH AMONG THE TRANSPORTATION STOCKS REMAINS A KEY PLANK IN OUR 2011 BULL CASE



This week marked yet another Dow Theory buy signal as the cyclically important Transportation Index broke to a new all-time high (as did the Russell 2000). Until we see a major divergence between the Transports and the broader equity market, we believe the bull thesis remains intact for stocks.



Alongside the Dow Transports, the S&P 500 also broke out from a very constructive technical pattern this week which, in the near-term, projects to the next resistance level at roughly 1430 – about +6% from current levels.

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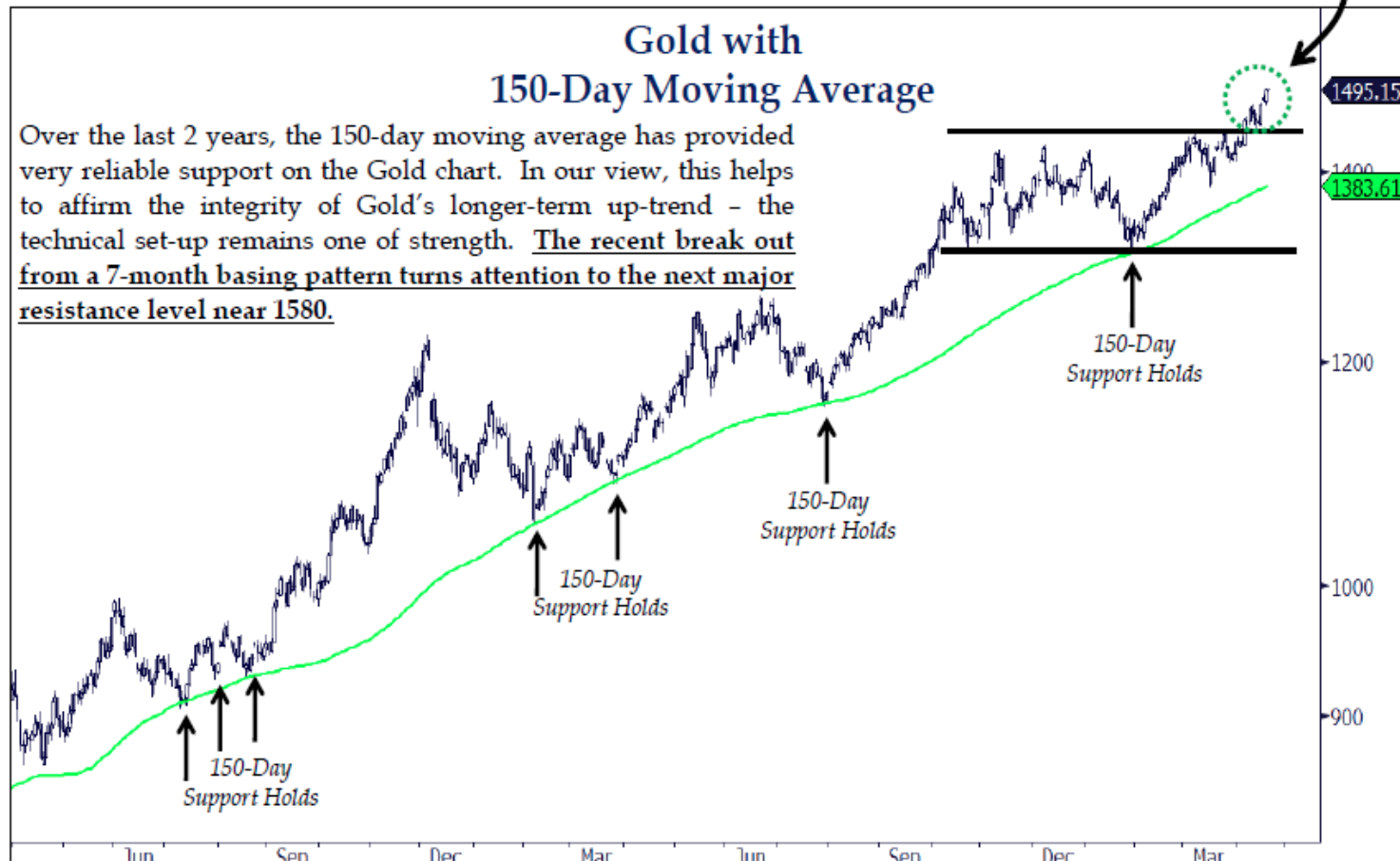
Markets: Gold

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GOLD CONTINUES TO CATCH A BID,
THE RELATED-EQUITIES STARTING TO FIRM AS WELL

Gold with 150-Day Moving Average

Over the last 2 years, the 150-day moving average has provided very reliable support on the Gold chart. In our view, this helps to affirm the integrity of Gold's longer-term up-trend - the technical set-up remains one of strength. The recent break out from a 7-month basing pattern turns attention to the next major resistance level near 1580.



Inflation in the Modern World:

The concept of “bi-flation” – China will likely continue to inflate the prices of everything that it needs (oil, copper) and leave the prices of everything it doesn’t (U.S. homes, American labor) to its own devices.

