



# Weekly Market Commentary

November 29, 2010



## Jeffrey Kleintop, CFA

Chief Market Strategist  
LPL Financial

### Highlights

- Asking what Black Friday means for the stock market has the relationship backwards; it is the gain in the stock market this quarter that bodes modestly well for retail sales this holiday season.
- While Black Friday tells us little about how stocks might behave, there is a very consistent relationship between stock market performance in the months leading up to the holiday season and the gain in retail sales in the fourth quarter. This year, the performance of stocks in October and November points to a low-single-digit gain for holiday retail sales.
- Stocks, particularly those of the retailers, have reflected the improving consumer incomes and balance sheets and now sales may begin to reflect the release of pent-up demand. This may create a positive feedback loop, supporting job and economic growth in 2011.

## Black Friday Has Investors Seeing Green

Last week's shortened holiday trading was a rough ride as Ireland and North Korea reminded investors that aftershocks of the global financial crisis continue and geopolitical risks are ever present. Later in the week, investors turned their attention to slightly better-than-expected retail sales over the Thanksgiving weekend—the traditional start of the holiday shopping season.

Does Black Friday for retailers mean a green holiday season for investors? Not necessarily; there have been years where positive fourth quarter retail sales did not bring positive results for the stock market. In fact, there is not even much of a relationship between how well holiday sales results fare against forecasts and stock market performance. To illustrate this point, over the past 18 years, the performance of the S&P 500 during the period from Thanksgiving through year-end was actually worse when retailers exceeded the widely followed forecast from The National Retail Federation than when they missed or were in line. [See table on page 2]

So, clearly, the question of what Black Friday means for investors has the relationship backwards; it is instead the gain in the stock market over the prior two months that bodes modestly well for retail sales this holiday season.

There is a very consistent relationship between stock market performance in the months of October and November leading into the holiday season and the gain in retail sales in the fourth quarter. This makes sense since the stock market is one of the best barometers of consumer confidence and, if it is rising, it stands to reason that consumers are feeling a bit more confident and willing to spend. In fact, measured statistically, the performance of the S&P 500 in the months going into the holiday season and holiday spending (retail sales excluding food and autos) have a high 0.8 correlation (a perfect correlation is 1.0). If you are going to try to forecast holiday spending, it would be easy to make the case that there is only one thing you need to watch—stocks. This year the performance of stocks in October and November point to a low-single-digit gain for holiday retail sales over 2009.

Early reports of sales this holiday season have been solid:

- The National Retail Federation reported Thanksgiving weekend sales up 6.4% over last year. Shoppers spent \$45 billion over the weekend with the average shopper spending \$365.34.
- Online sales trends have been very strong with sales estimated up 9% from last year on Black Friday. Tight inventories may have forced many to go online in search of favored styles and colors. Strong online sales have prompted shipping companies to issue upbeat outlooks with UPS predicting a 7.5% increase over last year and Federal Express forecasting a gain of 11% between Thanksgiving and Christmas.



### Little Relationship Between Holiday Sales Versus Expectations and Stock Market Performance

Holiday Season	Holiday Sales Forecast*	Holiday Sales Gain**	S&P 500 Price Change***
1992	+4.0 to +5.0%	4.9%	0.8%
1993	+4.0 to +6.0%	4.3%	0.3%
1994	+6.0%	3.5%	1.3%
1995	+4.0% to +5.0%	2.5%	1.5%
1996	+6.0%	3.2%	1.1%
1997	+3.8%	3.4%	-0.9%
1998	+5.0% to +6.0%	4.5%	4.5%
1999	+6.0% to +6.5%	6.3%	2.5%
2000	+5.5% to +6.5%	3.6%	0.4%
2001	+2.5% to +3.0%	2.7%	1.9%
2002	+2.6%	3.0%	-0.4%
2003	+5.7%	5.3%	4.4%
2004	+4.5%	3.2%	1.7%
2005	+5.0%	3.9%	-1.3%
2006	+5.0%	2.6%	1.5%
2007	+4.0%	2.6%	-0.2%
2008	+2.2%	-0.2%	6.4%
2009	-3.2%	2.2%	0.8%
2010	+2.3%		

Better Than Forecast 0.2%  
  In Line with Forecast 2.0%  
  Worse Than Forecast 1.5%

\* Holiday Season Overall Sales Forecast From The National Retail Federation

\*\* Thanksgiving through Year-End Five-Week average of Year-over-Year Sales Growth from International Council of Shopping Centers

\*\*\* S&P 500 Index Price Change Over Period of Holiday Sales

Source: LPL Financial, International Council of Shopping Centers, National Retail Federation, Bloomberg Data 11/29/10  
 The S&P 500 is an unmanaged index which cannot be invested into directly. Past performance is no guarantee of future results.

Surveys show that more shoppers indicated they were also shopping for themselves. What is driving this pent up demand?

- More jobs and bigger paychecks may have given consumers the confidence to boost purchases during the holiday season.
- U.S. consumer debt has fallen by about \$1 trillion over the past two years, according to the Federal Reserve. Credit card debt is one of the most sharply contracting categories.
- As reported in last week's Weekly Economic Commentary, the percentage of disposable income consumed by financial obligations, such as a mortgage, rent, auto and student loans has fallen to a level not seen since well before the financial crisis and is now below the long-term, 30-year average.
- Consumers have been saving more with the savings rate at 5.7%, up from the 1-2% averaged during the boom years of 2005-2007.

## 1 Retail Sales Gains Have Been a Relatively Stable 2% to 4% in the Second Half of 2010



Source: LPL Financial, Bloomberg Data 11/26/10

- Stocks, particularly those of the retailers, have reflected the improving consumer incomes and balance sheets and now sales may begin to reflect the release of pent-up demand. While stocks are already signaling gains in sales this holiday shopping season, the performance of retailer stocks and the overall Consumer Discretionary sector has been pointing to solid gains with those groups of stocks doubling the gain of 4.2% for the S&P 500 so far during the fourth quarter.

Retail sales have yet to break out. The widely watched weekly measure of retail sales from the International Council of Shopping Centers has averaged a relatively consistent year-over-year gain of 2-3% during the second half of 2010. If sales do begin to accelerate it may be good news for the economy. A more confident consumer leads to more confidence in corporate America which may lead to brighter prospects for job and economic growth in 2011.

### IMPORTANT DISCLOSURES

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.

International and emerging market investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

Stock investing may involve risk including loss of principal.

Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

Specific securities listed herein are not an endorsement of their product or service or a recommendation of any kind.

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.

Consumer Discretionary Sector: Companies that tend to be the most sensitive to economic cycles. Its manufacturing segment includes automotive, household durable goods, textiles and apparel, and leisure equipment. The service segment includes hotels, restaurants and other leisure facilities, media production and services, consumer retailing and services and education services.

This research material has been prepared by LPL Financial.

The LPL Financial family of affiliated companies includes LPL Financial and UVEST Financial Services Group, Inc., each of which is a member of FINRA/SIPC.

To the extent you are receiving investment advice from a separately registered independent investment advisor, please note that LPL Financial is not an affiliate of and makes no representation with respect to such entity.

Not FDIC or NCUA/NCUSIF Insured | No Bank or Credit Union Guarantee | May Lose Value | Not Guaranteed by any Government Agency | Not a Bank/Credit Union Deposit