



Weekly Market Commentary

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The End of an Era

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Highlights

As the combat troops leave Iraq and the proportional response to the threat in Afghanistan is now assessed, the United States will likely regain the resources and focus to project more effective foreign policy influence over the rest of its interests.

This means geopolitical risk in the capital markets may not decline materially, muting the market's initial reaction.

The defeat of Osama bin Laden with his death at the hands of U.S. forces this weekend in Pakistan is welcome news. However, it is unclear what this means for al Qaeda's ability to continue to be a threat. The implications for the United States are more clear. This opens the door for a withdrawal of U.S. troops from Afghanistan. With bin Laden dead, the mission in Afghanistan to defeat al Qaeda could be considered complete.

It has been almost ten years since counterterrorism became the primary focus of American foreign policy. In addition to a massive investment in homeland security, the United States has engaged in wars in Iraq and Afghanistan intended to root out the threat to Americans. These efforts have consumed a tremendous amount of U.S. resources and focus.

This regional focus allowed other nations to take advantage of this distraction to create potential long-term challenges to the United States. For example, the Russians used the United States' distraction to reassert their control over the nations on their periphery. When Russia went to war with Georgia in 2008, the United States did not have the forces with which to counter Russian aggression on behalf of its ally.

As the combat troops leave Iraq and the proportional response to the threat in Afghanistan is now assessed, the United States will likely regain the resources and focus to project more effective foreign policy influence over the rest of its interests. This is a potential game changer for many countries such as Russia, Iran, North Korea and even China among others that have gotten used to greater regional power than they had prior to 9/11.

From a U.S. spending perspective, this comes at a good time. First, it allows defense spending to be debated in the context of a withdrawal of troops from both Iraq and now Afghanistan. Second, it may give—if only briefly—Congress a reason to unite in a sense of national pride and address domestic issues such as the debt ceiling.

With all of this in mind, the market's reaction is likely to be muted. Stocks are likely to move modestly higher while bond yields may rise slightly, pushing bond prices lower. Commodity prices may be mixed as they react differently to potentially reduced terrorism risk over the long term. Oil, while negatively impacted by the potential for a long-term threat in the oil-producing region having been reduced, may see some support in the near term by the potential for a supply disruption stemming from an al Qaeda reprisal in addition to the potential for a renewed U.S. focus on other geopolitical hot spots.



Broader Reflections on the Events of This Weekend

Another event this weekend was in sharp contrast to the death of the almost universally despised Osama bin Laden. On Sunday, the almost universally beloved Pope John Paul II was beatified. Over 1.5 million people flooded the streets of Rome as he moved a step closer to sainthood in one of the largest Vatican masses in history. Beatification is the last major milestone before being declared a saint. John Paul needs another miracle attributed to him before he can be canonized. The turnout for the beatification far exceeded even the most optimistic expectation of one million people.

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We believe that history does rhyme and context is important to understanding which cycles may reappear in some form. Some of the most timely and effective investment recommendations have relied on finding the right historical context. The event this weekend renews the attention focused on the death, funeral and legacy of Pope John Paul II.

Looking back to six years ago, his funeral was a global event that inspired four million people to converge on Rome in one of the largest religious gatherings in modern times, two billion people to watch it on television, and for two weeks in a row the internet search activity surrounding Pope John Paul II dominated the number one spot on internet searches. And finally, the most recent three U.S. Presidents along with many other world leaders paid their respects to the Pope.

The last time an event equal in attendance took place may have been in 1910. In the May 1910 funeral of King Edward VII, nine kings rode in the funeral procession as well as seven queens, and forty more imperial or royal highnesses, among many others. Monarchies had multiplied in the 1800s and whatever their power, there were more royals than ever before. Many elected national leaders also attended—though they were relegated to the end of the procession. Together they represented seventy nations in one of the greatest displays of royalty and rank.

Ninety-one years later at the Pope's funeral a similar reaction to his death occurred. Four kings, five queens and 70 presidents converged on Rome for the Pope's funeral. Among the heads of nations in attendance were the Saudi's, the Muslim heads of Afghanistan and Iran, Syrian President Bashar Assad, and the UN's Kofi Annan.

Following Edward VII's funeral, the King's cousin and monarch of Germany, Kaiser Wilhelm II, began to reveal the plan that led to WWI which had dramatic implications for the economies and capital markets in the many years to come. Is a similar change coming? Is this a sign that the world is beginning to change from the established order of the past century, just as they did in 1910?

- Could world economic and political power be shifting from the dominant nation of the last 100 years to an emerging nation much as it did early in the last century? Might the United States be yielding ground to China as Britain did to the United States at the start of the last century?
- Alternatively, the outpouring of support for the Pope may have been an expression by many people that they are looking for principled leaders.



This “morality” shift was noted in the latest mid-term election. What impact may this have on the debates in Washington with so many difficult decisions ahead?

- Despite global attention afforded last week’s royal wedding, the royal splendor of Edward VII’s funeral marked the end of monarchical power. Although not evident at the time, a shift in power from Kings to Presidents was marked by Edward VII’s funeral. A century later, has the majesty of the Pope’s funeral and legacy marked some form of an end to nationalism? Could power now be shifting from national leaders to CEOs? Could national borders mean less and the power of leaders of countries shifting to those that lead multinational businesses? Is power continuing to broaden after moving from single rulers to elected leaders of nations, is it now moving to the heads of multinational businesses? Could an implication be that a global alternative to national currencies emerges such as gold? Is this shift already becoming evident as gold has risen from around \$600 at the time of the Pope’s death to over \$1,500 today, six years later?

Reflecting on the events of this past weekend prompted us to share these issues that we have been contemplating with their potentially far-reaching impact on a new era for the economy and financial markets.

IMPORTANT DISCLOSURES

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