

# MainStreet Advisors Financial Market Update

October 1, 2010  
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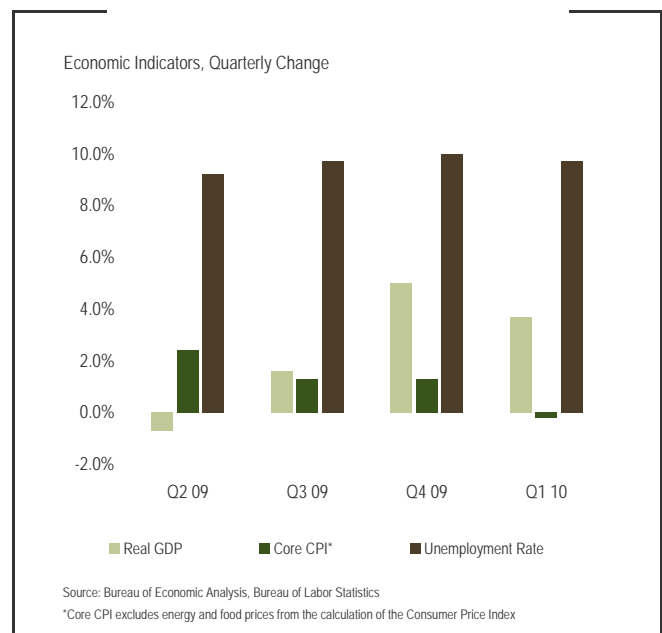
## Economic Update

The U.S. economy expanded at a 1.7% annual rate in the second quarter, according to the final gross domestic product (GDP) estimate released by the U.S. Department of Commerce. Personal consumption expenditures (PCE) advanced 2.2% for the quarter. Exports grew 9.1% while imports surged 33.5%; although this serves as a subtraction to GDP it suggests the U.S. consumer is still spending. Separate data reported by the Commerce Department showed that personal income increased 0.5% in August and PCE advanced 0.4% for the second consecutive month. However, personal savings, as a percentage of disposable personal income, has remained elevated at 5.8%.

Gauges of consumer confidence continue to reflect ongoing concerns and caution. The Thomson Reuters/University of Michigan Surveys of Consumers Survey of Consumers increased slightly late September from readings early in the month, but remains at the lowest level in more than a year. Interestingly, the modest pickup in expectations occurred in households with incomes below \$75,000. The Conference Board Consumer Confidence Index declined in September amid a deteriorating short-term economic outlook as well as the labor and business markets. The survey of 5,000 U.S. households indicated that 16.4% of consumers anticipate weakened business conditions over the next six months. Director of The Conference Board Consumer Research Center, Lynn Franco noted that "the pace of economic growth is not likely to pick up in the coming months."

Activity in the manufacturing sector increased for the 14th consecutive month in September, albeit at a decelerating pace, according to the Institute for Supply Management. New orders, production, and employment expanded at a slower pace for the month. Inventories are increasing at a faster pace and backlogs of orders have started to decline—the report indicated both are "strong negative signals of weakening performance in the sector." Global manufacturing activity fell to a 14-month low in September, as shown by the JPMorgan Global Manufacturing PMI, produced in association with Markit Economics. Expansion slowed in production, new orders, new export orders, and employment.

Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, National Bureau of Economic Research, The Conference Board, the National Association of Realtors.



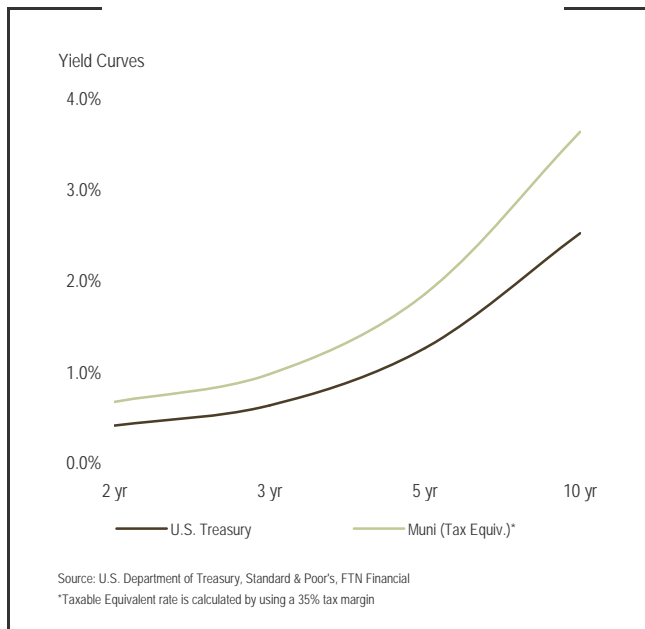
Sep. 28 <sup>th</sup>	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.4%
Sep. 28 <sup>th</sup>	S&P/Case-Shiller Composite 20 Index, July	148.91
Sep. 28 <sup>th</sup>	Consumer Confidence Index, September	48.5
Sep. 28 <sup>th</sup>	State Street Investor Confidence Index, September	88
Sep. 29 <sup>th</sup>	MBA Purchase Applications Index, Wkly. Chg.	2.4%
Sep. 29 <sup>th</sup>	EIA Petroleum Status Report, Wkly. Chg.	-0.5M Barrels
Sep. 30 <sup>th</sup>	Real GDP, Q2 Quarterly Change SAAR*	1.7%
Sep. 30 <sup>th</sup>	GDP Price Index, Q2 Quarterly Change SAAR*	1.9%
Sep. 30 <sup>th</sup>	Initial Jobless Claims ( Week ending 9/25)	453,000
Sep. 30 <sup>th</sup>	After-tax Corporate Profits, Q2 Annual Change	38.7%
Sep. 30 <sup>th</sup>	Chicago PMI Business Barometer Index, Sept.	60.4
Sep. 30 <sup>th</sup>	EIA Natural Gas Report, Wkly. Chg.	74 bcf
Sep. 30 <sup>th</sup>	Domestic Motor Vehicle Sales, September	8.6M
Oct. 1 <sup>st</sup>	Consumer Sentiment Index, September	68.2
Oct. 1 <sup>st</sup>	ISM Mfg. Index - Level, September	54.4
Oct. 1 <sup>st</sup>	Construction Spending, Aug. Monthly Chg.	0.4%

Bond Market Update

Largely attributable to a flight-from-safety trade, the riskier sectors in the broad fixed income markets posted sharply higher returns in September. Noteworthy gainers included Global Treasury ex U.S. (3.36%), U.S. Corporate High Yield (3.01%) and Emerging Markets (1.76%). Sectors considered the safest fell for the month, with Long Treasuries dropping 2.25% and Municipal Bonds losing 0.16%.

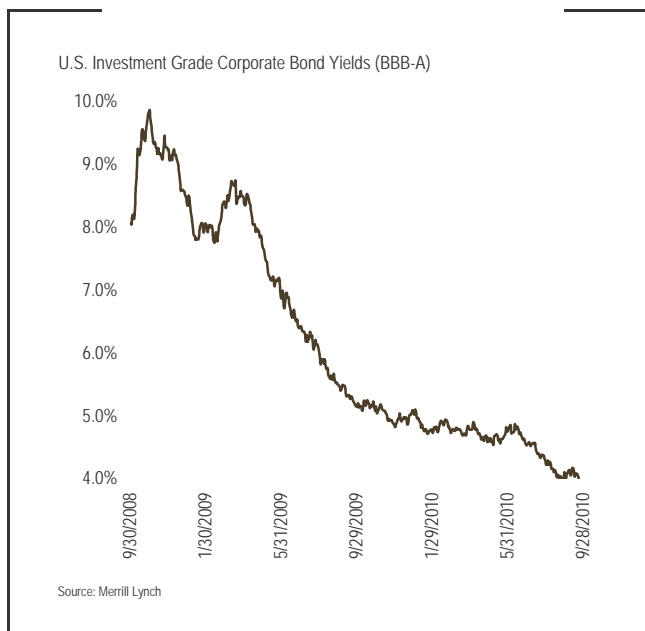
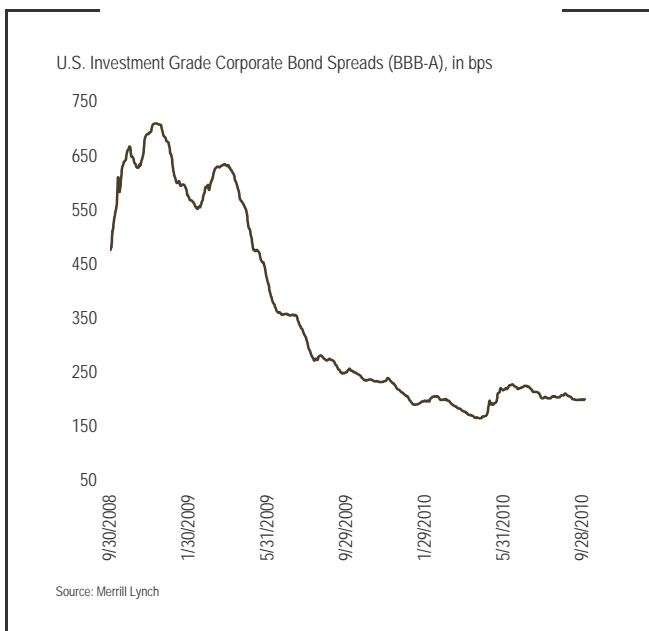
Anticipation that the Federal Reserve will increase purchases of government debt to spur economic growth has flattened the still-steep Treasury yield curve. Even with a yield of only slightly more than 0.40%, investor demand for short-term debt remains insatiable. Demand for Treasuries has been spurred, in part, by banks investing in U.S. government debt, rather than lending to consumers and small businesses. Commercial banks' holdings of Treasuries and agency debt recently reached \$1.59 trillion, a 43% increase from January 2008, according to Federal Reserve data.

Demand for short- and intermediate-term government debt will likely remain robust given recent comments from the Federal Reserve, leading some strategists to believe that yields on the 10-year notes may drop below 2%, which would mark a record low.



Issue	9.24.10	10.1.10	Change
3 month T-Bill	0.15%	0.16%	0.01%
2-Year Treasury	0.45%	0.42%	-0.03%
5-Year Treasury	1.37%	1.27%	-0.10%
10-Year Treasury	2.62%	2.53%	-0.09%
30-Year Treasury	3.79%	3.69%	-0.10%

Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.



Stock Market Update

Stocks finished in negative territory this week, with moderate losses breaking a four-week streak of gains as each of the major indices dropped at least 0.21%. Concerns over European banks, weaker-than-expected manufacturing results, and quarter-end positioning overshadowed the benefits from continued M&A activity, optimistic earnings reports, and some positive economic releases. Despite slipping this week, domestic markets finished the month with the best September performance in 71 years, with the S&P 500, Dow Jones Industrial Average, and NASDAQ Composite indices gaining 8.76%, 7.72%, and 12.04%, respectively. The surge was led by the technology, industrial, and consumer-discretionary sectors, with each rising over 10% in the month.

Southwest Airlines Co. (LUV) announced on Monday that it would acquire AirTran Holdings Inc. (AAI) for \$1.4 billion, valuing the company at a 69% premium to its closing price last week. Retail giant Wal-Mart Stores Inc. (WMT) proposed to purchase Massmart Holdings Inc. (MMRTY), South Africa's second-largest retail chain, for \$4.2 billion. The deal would assist Wal-Mart with expanding its international presence as it attempts to compensate for slowing U.S. growth. Southwest Airlines and Wal-Mart finished the week up 5.37% and down 1.33%, respectively.

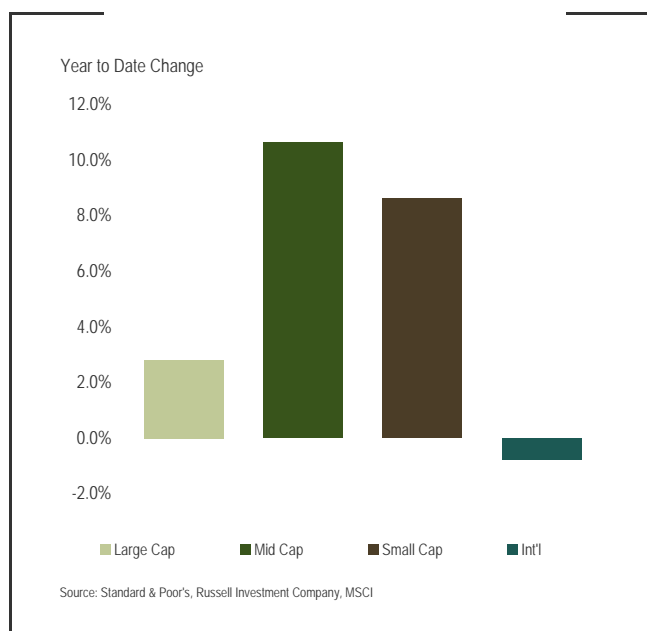
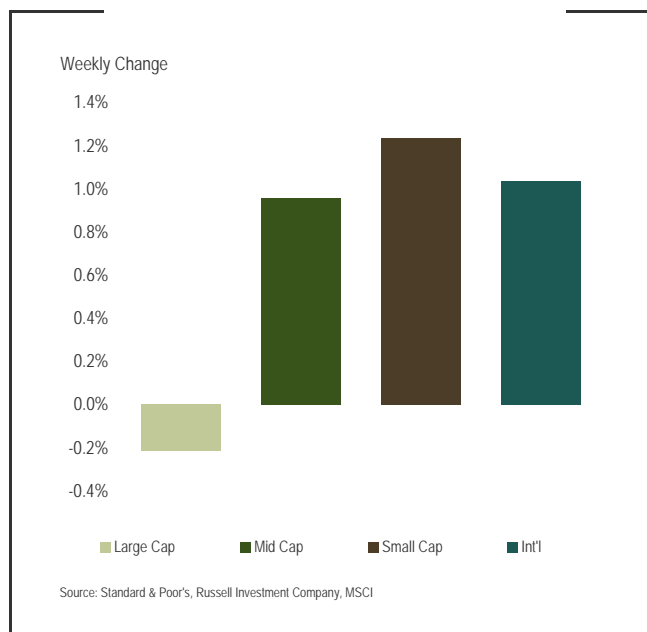
Walgreen Co. (WAG) reported fourth-quarter earnings on Tuesday that surpassed expectations. Sales for the quarter increased 7.4%, leading to earnings per share of 49 cents and a profit of \$470 million. CEO Greg Wasson cited strong operating performance and cost cutting measures as the source for the company's encouraging financials. Walgreen ended the week up 10.93%.

The Stoxx Europe 600 index lost 1.9% this week as European stocks endured their worst weekly performance in three months. Banks led the decline as concerns mounted about the sovereign-debt crisis slowing the region's economic growth. A bright spot was BP Plc. (BP), which gained 8.8% amid rising crude prices and rumors that the company is discussing a possible settlement with the U.S. government.

Issue	9.24.10	10.1.10	Change
Dow Jones	10,860.26	10,829.68	-0.28%
S&P 500	1,148.67	1,146.24	-0.21%
NASDAQ	2,381.22	2,370.75	-0.44%
Russell 1000 Growth	517.62	517.17	-0.09%
S&P MidCap 400	796.29	803.9	0.96%
Russell 2000	671.01	679.29	1.23%
MSCI EAFE	1,545.07	1,561.01	1.03%
MSCI EM	1,047.16	1,075.53	2.71%
MSCI Small Cap	149.72	152.61	1.93%

Prices reflect most recent data available at the time of publication

Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch.



Alternative Investments Market Update

For the week, crude oil climbed \$5.06, or 6.61%. Several factors contributed to the increase, including better-than-expected economic data and declining inventories. On Wednesday, the U.S. Energy Information Association reported an inventory drop of 500,000 barrels of crude oil, possibly signaling an end to the supply glut that has placed downward pressure on prices for past several weeks. Gold rose \$22.20, or 1.71%, this week, settling at another all-time high of \$1,320.30 on Friday. This marks the 11th record-high this month. The precious metal reached record highs each day this week, with the exception of Thursday. After reaching an eight-month low, the U.S. dollar rebounded, causing gold futures to slip 0.1% on Thursday.

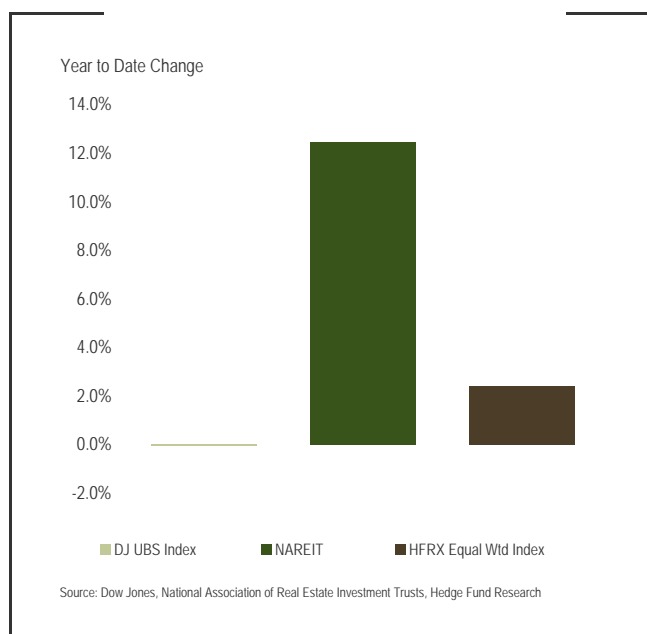
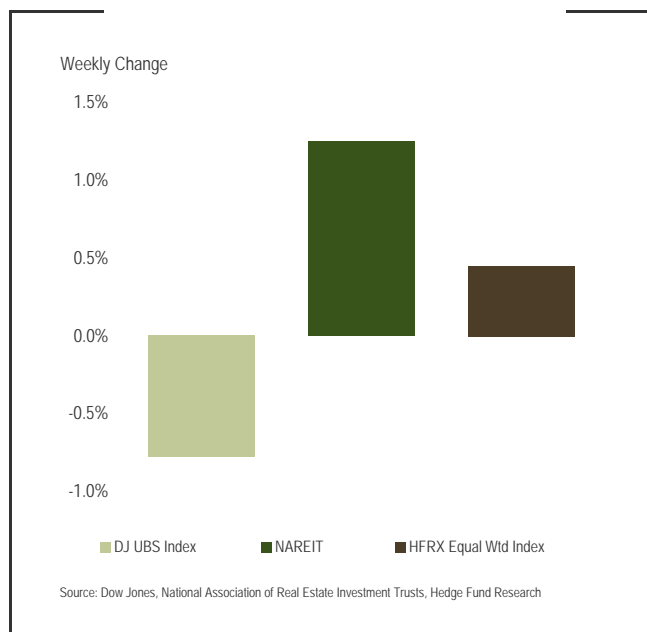
Real estate investment trusts (REITs) and private equity firms have recently put cash to work by purchasing hotels in the U.S. According to the National Association of Real Estate Investment Trusts (NAREIT), the recent wave of transactions in the U.S. hotel industry has been fueled many quality assets hitting the market. While REITs are natural candidates to own and operate hotels, private equity firms are looking for any way to use their dry powder, or readily investable cash.

During the month of August, the hedge fund secondary market saw the highest trading volume of 2010 as investors looked for ways to dispose of hedge funds with redemption restrictions according to Hedgebay, a secondary market-maker for illiquid alternative investments. Despite the higher volume, the average price on Hedgebay's Secondary Market Index fell for the third consecutive month. Additionally, Hedgebay's Illiquid Asset Index fell 23 points in August, further proving investor preference for liquid, safe haven assets.

Issue	Previous Week	Current <sup>1</sup>	Change
Gold	1,298.10	1,320.30	1.71%
Crude Oil Futures	76.59	81.65	6.61%
Copper	362.75	369.10	1.75%
Sugar	24.40	23.36	-4.26%
HFRX Equal Wtd. Strat. Index	1,133.48	1,138.56	0.45%
HFRX Equity Hedge Index	1,145.60	1,154.04	0.74%
HFRX Equity Market Neutral	978.35	986.28	0.81%
HFRX Event Driven	1,367.83	1,375.85	0.59%
HFRX Merger Arbitrage	1,477.73	1,489.26	0.78%
Dow Jones UBS Commodity Index	140.23	139.14	-0.78%
FTSE/NAREIT All REIT	124.74	126.30	1.25%

<sup>1</sup> Prices reflect most recent data available at the time of publication

Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research, Bloomberg, The Wall Street Journal, The International Monetary Fund.



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