

MainStreet Advisors Financial Market Update

July 23, 2010
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Economic Update

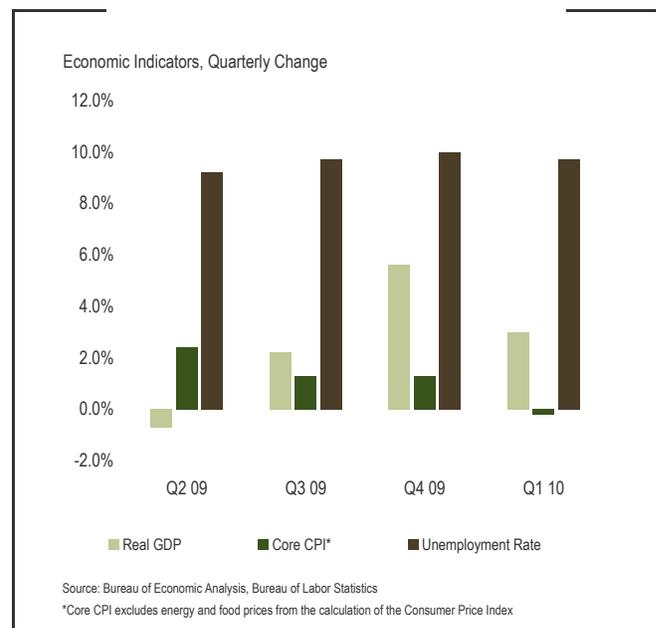
On Wednesday, Federal Reserve Chairman Ben Bernanke presented the Semiannual Monetary Policy Report to the Congress. Bernanke reiterated that the economic recovery continues at a moderate pace and that increasing demand from consumers and businesses should help support growth in addition to the stimulative monetary and fiscal policies. However, he noted that ongoing uncertainty about the labor market will likely contain consumer spending. Despite the Fed's expectation for the economy to expand by 3% to 3.5% this year, Bernanke commented that "economic conditions—including low rates of resource utilization, subdued inflation trends, and stable inflation expectations—are likely to warrant exceptionally low levels of the federal funds rate for an extended period."

The Conference Board Leading Economic Index declined 0.2% in June, after increasing 0.5% in May and 0.1% in April. The decrease signals slower economic growth through the fall which The Conference Board attributes to a slowing in the rebuilding of inventories and a lack of a foreseeable catalyst for a rebound in the service sector.

National Association of Home Builders (NAHB) Chief Economist David Crowe says that builders face an additional number of market challenges, including "hesitant home buyers, tight consumer credit and continuing competition from foreclosed and distressed properties." Despite the current weak housing market conditions, builders remain positive about sales for the next six months according to a survey done by the NAHB/Wells Fargo Housing Market Index. According to the U.S. Department of Housing and Urban Development of the Department of Commerce, approved building permits increased 2.1% in June. Housing starts declined 5.0% from the previous month to a seasonally adjusted annual rate of 549,000—a 5.8% decline from one year ago.

The National Association of Realtors (NAR) announced that sales of existing homes fell 5.1% to a seasonally adjusted annual rate of 5.37 million in June. This represents a 9.8% increase from June 2009. NAR Chief Economist Lawrence Yun noted that June sales continue to reflect the tax credit and expects a significant decline after its expiration.

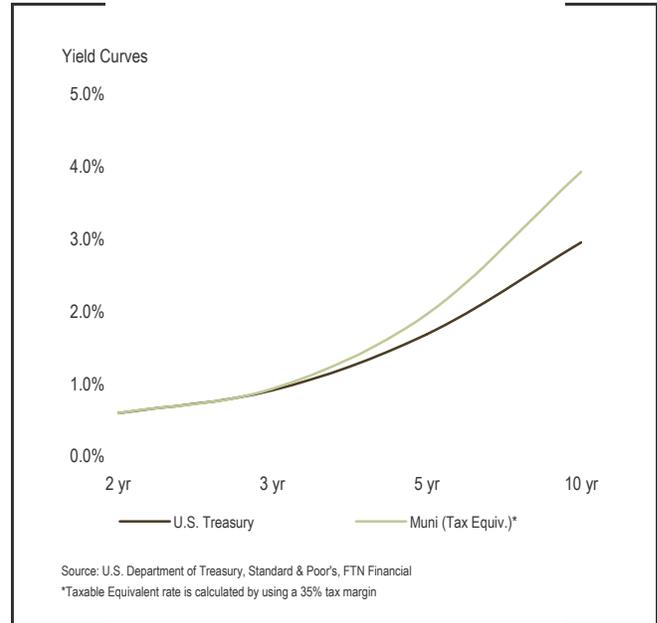
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, National Association of Realtors, National Association of Home Builders.



July 19 th	Housing Market Index, July	14.0
July 20 th	ICSC-Goldman Same Store Sales, Wkly. Chg.	1.4%
July 20 th	Housing Starts, June	549,000
July 20 th	MBA Purchase Applications Index, Wkly. Chg.	3.4%
July 21 st	EIA Petroleum Status Report, Wkly. Chg.	0.4M Barrels
July 22 nd	Initial Jobless Claims (Week ending 7/17)	464,000
July 22 nd	Existing Home Sales, June SAAR*	5.37M
July 22 nd	Leading Indicators, June Monthly Chg.	-0.2%
July 22 nd	EIA Natural Gas Report, Wkly. Chg.	51 bcf

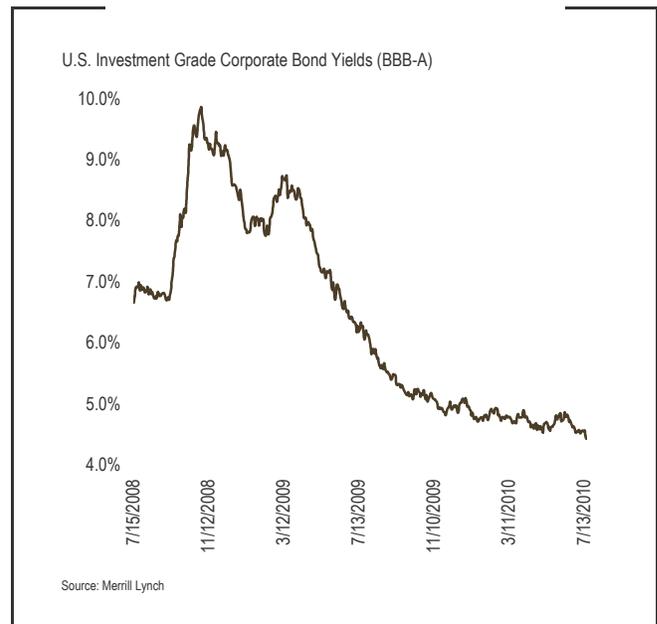
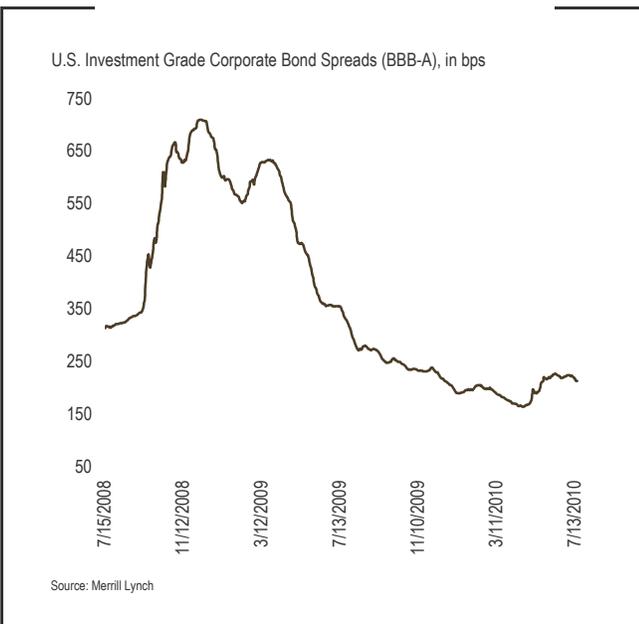
Bond Market Update

Early in the week, two- and ten-year Treasury yields fell as investors awaited the tepid assessment of the economy in the Federal Reserve's semiannual report. Negative housing start data also caused investors to ignore positive earnings reports and demand safety. Spreads between two- and ten-year yields have narrowed since then end of 2009. The flattening of the yield curve is largely the result of declining inflation expectations. Reports indicating an unexpected rebound in German confidence and that the U.K. grew more than forecast caused yields on the benchmark German bund to decline. Year-to-date, German bonds have returned 6.5%, outperforming U.S. Treasuries, which have returned 6.3%. According to Bloomberg, with speculation that inflation will remain low and the Federal Reserve will not raise interest rates, investors are purchasing long-dated corporate bonds at highest rate in nearly three months. Investment-grade corporate issues with maturities greater than 10 years have been the best performers as of late, signaling that investors are more upbeat over a longer time horizon.



Issue	7.16.10	7.23.10	Change
3 month T-Bill	0.15%	0.16%	0.01%
2-Year Treasury	0.61%	0.60%	-0.01%
5-Year Treasury	1.70%	1.69%	-0.01%
10-Year Treasury	2.96%	2.96%	0.00%
30-Year Treasury	3.95%	3.95%	0.00%

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



Stock Market Update

Domestic equity markets enjoyed a week of strong performance after a flurry of solid corporate earnings reports overshadowed investor concerns about European bank stress tests and Chinese loan losses. The better-than-estimated earnings released this week for Ford Motor Co. (F), Verizon Communications Inc. (VZ), and several other large companies helped assuage investors that are fearing a double-dip recession, injecting some confidence into the markets. The S&P 500, NASDAQ Composite, and Dow Jones Industrial Average indexes finished the week up 3.55%, 4.15%, and 3.24%, respectively.

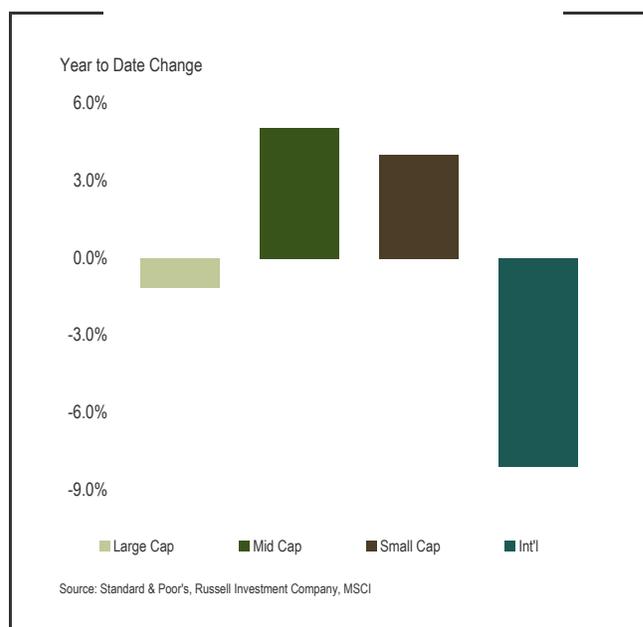
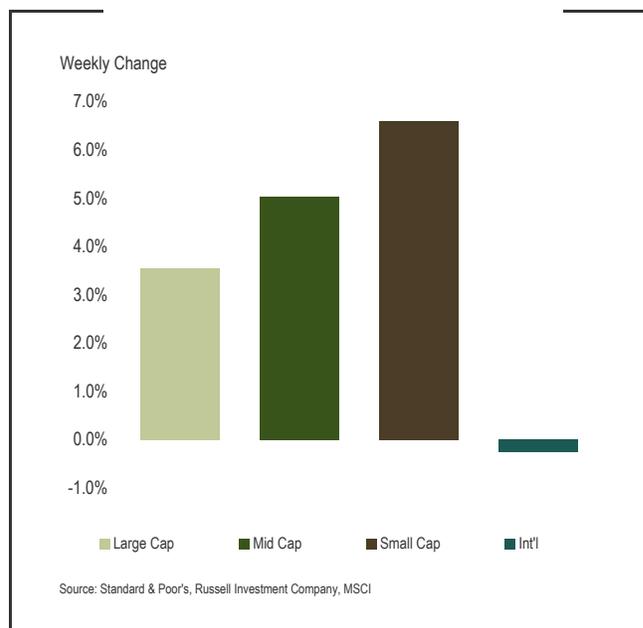
United Parcel Service (UPS) jumped 6.69% and Caterpillar (CAT) rose 8.40% this week after both companies released favorable earnings from the second quarter on Thursday. UPS, the world's largest package delivery service, says that its earnings have nearly doubled from a year ago, leading the company to revise its future earnings forecast upward. Caterpillar announced that its profits have increased 91% year-over-year. Some investors monitor these companies to gauge the economy's health, as both have a wide global reach and a steady flow of demand.

McDonald's Corp. (MCD) announced on Friday that its profit was up 12% in the second quarter, raising net income to \$1.23 billion. The company attributes its 5.3% increase in sales to its new array of frozen beverages drawing in customers during an exceedingly hot summer season.

Shares of Verizon Communications Inc. (VZ) rose the most in a year on Friday, climbing 3.78% after the company reported strong earnings that beat estimates and increased its forecasted profit for the second half of the year. The company has been bolstered by its bevy of Android devices that have attracted nearly 665,000 new contract customers.

Issue	7.16.10	7.23.10	Change
Dow Jones	10,097.90	10,424.62	3.24%
S&P 500	1,064.88	1,102.66	3.55%
NASDAQ	2,179.05	2,269.47	4.15%
Russell 1000 Growth	474.19	493.52	4.08%
S&P MidCap 400	726.96	763.5	5.03%
Russell 2000	610.39	650.64	6.59%
MSCI EAFE	1,449.40	1,445.68	-0.26%
MSCI EM	957.14	973.39	1.70%
MSCI Small Cap	138.85	138.55	-0.21%

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

It was released on Tuesday that Armajaro Holdings Ltd, a commodities trading house, was the purchaser of 240,000 metric tons of cocoa beans last week. The move is an attempt to gain leverage over cocoa processors in order to keep prices elevated for extended periods. Storm systems moving through the Caribbean prompted investors to expect inventories to tighten, sending crude futures up \$3.24, or 4.27% for the week. Oil companies have started removing personnel from production facilities along the gulf coast, but prices are still remained in the \$70-\$80 per barrel trading range. Early in the week, gold futures fell to \$1,181.90 per troy ounce, the lowest levels in nearly two months. Stability in the equity markets reduced demand for alternative safe-haven investments, including gold. Gold quickly bounced off the lows as investors tried to take advantage of discounted prices. Precious metal futures continued to rise later in the week as positive economic data from the U.S. and euro area, along with positive earnings reports, spurred a rally in riskier assets. Gold ended the week relatively flat, down \$5.20, or 0.44%.

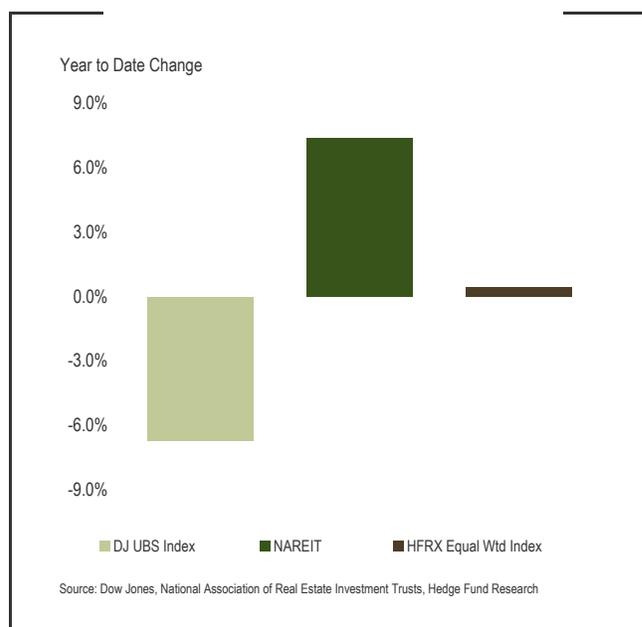
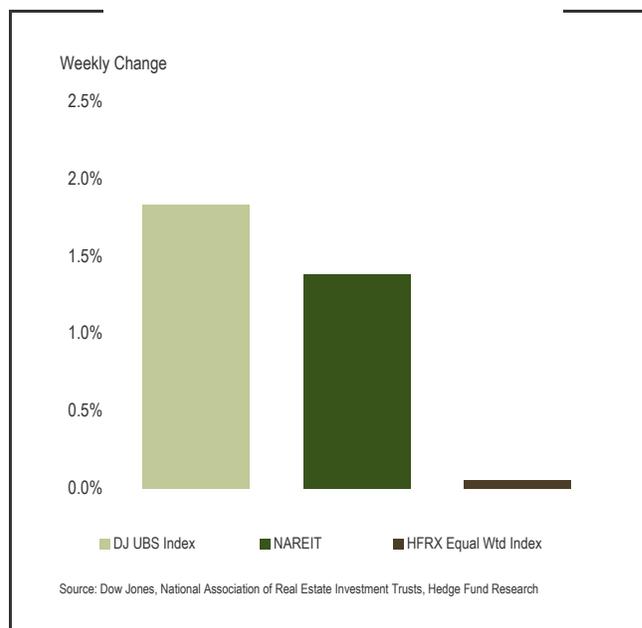
According to Private Equity Online, private equity-backed initial public offering (IPO) activity is far outpacing the same period from a year ago, and that trend is expected to continue through the remainder of the year. Through the first six months there were 62 IPOs, compared with five through the first half of 2009. The value raised from the deals was \$15.4 billion.

Despite settling for \$550 million with the Securities and Exchange Commission (SEC) last week, Goldman Sachs (GS) is not out of the woods yet. The Royal Bank of Scotland (RBS) lost more than \$800 million on the collateralized debt obligation (CDO) constructed by Goldman and hedge fund Paulson & Co. RBS is considering a lawsuit against Goldman to recover losses. Australian hedge fund Basis Capital Management also has sued Goldman over a different CDO it structured.

Issue	Previous Week	Current ¹	Change
Gold	1,193.10	1,187.90	-0.44%
Crude Oil Futures	75.85	79.09	4.27%
Copper	293.80	319.25	8.66%
Sugar	17.11	18.26	6.72%
HFRX Equal Wtd. Strat. Index	1,115.94	1,116.51	0.05%
HFRX Equity Hedge Index	1,109.74	1,106.27	-0.31%
HFRX Equity Market Neutral	1,007.43	1,005.92	-0.15%
HFRX Event Driven	1,344.29	1,341.22	-0.23%
HFRX Merger Arbitrage	1,462.51	1,447.65	-1.02%
Dow Jones UBS Commodity Index	127.56	129.90	1.84%
FTSE/NAREIT All REIT	119.01	120.66	1.39%

¹ 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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