

# MainStreet Advisors Financial Market Update

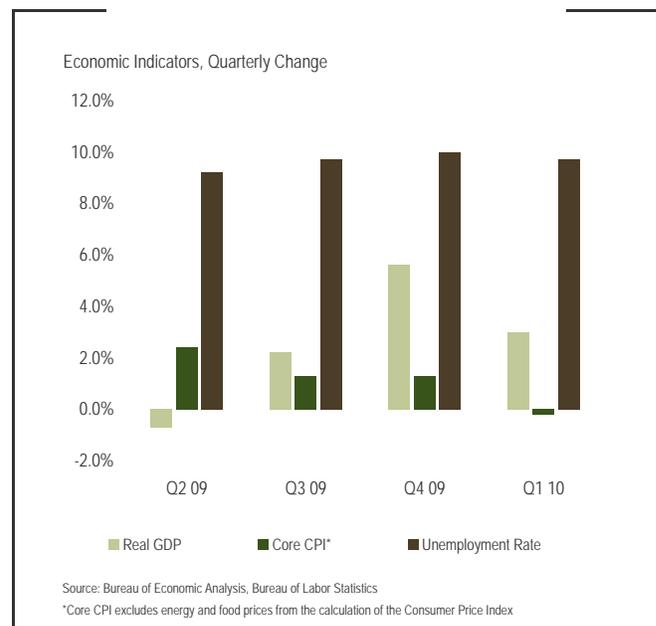
September 10, 2010  
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## Economic Update

Initial claims for unemployment benefits declined to 451,000 for the week ending September 4, according to the Department of Labor. In an encouraging sign, this represented the lowest weekly level since July, as reported by Bloomberg. The four week moving average declined to 477,750, significantly lower than the 566,500 level of one year ago.

The Federal Reserve released its Beige Book for August this week, highlighting continued growth across its 12 Federal Reserve Districts but "with widespread signs of deceleration compared with preceding periods." Although consumer spending advanced slightly, districts indicated continued caution among its consumers. The Bureau of Economic Analysis announced that the U.S. international trade gap narrowed from \$49.8 billion in June to a deficit of \$42.8 billion in July. Imports for the month declined \$4.2 billion as demand for consumer goods decreased. Exports, however, increased by \$2.8 billion, largely as a result of higher demand for capital goods. On Friday, the Commerce Department announced that wholesale inventories increased 1.3% in July from the previous month, up 2.5% from July 2009. The widespread increase in inventories could be an indication of further inventory restocking or a slowing economic recovery. Meanwhile, the International Council of Shopping Centers (ICSC)-Goldman Store Sales Index declined 0.4% in the first week of September from the previous week, reflecting tapering momentum after the back-to-school shopping season. Sales advanced 1.8% in the year-over-year period, which represented the slowest annual increase since May.

The Paris-based Organization for Economic Cooperation and Development (OECD) released its Interim Economic Assessment this week, conveying expectations for the global economic recovery to slow at a faster pace than originally anticipated. In May, the OECD predicted that the Group of Seven (G-7) countries would grow at an annual 2.5% rate during the second half of the year; now the OECD expects the G-7 to expand at a 1.5% annual rate. The OECD also noted increased uncertainties but concluded "it is unlikely that we are heading into another downturn."



Sep. 8 <sup>th</sup>	MBA Purchase Applications Index, Wkly. Chg.	6.3%
Sep. 8 <sup>th</sup>	ICSC-Goldman Same Store Sales, Wkly. Chg.	-0.4%
Sep. 8 <sup>th</sup>	Consumer Credit, July Monthly Chg.	-3.6B
Sep. 9 <sup>th</sup>	International Trade Balance Level, July	-42.8B
Sep. 9 <sup>th</sup>	Initial Jobless Claims ( Week ending 9/4)	451,000
Sep. 9 <sup>th</sup>	EIA Natural Gas Report, Wkly. Chg.	58 bcf
Sep. 9 <sup>th</sup>	EIA Petroleum Status Report, Wkly. Chg.	-1.9M Barrels
Sep. 10 <sup>th</sup>	Wholesale Inventories, July Monthly Chg.	1.3%

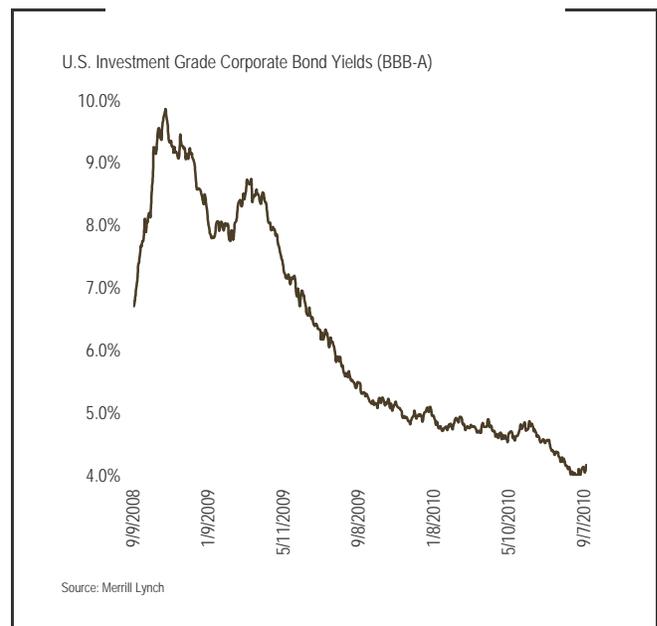
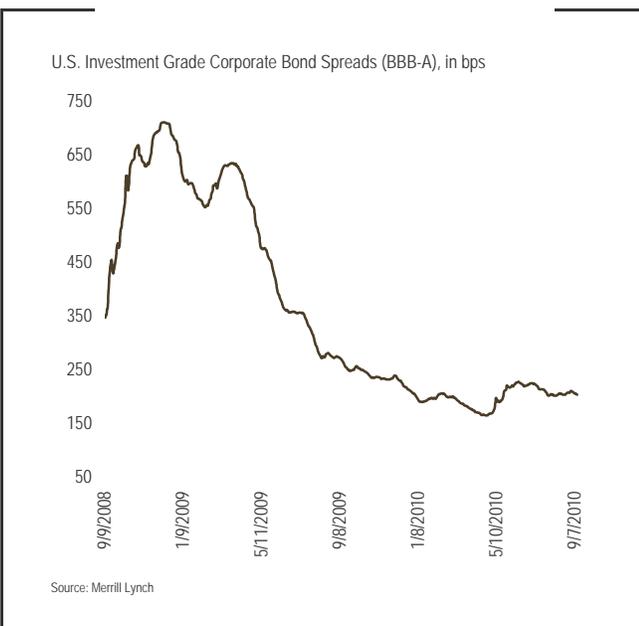
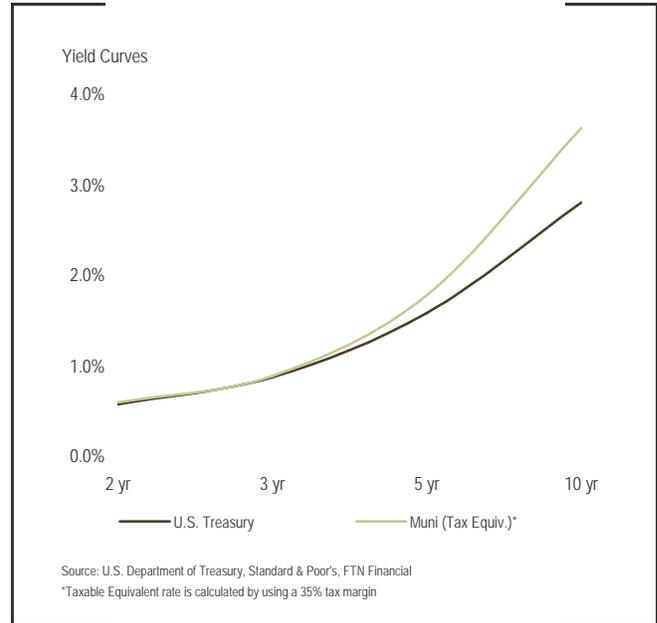
Bond Market Update

For the second straight week, U.S. Treasuries finished lower as better-than-expected economic data reports weakened investor demand for safe-haven government debt. Thursday's reports on improvements in jobless claims and the U.S. trade deficit along with Friday's stronger-than-forecast imports in China, one of the primary drivers of the global economy, lifted market optimism. Meanwhile, the yield curve, or the difference in yields between the two- and 10-year notes, steepened to the widest level in three weeks amid speculation the Federal Reserve will continue to keep the short-end anchored. Many analysts feel the yield curve may widen even further in what's known as a "bear steepener" wherein long-term yields increase at a faster rate than short-term government debt. A steepening yield curve often indicates that market participants expect positive economic growth and accelerating inflation expectations.

In contrast to Treasuries, demand for investment grade corporate bonds remained robust as investors reached for yield in the riskier segments of the fixed income market. Corporations issued a record \$34.4 billion in investment grade bonds during the week, taking advantage of low borrowing costs. Demand for these bonds has been so strong that the \$100 billion of new issuance over the past six weeks has not led to spread widening, according to a JP Morgan credit strategy report.

Issue	9.3.10	9.10.10	Change
3 month T-Bill	0.14%	0.14%	0.00%
2-Year Treasury	0.50%	0.58%	0.08%
5-Year Treasury	1.43%	1.59%	0.16%
10-Year Treasury	2.63%	2.81%	0.18%
30-Year Treasury	3.72%	3.88%	0.16%

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



Stock Market Update

Stocks rallied during the holiday-shortened week as the economic outlook improved slightly. The Dow Jones Industrial Average (DJIA) gained 14.84 points, or 0.14%, this week to close at 10,462.77. The broader S&P 500 closed at 1,109.55, adding 5.04 points, or 0.46%, while the technology-heavy NASDAQ Composite gained 0.39% this week.

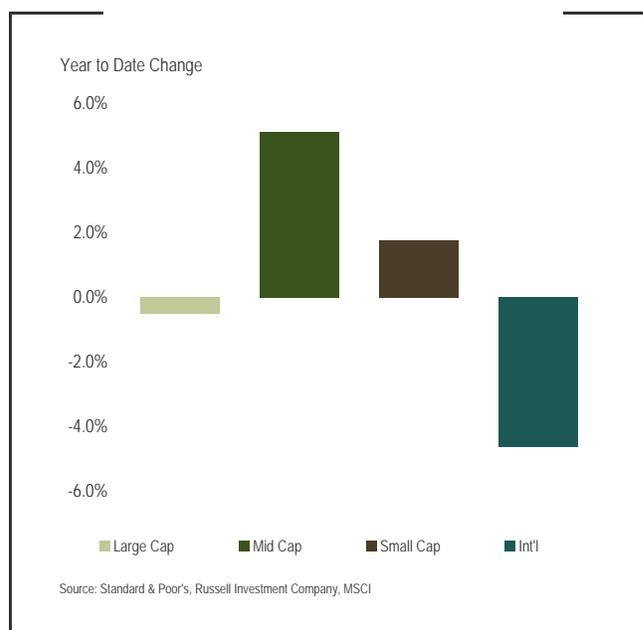
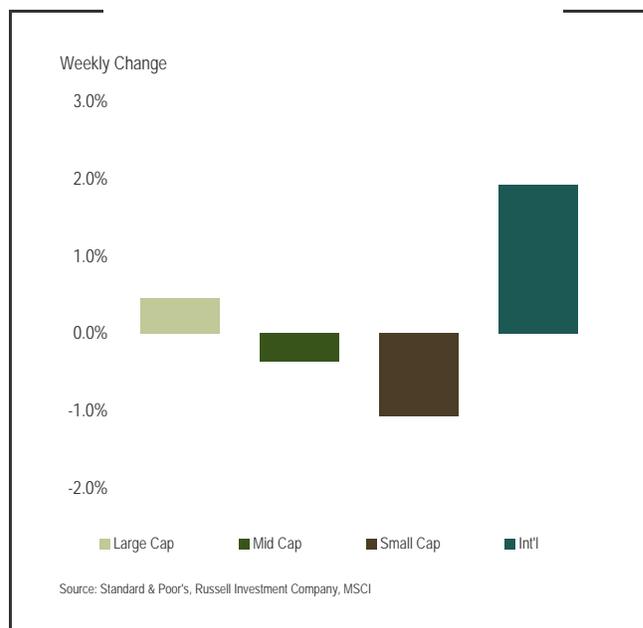
Stocks sold off on Tuesday amid higher oil prices and a stronger dollar only to rally through the end of the week. The DJIA, up over 80 points in early trading Thursday, received a strong boost from a better-than-expected jobless claims report; however, the benchmark index gave back over two-thirds of the gain to end the day up 28.39 points. On Friday, stocks were led higher by the energy sector as expectations for global demand helped spark an increase in oil prices. Energy giant Chevron (CHV) posted the best performance of the 30 Dow components, gaining 1.46%.

Utility stocks trailed the broader indexes, pulled down in part by a 7.2% drop in PG&E stock on Friday after a natural gas pipeline exploded in San Bruno, California, a San Francisco suburb. Chipmaker National Semiconductor (NSM) fell 6.36% on Friday, weighing on the performance of technology stocks in morning trading. The company announced that its profits tripled in the first quarter but it expects second-quarter revenues to come in below estimates.

European stocks pared gains on Friday leaving the broad Stoxx Europe 600 Index with a gain of 1.70% for the week. Deutsche Bank (DB) dropped 2.39% in U.S. markets Thursday when the German banking giant announced that it would raise as much as \$11.4 billion, according to the Wall Street Journal.

Issue	9.3.10	9.10.10	Change
Dow Jones	10,447.93	10,462.77	0.14%
S&P 500	1,104.51	1,109.55	0.46%
NASDAQ	2,233.75	2,242.48	0.39%
Russell 1000 Growth	492.08	493.53	0.29%
S&P MidCap 400	766.52	763.79	-0.36%
Russell 2000	643.36	636.46	-1.07%
MSCI EAFE	1,471.96	1,500.27	1.92%
MSCI EM	995.28	1,009.09	1.39%
MSCI Small Cap	141.28	144.24	2.09%

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

Crude oil futures were forced lower early in the week in response to a weaker U.S. dollar and continued worries of a slowing U.S. recovery as indicated by the Federal Reserve's latest beige book report. Oil surged over 3% Friday after a pipeline in the Chicago suburbs, which carries 70% of crude oil from Canada to the U.S., sprung a leak. Containment crews are working to isolate the spill, of which the cause and size remain unknown. Crude oil futures climbed past \$76 per barrel, pushing oil into positive territory for the week. Gold futures hit a new record in response to a Wall Street Journal report indicating the recent European stress tests understated the levels of risky government. On Tuesday, gold settled \$8.20, or 0.7% higher at \$1,259.30 as investors fled stocks in search of safe haven assets. The precious metal fell for the next three consecutive sessions as investors took profits and their worries eased.

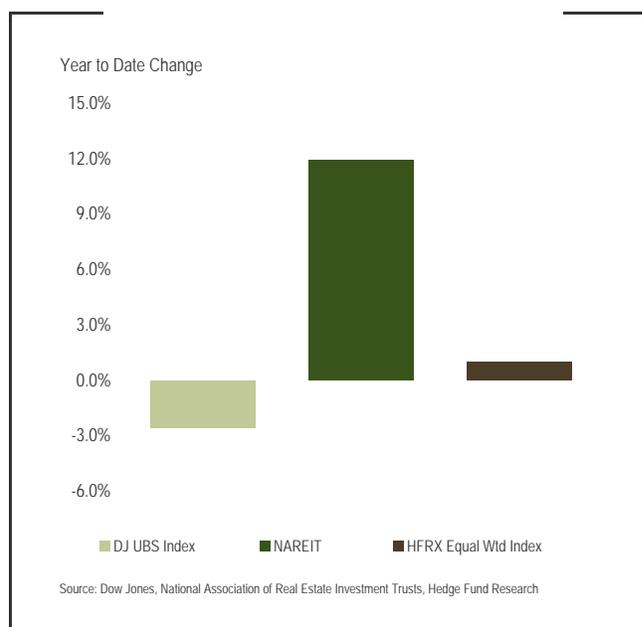
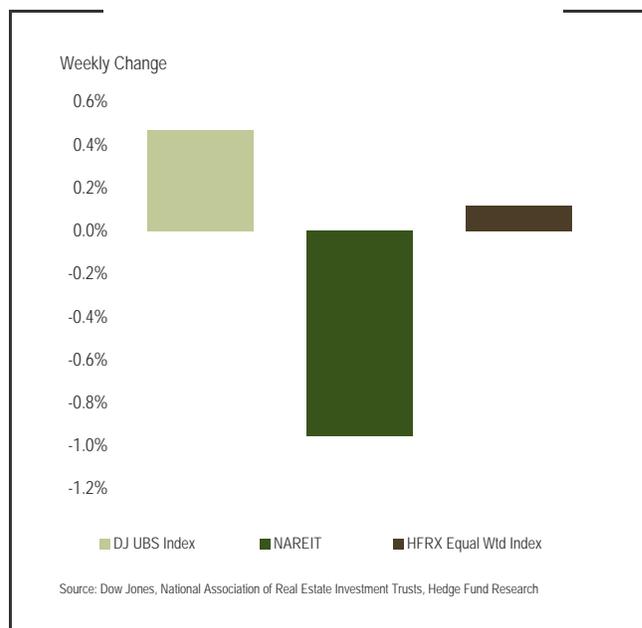
The Securities and Exchange Commission (SEC) launched an investigation into fund of hedge funds and other investment advisory firms specializing in hedge funds and private equity (PE). The SEC Office of Compliance Inspections and Examinations is looking into whether or not firms that direct investors into hedge funds are properly fulfilling their fiduciary responsibility and confirming that there is no conflict of interest. Typically, advisers collect anywhere from 1%-2% of assets in fees, plus the investor must pay additional fees to the underlying hedge fund. Firms involved in the investigation are not necessarily suspected of wrongdoing.

Lawmakers received another critical vote to raise taxes even further on private equity firms. The proposed legislation would double the tax PE executives would be required to pay when withdrawing cash from their firms. PE firms are already facing an over 100% increase in income tax rates starting in 2011. Currently, carried interest, or commissions earned when buying and selling companies, is taxed at 15%. Beginning next year, carried interest will be taxed at 41% ordinary income tax rates.

Issue	Previous Week	Current <sup>1</sup>	Change
Gold	1,251.10	1,247.60	-0.28%
Crude Oil Futures	74.45	76.55	2.82%
Copper	350.40	341.20	-2.63%
Sugar	20.60	21.71	5.39%
HFRX Equal Wtd. Strat. Index	1,121.53	1,122.86	0.12%
HFRX Equity Hedge Index	1,120.32	1,131.19	0.97%
HFRX Equity Market Neutral	969.87	968.91	-0.10%
HFRX Event Driven	1,347.04	1,350.38	0.25%
HFRX Merger Arbitrage	1,467.49	1,467.83	0.02%
Dow Jones UBS Commodity Index	134.99	135.62	0.47%
FTSE/NAREIT All REIT	126.94	125.73	-0.95%

<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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