

# MainStreet Advisors Financial Market Update

January 13, 2012  
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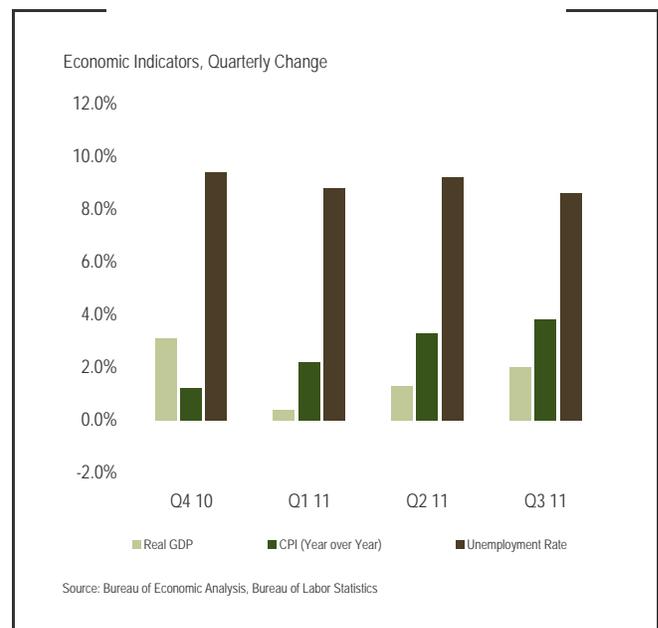
## Economic Update

The U.S. trade deficit widened a sharp \$4.5 billion in November to \$47.8 billion, according to the Commerce Department. Imports were up 1.3% while exports declined 0.9%. The first widening of the trade gap in five months was led by a \$3.4 billion expansion of the petroleum gap. There were several factors behind the widening of the nonpetroleum gap, including a drop in exports of nonmonetary gold and an increase in automotive imports. The numbers come on the heels of a report released on Tuesday showing China's export growth slowed in December to its lowest level in two years on weakness in demand from Europe.

The European Central Bank (ECB) decided to hold interest rates steady at 1% during its first policy meeting of the year, following consecutive cuts at its last two meetings. ECB president Mario Draghi said, "There are tentative signs of stabilization of economic activity at low levels." He also indicated monetary policy will remain accommodative, and the ECB stands ready to act if additional monetary easing is necessary.

Retail sales in December were lower than expected, but this was partially offset by upward revisions to the previous two months of data. Retail sales edged up 0.1% in December, according to the Commerce Department, while the November figure was revised up to 0.4% from 0.2% and October was revised to 0.7% from 0.6%. The December number was boosted by a 1.5% increase in motor vehicle and parts sales, but was dragged down by a 1.6% drop in gasoline sales. On a year-over-year basis retail sales were up 6.5%, down from 7.0% in November.

The steady trend of improving initial jobless claims hit a bit of a snag for the week ended January 7. According to the Labor Department, the number of Americans filing for first-time unemployment benefits jumped 24,000 to 399,000. The reading pushed the four-week average up 7,750 to 381,750. It is a disappointing start to the 2012 employment picture, but one week of data is not nearly enough to suggest the job market is reversing course.



Jan. 9 <sup>th</sup>	Consumer Credit, November Monthly Change	20.4B
Jan. 10 <sup>th</sup>	ICSC-Goldman Same Store Sales, Wkly. Chg.	-5.4%
Jan. 10 <sup>th</sup>	Wholesale Inventories, Nov. Monthly Chg.	0.1%
Jan. 11 <sup>th</sup>	MBA Purchase Applications Index, Wkly. Chg.	4.5%
Jan. 11 <sup>th</sup>	EIA Petroleum Status Report, Wkly. Chg.	5.0M Barrels
Jan. 12 <sup>th</sup>	Initial Jobless Claims (week ending 1/7)	399,000
Jan. 12 <sup>th</sup>	Retail Sales, Dec. Monthly Chg.	0.1%
Jan. 12 <sup>th</sup>	Business Inventories, Nov. Monthly Chg.	0.3%
Jan. 12 <sup>th</sup>	EIA Natural Gas Report, Wkly. Chg.	-95 bcf
Jan. 13 <sup>th</sup>	International Trade Balance Level, November	-47.8B
Jan. 13 <sup>th</sup>	Import Prices, Dec. Monthly Chg.	-0.1%
Jan. 13 <sup>th</sup>	Export Prices, Dec. Monthly Chg.	-0.5%
Jan. 13 <sup>th</sup>	Consumer Sentiment Index, January	74.0

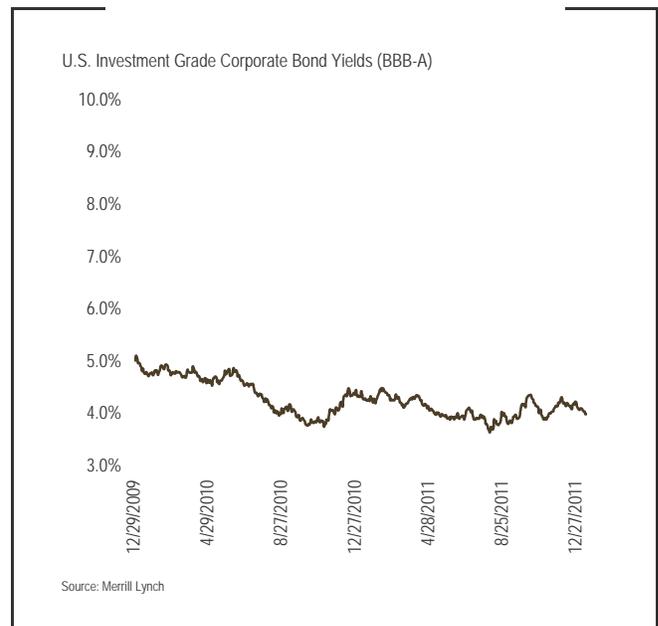
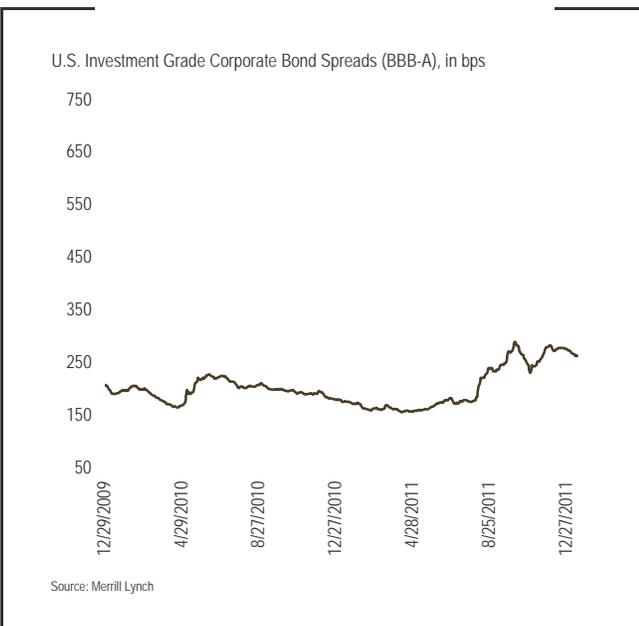
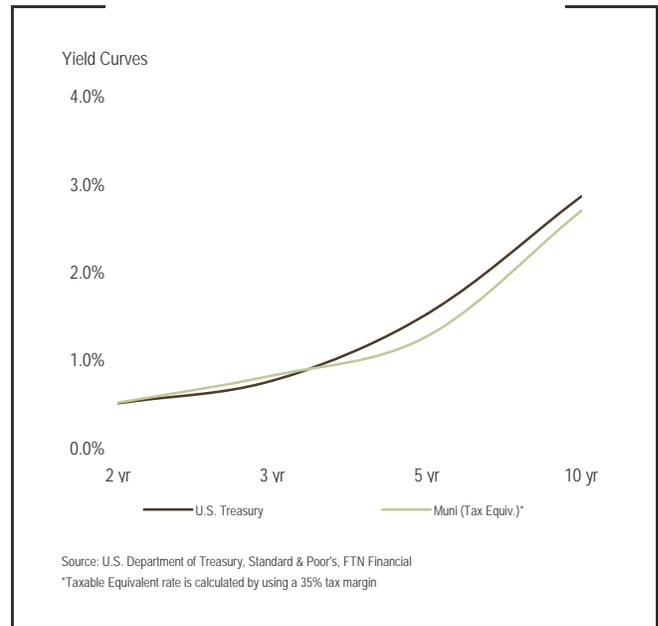
Bond Market Update

After a sell-off on Thursday due to a weak 30-year auction, U.S. Treasuries rallied sharply on Friday to finish the week higher. According to the Wall Street Journal, a senior French government official said Friday that Standard & Poor's had notified them of its decision to downgrade the country's rating from AAA to AA+, sparking the flight-to-quality trade. Spain, Italy and Austria were also downgraded by S&P, leaving Germany as the only stable AAA rated country in the region. While Finland, the Netherlands and Luxembourg kept their AAA ratings, they were put on negative watch. Separately, an Italian government bond auction drew soft demand, triggering additional uncertainty as market participants continue to view these auctions as market risk events.

France has become a focus in the fixed income arena because a downgrade will increase borrowing costs for the European Financial Stability Facility (EFSF), whose own rating depends largely on the credit quality of the countries that back it. Reflecting this change, the EFSF, which has been placed on negative watch by S&P, would then have to pass on these higher borrowing costs to countries such as Ireland and Greece, making it more difficult to reduce budget deficits. Despite these concerns, many market participants are not convinced the downgrades will have a significant impact on the markets. "It's not a catastrophe," French Finance Minister Francois Baroin told France 2 television, noting his country now has the same rating as the U.S.

Issue	1.6.12	1.13.12	Change
3 month T-Bill	0.02%	0.03%	0.01%
2-Year Treasury	0.25%	0.22%	-0.03%
5-Year Treasury	0.86%	0.84%	-0.02%
10-Year Treasury	1.98%	1.94%	-0.04%
30-Year Treasury	3.02%	2.97%	-0.05%

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



Stock Market Update

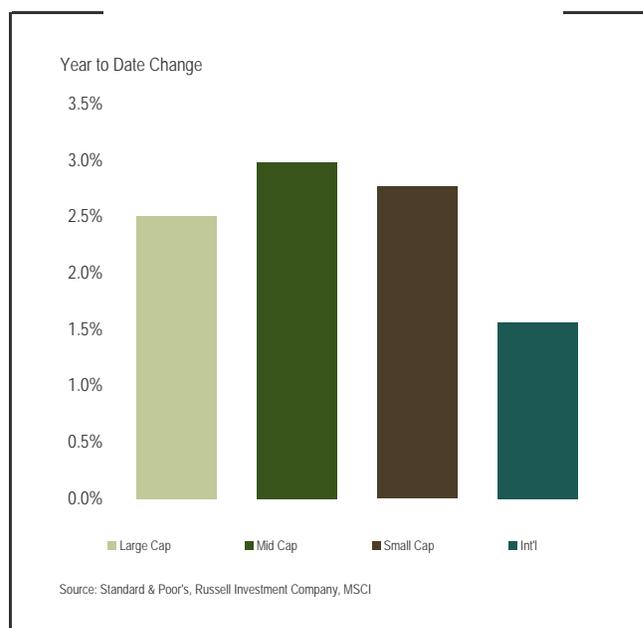
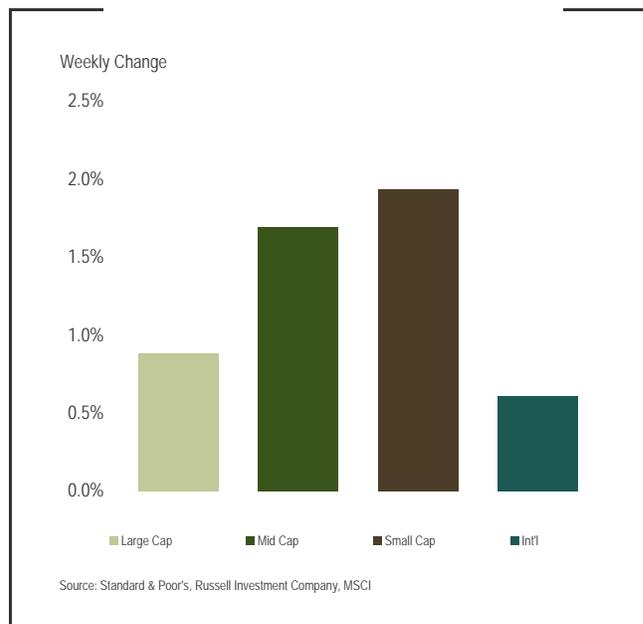
Stocks finished the week higher, but were down Friday as worries continued over the European debt situation. The Dow Jones Industrial Average closed at 12,422.06, down 62 points for the week, or down 0.50%. The broader S&P 500 Index ended the week down 0.88% to close at 1,289.09, while the NASDAQ Composite finished lower by 36 points, or down 1.36% to close the week out at 2,710.67.

JPMorgan Chase (JPM) was the first major bank to report this earnings season. CEO, Jamie Dimon, called the results “disappointing” but said JPMorgan “sees signs of an improving economy.” The earnings fell 23% from the prior year with the lone bright spot coming from the retail banking sector, which has a profit growth of 16% to \$533 Million. The company earned \$0.90 per share in the fourth quarter, down from \$1.12 a year earlier. The company traded down 3% intraday and finished the Friday session down 2.5% to close at \$35.92. The focus next week will be the earnings of Wells Fargo (WFC), Citigroup (C), Goldman Sachs (GS), Morgan Stanley (MS) and Bank of America (BAC).

European shares were hit hardest on Friday as ratings agency Standard & Poor’s cut France’s triple-A credit rating by one notch. France is the eurozone’s second largest economy making this particularly costly to the European Financial Stability Facility (EFSF), the eurozone’s temporary rescue fund. With the downgrade to France, the rescue fund may lose its triple-A rating as well. Additionally, the EFSF has fallen flat recently in its efforts to raise overseas capital. Standard & Poor’s is also on record warning of further downgrades to a possible 15 countries, including Germany, Austria and the Netherlands. Shares of European companies were down over 1% on Friday, but did finish the week in positive territory.

Issue	1.6.12	1.13.12	Change
Dow Jones	12,359.92	12,422.06	0.50%
S&P 500	1,277.81	1,289.09	0.88%
NASDAQ	2,674.22	2,710.67	1.36%
Russell 1000 Growth	590.49	595.23	0.80%
S&P MidCap 400	891.49	906.59	1.69%
Russell 2000	749.71	764.2	1.93%
MSCI EAFE	1,406.71	1,415.22	0.61%
MSCI Small Cap	932.44	953.48	1.72%

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

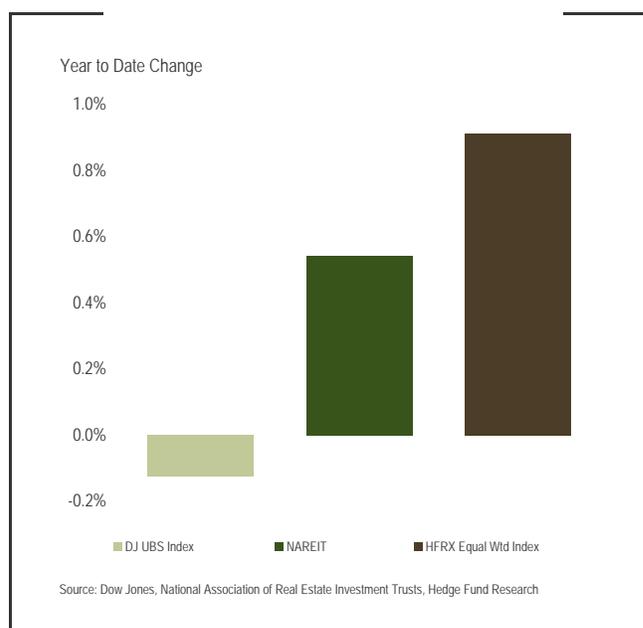
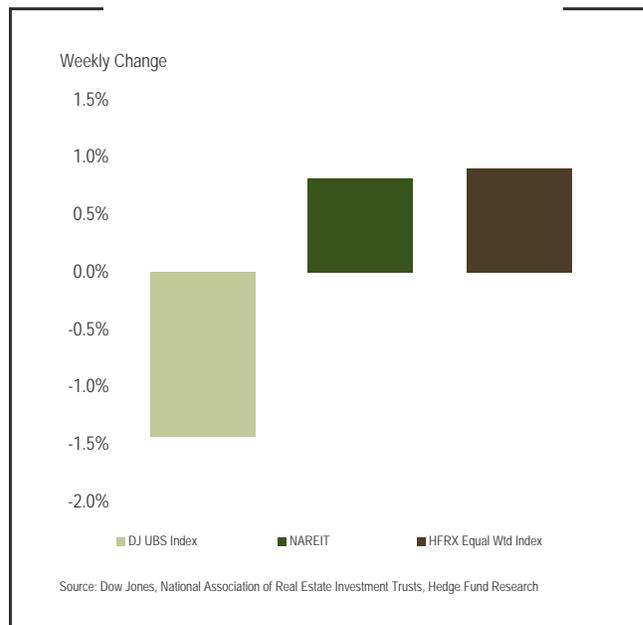
The Dow Jones UBS Commodity Index fell almost 2% this week as corn, wheat, and natural gas prices all fell significantly. The notable contributors were the metals; gold, silver, zinc, platinum, and tin all gained over 5% so far this month. Crude oil fell back to under \$100 per barrel after macroeconomic factors suppressed prices, and the Middle East and Europe are once again in the spotlight. Fresh concerns about the European debt crisis brought prices down but potential supply issues limited the drop to a minimal level. Separately, Saudi Arabia announced it would offset any loss of supply from the Iran sanction situation while the U.S. proclaimed any blockade by Iran of the Strait of Hormuz would "not be tolerated." These announcements diffuse the potential for a resulting run-up in oil prices, at least in the short-term, but also spark further curiosity about how this international issue will play out. Gold hit a one-month high on Thursday before slipping significantly on Friday to end the week at around \$1,630 per ounce. This can be attributed mostly to the appreciation of the U.S. dollar and the increased downgrade concerns in Europe.

Last year was great for real estate investment trusts (REITs), as many were able to acquire assets in desirable market conditions. In a recent report from the National Association of Real Estate Investment Trusts (NAREIT), REITs were able to take advantage of their "cost and access to capital to really be able to pursue and acquire well located assets at, more often than not, very reasonable prices," since banks were putting more assets on the market as over-leveraged borrowers were faced with increased pressure. The report went on to note how cap rates today are in the high fours and low fives for a high quality asset in one of the core coastal markets and there is a good chance REITs will be able create value with those acquisitions, especially with decent growth over the next couple of years. Despite limited job growth in 2011, the apartment sector showed strong fundamentals as landlords were able to increase rent. Along with the continuing decline in home ownership rates, the sector benefited from a reduced supply, thanks to the construction freeze from the downturn.

Issue	Previous Week	Current <sup>1</sup>	Change
Gold	1,617.70	1,638.80	1.30%
Crude Oil Futures	101.80	99.11	-2.64%
Copper	343.00	363.80	6.06%
Sugar	23.29	23.84	2.36%
HFRX Equal Wtd. Strat. Index	1,097.44	1,107.39	0.91%
HFRX Equity Hedge Index	1,000.17	1,011.60	1.14%
HFRX Equity Market Neutral	980.79	987.48	0.68%
HFRX Event Driven	1,306.39	1,325.40	1.46%
HFRX Merger Arbitrage	1,486.74	1,494.80	0.54%
Dow Jones UBS Commodity Index	142.55	140.51	-1.43%
FTSE/NAREIT All REIT	137.86	138.98	0.81%

<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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