# MainStreet Advisors
# Financial Market Update

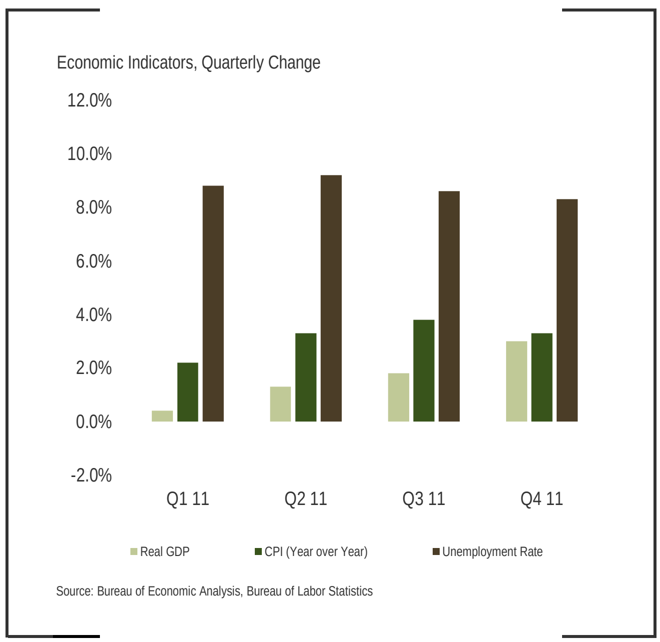
April 13, 2012


## Economic Update

The employment report released last Friday by the Labor Department was disappointing as the increase in payrolls was well below expectations. Only 120,000 jobs were added in March when analysts were expecting 201,000 after increases of 240,000 in February and 275,000 in January. A 34,000 decline in retail jobs surprised as retail sales numbers have been favorable in recent months. The report also showed the unemployment rate edged down to 8.2% from 8.3% reflecting a 164,000 decline in labor participation. Interpreting this data as a return to slower growth would be premature, however, given its history of massive revisions. Unseasonably warm weather may have boosted data in the previous months taking away from March, and the number contradicts with what the weekly initial claims reports have been telling us.

A 2.7% drop in imports and a slight 0.1% in exports combined for a significantly lower U.S. trade gap in February. The trade deficit narrowed by $6.5 billion to $46.0 billion during the month, according to the Commerce Department. This is likely only a one-month anomaly, however, as the entire improvement can be explained by a drop in the deficit with China which had significantly lower output due to the 15-day Chinese New Year holiday.

Inflation eased somewhat at the consumer level in March but was still slightly elevated due to higher energy costs. A report from the Labor Department showed the consumer price index (CPI) was up 0.3% in March, following a 0.4% rise the previous month. Year-over-year CPI inflation eased to 2.6% from 2.9%. Inflation at the producer level was flat during the month after popping 0.4% in February. In contrast to CPI the energy component of PPI was down while core prices were up 0.3%. In both gauges we are seeing a significant increase in the price of automobiles driven by improved demand that had been pent-up for years and the aging fleet that resulted. Meanwhile prices in China continue to rise, especially for food. The national consumer price level rose 3.6% year-over-year in March with the food component soaring 7.5%. Higher prices are a product of the nation's economic growth as well as their policy of currency manipulation that undervalues the Yuan.



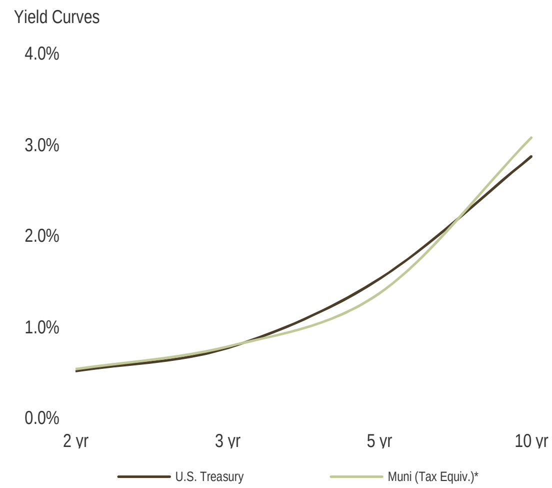

| | | |
|---|---|---|
| Apr. 10th | ICSC-Goldman Same Store Sales, Wkly. Chg. | 0.5% |
| Apr. 10th | Wholesale Inventories, Feb. Monthly Chg. | 0.9% |
| Apr. 11th | MBA Purchase Applications Index, Wkly. Chg. | -2.4% |
| Apr. 11th | Import Prices, Mar. Monthly Chg. | 1.3% |
| Apr. 11th | Export Prices, Mar. Monthly Chg. | 0.8% |
| Apr. 11th | EIA Petroleum Status Report, Wkly. Chg. | 2.8M Barrels |
| Apr. 12th | International Trade Balance Level, February | -46.0B |
| Apr. 12th | Initial Jobless Claims (week ending 4/7) | 380,000 |
| Apr. 12th | Producer Price Index, March Monthly Chg. | 0.0% |
| Apr. 12th | EIA Natural Gas Report, Wkly. Chg. | 8 bcf |
| Apr. 13th | Consumer Price Index, February Monthly Chg. | 0.4% |
| Apr. 13th | Consumer Sentiment Index, March | 76.2 |

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, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

## Bond Market Update

Continuing a recent trend, U.S. Treasuries finished the week higher as investors once again sought the relative safety of government bonds amid speculation Europe's sovereign debt crisis is worsening. Signaling an increase in investor concerns, credit default swaps and yields on Spanish government bonds rose to near-record levels, as the country's banks borrowed more from the ECB than expected. Benchmark U.S. 10-year notes gained for the fourth straight week, the longest stretch since August of last year. Thirty-year bonds, which are more sensitive to inflation concerns than shorter-term securities, have returned approximately 2.7% this month, compared to 0.9% for the broad bond market, according to Merrill Lynch.

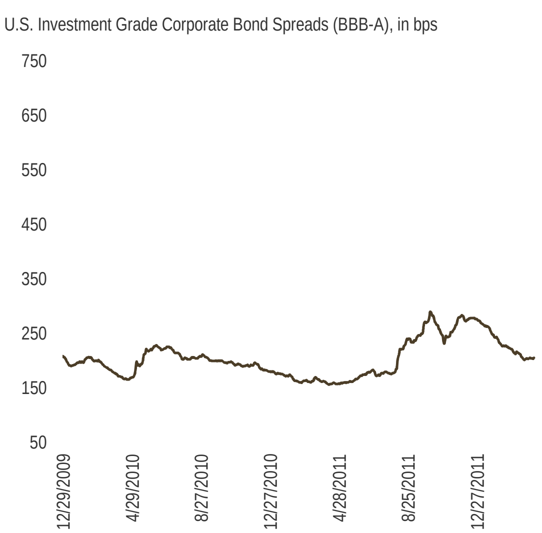
Meanwhile, yields on investment grade and high yield corporate debt have fallen considerably, and spreads have tightened since the beginning of the year, according to Barclays, as investors have reacted receptively to solid corporate earnings. Reflecting this robust demand, mutual funds and ETFs focused on this sector of the bond market have experienced robust inflows over the past several months. All else equal, solid buyer interest indicates continued strength looking forward despite tightening spreads. However, corporate bond spreads tend to fluctuate with the U.S. economic cycle, suggesting lower yields should the recovery become more firmly established.



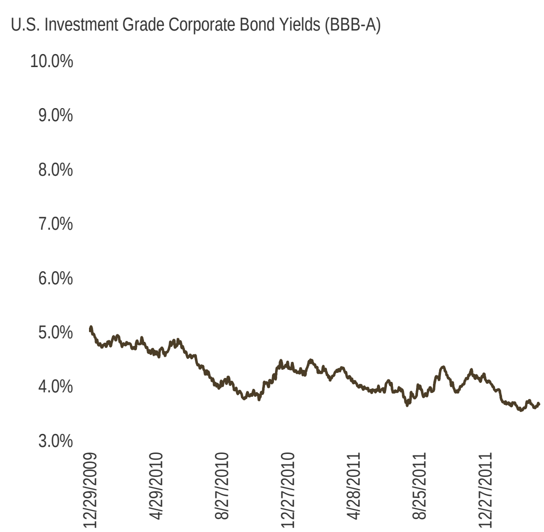

Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

| Issue | 4.6.12 | 4.13.12 | Change |
|---|---|---|---|
| 3 month T-Bill | 0.08% | 0.09% | 0.01% |
| 2-Year Treasury | 0.35% | 0.29% | -0.06% |
| 5-Year Treasury | 1.05% | 0.90% | -0.15% |
| 10-Year Treasury | 2.25% | 2.08% | -0.17% |
| 30-Year Treasury | 3.37% | 3.22% | -0.15% |

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




Source: Merrill Lynch




Source: Merrill Lynch

## Stock Market Update

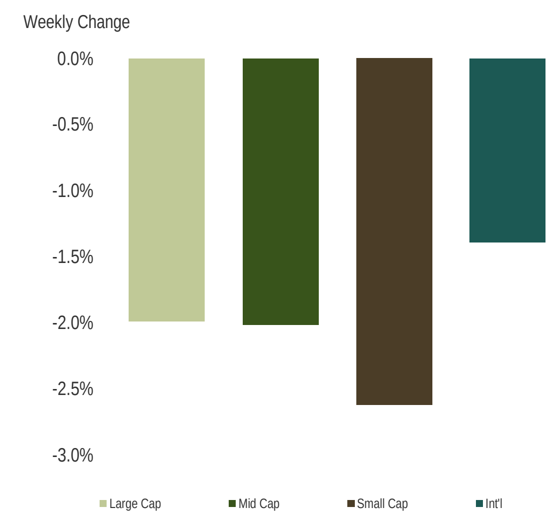
Most major stock markets were down for the second week in a row. Stocks fell sharply Monday and Tuesday after last Friday's weaker than expected jobs report. Concerns about the upcoming earnings season and spiking bond yields in Spain and Italy also weighed on investor sentiment. Tuesday's Dow Jones Industrial Average decline of 213 points was the largest one-day point and percentage decline for the index since late November. Stocks bounced back mid-week only to fall sharply again on Friday on news of slowing growth in China and a decline in the consumer sentiment. China's National Bureau of Statistics reported the nation's annual rate of economic growth slowed in the first quarter from 8.9% to 8.1% during the prior quarter due to slowing exports and weakening construction activity. The Dow Jones closed below 13000 for the first time since early March, finishing the week at 12849.59, down 1.6%. The S&P 500 Index closed the week at 1370.27, down 2.0% for the five-day trading period. The NASDAQ Composite Index ended the week at 3011.33, down -2.6%. The CBOE Volatility Index (VIX) rose 16% this week, a testament to the uncertainty investors are feeling after a record setting first quarter.

International markets were mostly negative this week as well. European markets were closed Monday, only to sell off sharply on Tuesday after a four-day break. For the week Germany's DAX Index finished the week 2.8% lower, while the FTSE 100 Index and the French CAC Index declined 1.3% and 3.9%, respectively. The Japanese Nikkei Index fell 0.5%, while the Shanghai Composite index bucked the trend by increasing 2.3%.

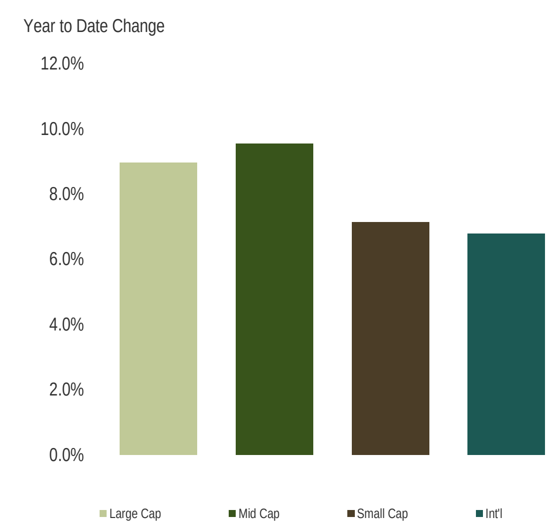
Alcoa kicked off earnings season this week as the company reported profits ahead of analysts' estimates, higher than fourth quarter 2011. The company reaffirmed its expectations for global aluminum demand to increase 7% in 2012. JP Morgan Chase reported strength in capital markets and improvement in mortgage banking as revenue increased 6% over last year. The company raised its quarterly dividend by 25% while also announcing a $15 billion share buyback program. Google's first quarter revenues grew 24% and operating income increased 47% over last year's first quarter.

| Issue | 4.6.12 | 4.13.12 | Change |
|---|---|---|---|
| Dow Jones | 13,060.14 | 12,849.59 | -1.61% |
| S&P 500 | 1,398.08 | 1,370.27 | -1.99% |
| NASDAQ | 3,080.50 | 3,011.33 | -2.25% |
| Russell 1000 Growth | 662.54 | 651.11 | -1.73% |
| S&P MidCap 400 | 984.26 | 964.42 | -2.02% |
| Russell 2000 | 818.24 | 796.78 | -2.62% |
| MSCI EAFE | 1,509.02 | 1,488.02 | -1.39% |
| MSCI Small Cap | 1,037.33 | 1,024.90 | -0.15% |

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.




Source: Standard & Poor's, Russell Investment Company, MSCI



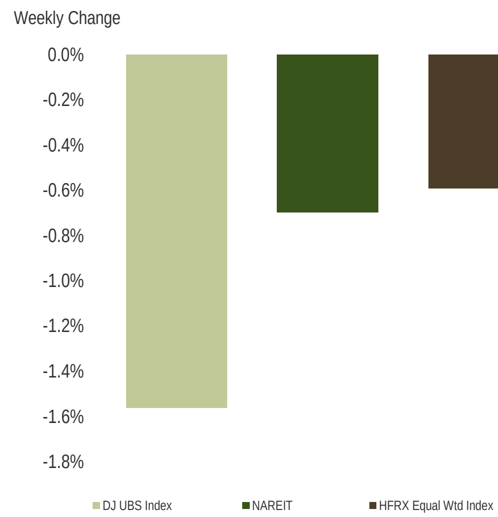

Source: Standard & Poor's, Russell Investment Company, MSCI

## Alternative Investments Market Update

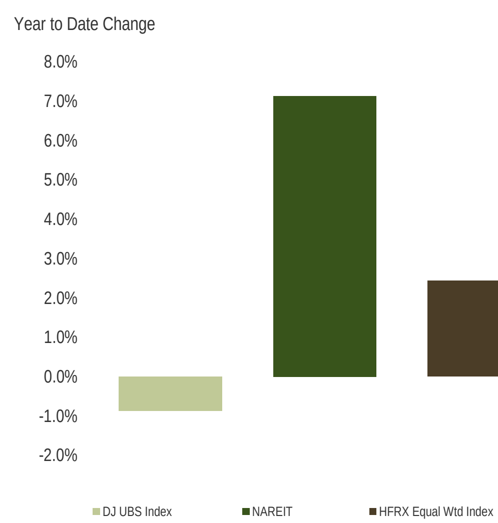
In commodities, Natural Gas fell below the $2 per MCF level for the first time in over ten years even as more rigs shut down to ease supply. Actual inventories are up nearly 60% since this time last year and demand is down 15% over the same period, which is likely a result of abnormally high temperatures. Preliminary data was released this week for Q1 oil statistics, indicating increased supply and slightly lower demand, which point to an inventory build-up. This could mean slightly lower prices in the near-term, but oil prices have continued to rise this week after a 4% drop in March. WTI Crude currently sits at $103.64 per barrel.

Gold and Silver saw a recent comeback from last week's drop after a bounce in the Euro and pull-down in the dollar resulting from the release of U.S. employment data that did not meet expectations. This trend may reverse with the disappointing GDP numbers from China, one of the largest importers of precious metals. Gold is currently hovering around $1,680 per ounce and Silver at $32.53 per ounce.

For the past year-and-a-half, investing in or against eurozone bonds has been strongly discouraged by many in hedge fund land. To support this belief, a recent article from the Financial Times stated in a regime of "political indecision and punishing volatility, few fund managers who sought to play the crisis-stricken market were left with anything to show for their efforts." The average hedge fund lost 5.26% in 2011, according to Hedge Fund Research (HFR), the second worst year in industry history. For some, however, European bond markets, both sovereign and corporate, have recently generated big returns and all signs point to them continuing to do so. Across the eurozone, hedge fund managers are now pointing to "significant" pricing irregularities on a scale not seen since 2008. A huge rally in credit has seen spreads tighten to "pre-Lehman lows." Some industry participants believe this trend is a result of European Central Bank (ECB) activities, claiming that, for all of its affirmations to the contrary, the ECB's longer-term refinancing operation (LTRO) is "having as profound an effect on markets as quantitative easing (QE)." According to one hedge fund manager, "the Fed and the Bank of England were early and significant proponents of QE; the ECB has only recently begun. The thinly disguised QE move by the ECB, LTRO, still has further scope for expansion."




Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research




Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research

| Issue | Previous Week | Current[1] | Change |
|---|---|---|---|
| Gold | 1,632.40 | 1,656.80 | 1.49% |
| Crude Oil Futures | 103.29 | 102.85 | -0.43% |
| Copper | 379.15 | 361.55 | -4.64% |
| Sugar | 23.70 | 22.81 | -3.76% |
| HFRX Equal Wtd. Strat. Index | 1,130.88 | 1,124.19 | -0.59% |
| HFRX Equity Hedge Index | 1,042.32 | 1,032.22 | -0.97% |
| HFRX Equity Market Neutral | 962.79 | 959.83 | -0.31% |
| HFRX Event Driven | 1,384.49 | 1,369.15 | -1.11% |
| HFRX Merger Arbitrage | 1,524.68 | 1,519.39 | -0.35% |
| Dow Jones UBS Commodity Index | 141.66 | 139.45 | -1.56% |
| FTSE/NAREIT All REIT | 149.14 | 148.10 | -0.70% |

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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