

MainStreet Advisors Financial Market Update

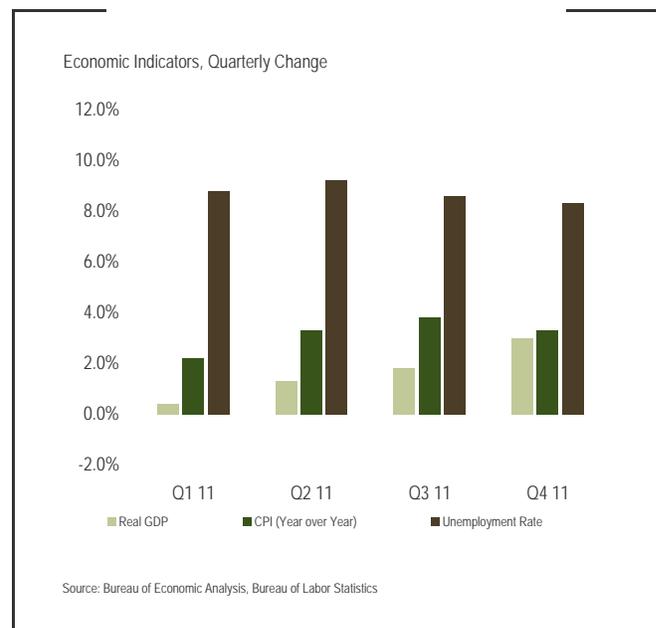
May 11, 2012
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Economic Update

The election results in France and Greece this week are a clear sign from voters that they are strongly opposed to accepting necessary cuts in entitlements to stabilize their nations' fiscal problems. The parliamentary election in Greece saw the leading New Democracy party receiving only 18.8% of the vote and unable to form a coalition. The election results call into question the country's willingness to implement austerity measures that were agreed to as part of their bailout. Meanwhile the French elected Socialist Francois Hollande as their next president who ran on a platform of opposition to austerity measures. Hollande's disdain for the wealthy is well documented, and his plan to impose a 75% income tax rate on those earning more than one million euros reinforces this notion. As France's sentiment towards wealth grows more negative, any innovators and wealth creators still left in the country may soon be searching for a more welcoming place to call home. Without strong leadership willing to make sacrifices, an eventual break-up of the eurozone monetary union appears inevitable.

The trade balance worsened in March as the deficit widened to \$51.8 billion from \$45.4 billion in February, according to the Census Bureau. Analysts were expecting an increase, but not quite as large as this. The widening trade gap was led by the non-petroleum goods deficit which ballooned by \$6 billion. The deficit with China expanded as anticipated, but only by \$2.3 billion. While the overall number is negative, a 2.9% increase in exports indicates the slowdown in Europe is not causing much trouble for American manufacturing.

On a positive note jobless claims held at lower levels for the week ended May 5. The Labor Department reported initial claims edged lower by 1,000 to 367,000. This is a positive sign and may end up meaning those three weeks of elevated numbers in April were nothing but a short-term blip for an otherwise steady downward trend. Continuing claims extended their ongoing contraction falling 61,000 to 3.229 million for the week ended April 28. These numbers should bode well for an improved May employment report.



May 8 th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-0.8%
May 9 th	MBA Purchase Applications Index, Wkly. Chg.	1.7%
May 9 th	Wholesale Inventories, March Monthly Chg.	0.3%
May 9 th	EIA Petroleum Status Report, Wkly. Chg.	3.7M Barrels
May 10 th	International Trade Balance Level, March	-51.8B
May 10 th	Initial Jobless Claims (week ending 5/5)	367,000
May 10 th	Import Prices, April Monthly Chg.	-0.5%
May 10 th	Export Prices, April Monthly Chg.	0.4%
May 10 th	EIA Natural Gas Report, Wkly. Chg.	30 bcf
May 11 th	Producer Price Index, April Monthly Chg.	-0.2%
May 11 th	Consumer Sentiment Index, May	77.8

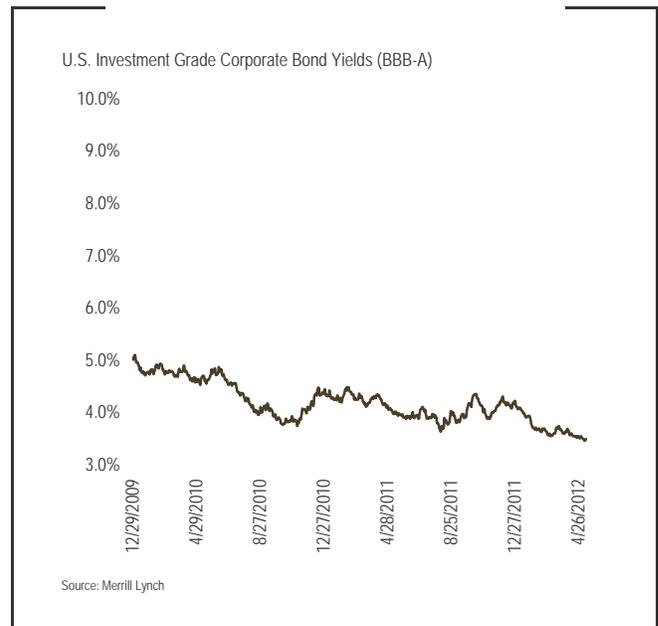
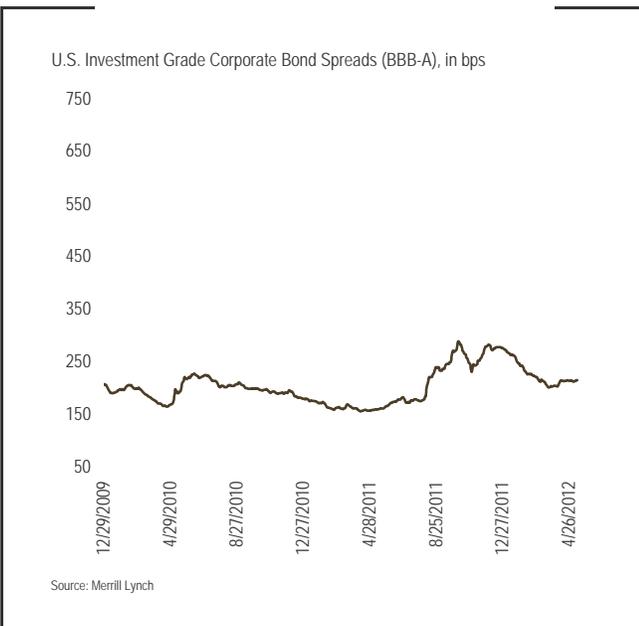
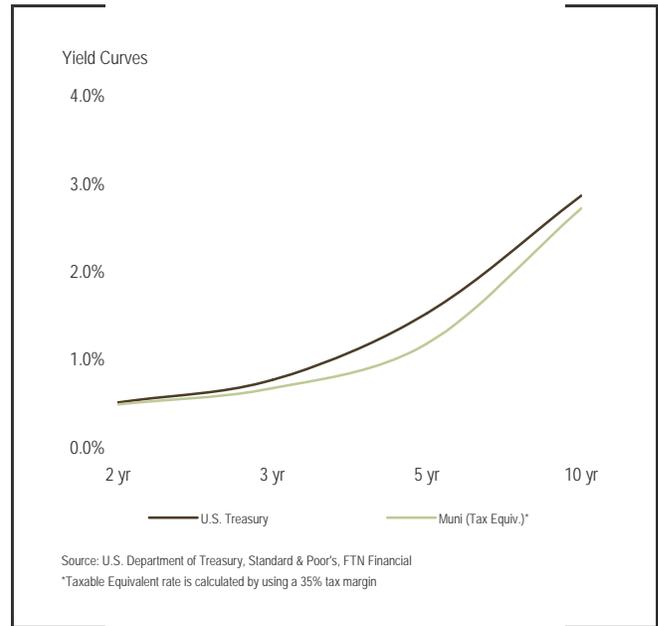
Bond Market Update

Continued concerns about Spain and Greece along with J.P. Morgan's considerable trading losses kept demand strong for the relative safety of U.S. government debt, even with the lowest yields seen in three months. Treasuries have now rallied for eight straight weeks, the longest streak since 1998 when Russia said it would allow its currency to depreciate and delay some debt payments. However, valuation measures show most bonds on the yield curve are now near their most expensive levels ever. The "term premium", a measure created by economists at the Federal Reserve, touched -0.77%, just shy of the all-time low of -0.79%, according to Bloomberg. A negative reading indicates investors are willing to accept yields below what is considered fair value.

Looking forward, the outlook for the domestic bond market continues to hinge on the actions of the Federal Reserve. Many strategists feel the underlying fundamentals of the U.S. economy can support a higher yield on intermediate to long-term U.S. Treasury securities. They feel the combination of Fed intervention and the flight-to-safety trade that remains mostly intact from the third quarter of 2011 has been the primary driver of unusually low interest rates. Although yields can remain low and in a trading range for an extended period, the current risk to interest rates is to the upside.

Issue	5.4.12	5.11.12	Change
3 month T-Bill	0.07%	0.10%	0.03%
2-Year Treasury	0.27%	0.27%	0.00%
5-Year Treasury	0.78%	0.75%	-0.03%
10-Year Treasury	1.91%	1.84%	-0.07%
30-Year Treasury	3.07%	3.02%	-0.05%

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



Stock Market Update

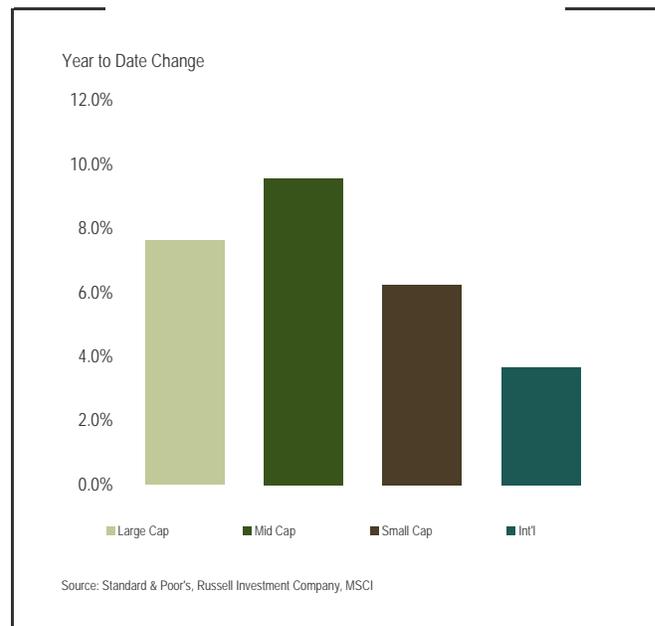
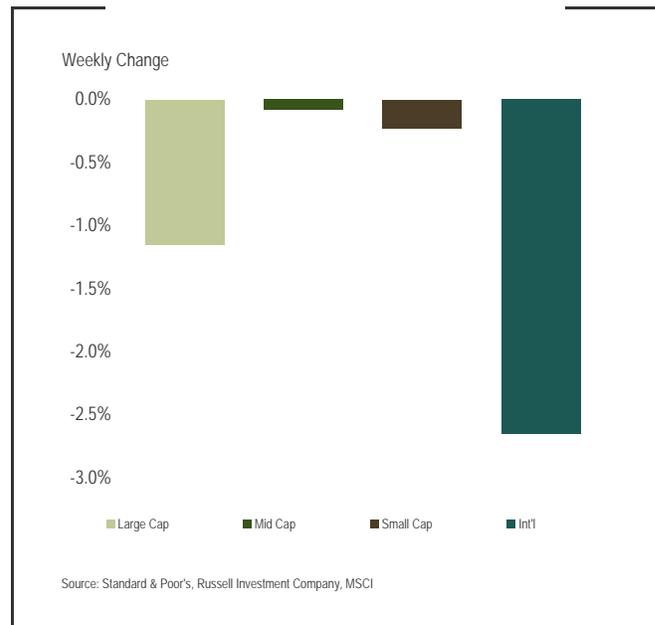
The stock market reacted negatively Friday at the open to the news out of JP Morgan Chase and a \$2 billion trading loss, quickly reversed as the consumer sentiment number came in stronger than expected only to finish the day mixed. The consumer confidence report showed confidence hitting a four-year high, and investors also welcomed a subdued report on inflation. The Dow Jones Industrial Average closed at 12,820.60, down 218 points for the week, or down 1.67%. The broader S&P 500 Index ended the week down 1.15% to close at 1,353.39, while the NASDAQ Composite finished lower by 23 points, or down 0.76% to close the week out at 2,933.82.

The financial sector was hit hard Friday after JP Morgan Chase announced earnings and a \$2 billion trading loss after the close on Thursday. Although the bank can absorb a loss of this size, it calls into question the use of proprietary trading desks and risk management within the banking system. On the news, JP Morgan fell over 9% at the open and finished the week day down 9.28% to close at \$36.96.

European stocks remained volatile this week with Spain dominating the headlines. Earlier in the week lender Bankia SA was nationalized, and the Bank of Spain had to step in, acquiring a 45% stake in the company. This triggered the latest plan by Spain's government to clean up the country's troubled banking system. The Spanish government said it would require banks to set aside 30 billion euros in provisions against loans and ordered an audit of the banks' debt burdens.

Issue	5.4.12	5.11.12	Change
Dow Jones	13,038.27	12,820.60	-1.67%
S&P 500	1,369.10	1,353.39	-1.15%
NASDAQ	2,956.34	2,933.82	-0.76%
Russell 1000 Growth	647.01	639.93	-1.09%
S&P MidCap 400	965.3	964.52	-0.08%
Russell 2000	791.84	790.06	-0.22%
MSCI EAFE	1,483.87	1,444.52	-2.65%
MSCI Small Cap	1,024.27	980.69	-3.26%

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

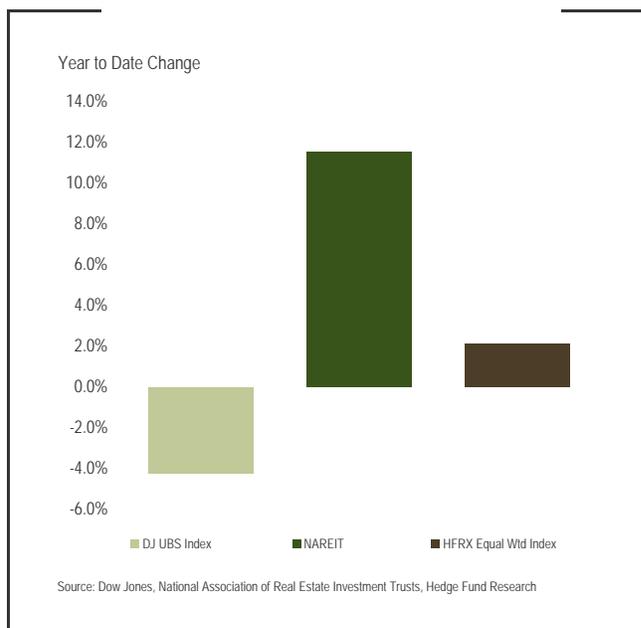
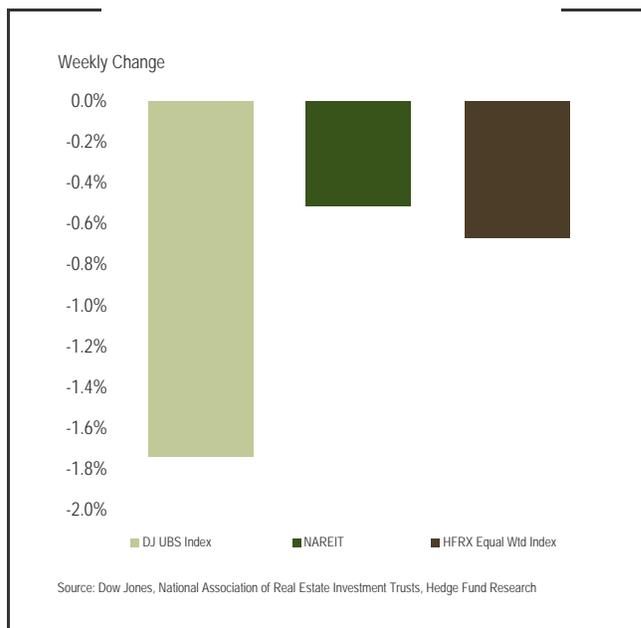
Gold set a 2012 low this week with investor demand for the dollar and mild U.S. inflation leaving little interest in the precious metal as an alternative asset. Gold fell 3.8% on the week, closing at \$1,580 an ounce, and has retreated in eight of the last ten trading sessions as worries about Europe's debt crisis send investors to seek safety into the U.S. dollar. Some investors buy gold as a hedge against a weakening dollar and the currency's recent rally has bashed precious metals. The ICE US Dollar Index, which measures the U.S. unit against a basket of six other currencies, reached 80.336, its highest point since mid-March, on Friday. Although many attribute gold's drop to the dollar more than anything else, a reading on U.S. inflation coming in at its lowest level in more than two years in April did not help the metal, limiting demand as a hedge against rising prices. A similar reading in China on consumer prices also fell during the month.

Amid the continued nervousness over the eurozone debt crisis, crude oil futures extended their losses this week with the news of increased OPEC supply in an already oversupplied market. According to a report from the Wall Street Journal, prices have come under pressure in recent weeks as escalating political uncertainty in Europe coupled with concerns over a slowdown in China raised global demand doubts. Chinese macroeconomic data released on Friday, which provides important cues on whether the world economy is in recovery which affects global oil demand, were mixed. The Organization of the Petroleum Exporting Countries (OPEC) said late Thursday its members raised output by 320,000 barrels a day in April to levels not seen since the 2008 recession.

For many hedge funds this week, J.P. Morgan Chase & Co.'s sudden \$2.3 billion trading loss meant big profits. Dozens of hedge funds and traders bet against J.P. Morgan's positions, assuming they would be unable to hold on to them. Analysts believe given the sheer size of the trading loss, the average fund that bet against J.P. Morgan will make about \$30 million.

Issue	Previous Week	Current ¹	Change
Gold	1,642.40	1,580.00	-3.80%
Crude Oil Futures	98.50	95.66	-2.88%
Copper	371.65	362.95	-2.34%
Sugar	20.81	20.22	-2.84%
HFRX Equal Wtd. Strat. Index	1,128.33	1,120.82	-0.67%
HFRX Equity Hedge Index	1,039.07	1,021.14	-1.73%
HFRX Equity Market Neutral	949.95	943.28	-0.70%
HFRX Event Driven	1,383.89	1,372.02	-0.86%
HFRX Merger Arbitrage	1,521.06	1,509.41	-0.77%
Dow Jones UBS Commodity Index	137.14	134.75	-1.74%
FTSE/NAREIT All REIT	154.96	154.17	-0.51%

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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