

# MainStreet Advisors Financial Market Update

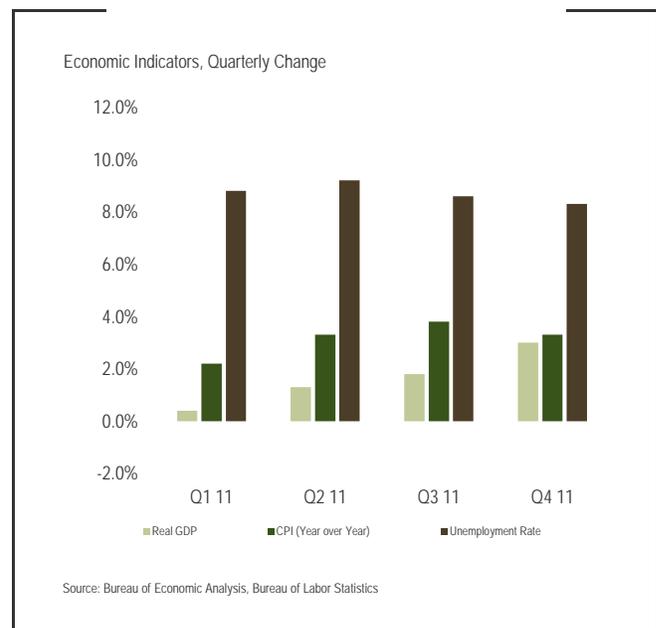
May 18, 2012  
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## Economic Update

New elections will be held in Greece on June 17 after voters punished the major parties on May 6, leaving them unable to form a coalition government. Amidst the political crisis Greeks have been pulling hundreds of millions of euros out of the banking system, leaving the country's banks weakened and vulnerable to a panic. It seems now that Greece's exit from the euro may become a reality and its although it should not come as a surprise to equity markets that continue to price in the current troubles. This may prompt other troubled countries such as Portugal to review their options as well, as they may be better served by the added flexibility that currency independence will provide. At this point though, country leaders continue to be committed to the Euro.

Beyond Greece the broader economy in Europe was not as bad as most predicted in the first quarter as the initial estimate for GDP was flat. Better than expected growth of 0.5% in Germany was enough to keep both the European Union and the 17 nation eurozone from falling into recession. This is welcome news as investor sentiment over Europe has plummeted recently, but the risk of recession still remains high. Unemployment in the eurozone hit a record high of 10.9% and austerity programs are likely to put continued downward pressure on their economy.

As a result of the weakness in Europe and the potential of a eurozone break-up the U.S. dollar has gained strength and helped ease inflation. Headline inflation slowed in April and the Consumer Price Index was unchanged, according to the Labor Department. Year-over-year CPI inflation softened to 2.3% from 2.6% in March. Retail sales continued their upward trend rising 0.1% in April, according to the Census Bureau. While growth did slow the number can still be viewed positively when you consider it followed a strong 0.7% increase in March. Weakness came from gasoline sales which fell 0.3% as prices eased and was welcome relief for most consumers. The bottom line is that despite Europe's troubles, underlying economic data suggests the U.S. recovery is still on track.

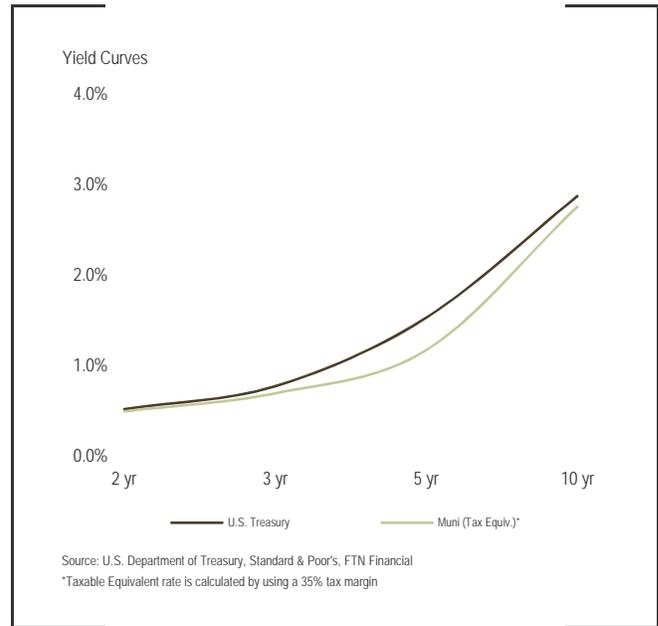


May 15 <sup>th</sup>	ICSC-Goldman Same Store Sales, Wkly. Chg.	-0.8%
May 15 <sup>th</sup>	Consumer Price Index, April Monthly Chg.	0.0%
May 15 <sup>th</sup>	Retail Sales, April Monthly Chg.	0.1%
May 15 <sup>th</sup>	Empire State Mfg Survey, May	17.09
May 15 <sup>th</sup>	Business Inventories, March Monthly Chg.	0.3%
May 15 <sup>th</sup>	Housing Market Index, May	29.0
May 16 <sup>th</sup>	MBA Purchase Applications Index, Wkly. Chg.	9.2%
May 16 <sup>th</sup>	Housing Starts, April	717,000
May 16 <sup>th</sup>	Industrial Production, April Monthly Chg.	1.1%
May 16 <sup>th</sup>	EIA Petroleum Status Report, Wkly. Chg.	2.1M Barrels
May 17 <sup>th</sup>	Initial Jobless Claims (week ending 5/12)	370,000
May 17 <sup>th</sup>	Philadelphia Fed Survey, May	-5.8
May 17 <sup>th</sup>	Leading Indicators, April Monthly Chg.	-0.1%
May 17 <sup>th</sup>	EIA Natural Gas Report, Wkly. Chg.	61 bcf

Bond Market Update

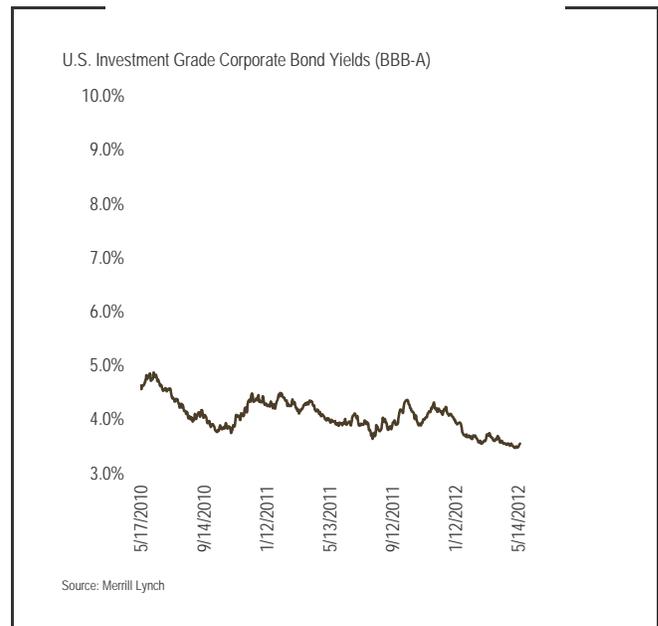
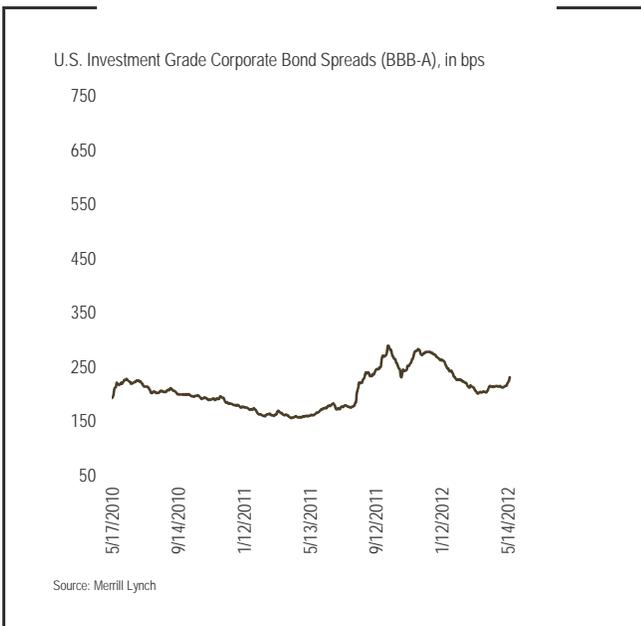
Continued concerns about the eurozone fiscal crisis drove demand and prices higher for safe-haven U.S. Treasuries. Yields on the 10-year note have fallen well below expected levels of inflation, suggesting investors are willing to accept a negative real yield on the bonds. The flight to bonds in other high-rated foreign treasuries pushed interest rates lower on Japan's 10-year note to levels not seen since 2003 and yields on Australian and German similar maturity bonds to all-time lows. The primary drivers of increased demand for government debt included Moody's downgrading 16 Spanish banks along with the increased likelihood Greece will exit the euro bloc, intensifying contagion fears. However, market participants expect a rise in rates next week as the U.S. Treasury auctions \$99 billion of coupon-bearing debt. All else equal, market makers tend to push up long-term bond yields as a way to underwrite bond auctions at more attractive levels.

Meanwhile, investment grade and high yield corporate bond sales declined at the fastest pace since February as investors focused on less risky sectors of the bond market. Given the current macro and geopolitical concerns, issuers will likely wait for the "risk-on" window to open again before bringing new deals to the market.



Issue	5.11.12	5.18.12	Change
3 month T-Bill	0.10%	0.08%	-0.02%
2-Year Treasury	0.27%	0.32%	0.05%
5-Year Treasury	0.75%	0.75%	0.00%
10-Year Treasury	1.84%	1.71%	-0.13%
30-Year Treasury	3.02%	2.80%	-0.22%

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



Stock Market Update

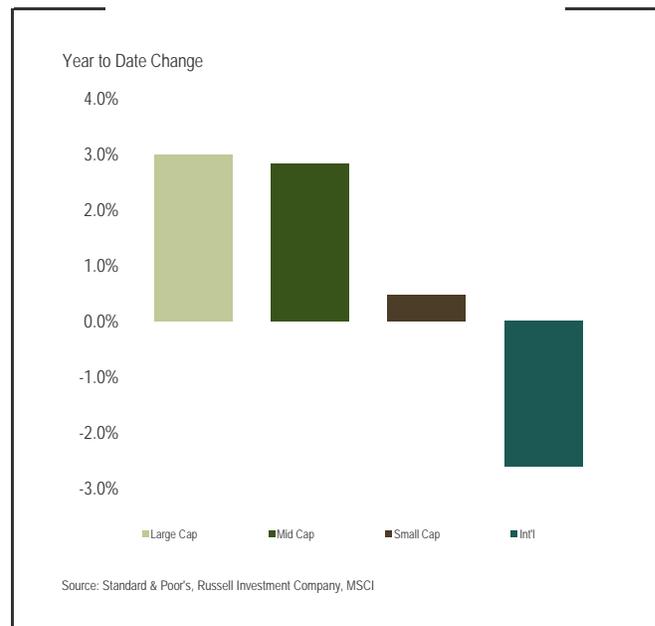
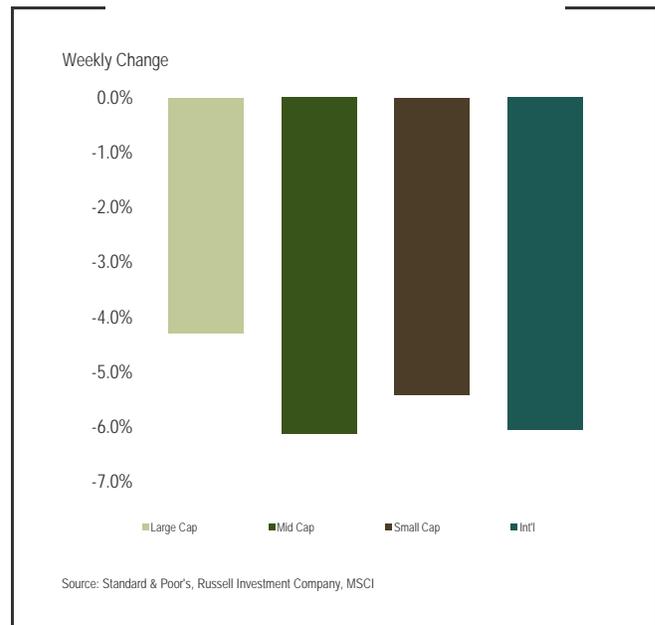
Most major stock markets were down for the third week in a row. Concerns about Greece's inability to form a new government sparked a significant rise in bank withdrawals and renewed fears that the country will be forced to exit the eurozone. Facebook's IPO on Friday was not enough to rally the markets as the S&P recorded its sixth straight decline. The S&P decline on Friday was the twelfth in the last thirteen sessions. The S&P 500 Index closed at 1295.22, off 4.3% from last Friday. The NASDAQ Composite Index ended the week 5.3% lower at 2778.79. The S&P is still positive for the year despite the recent sell off and has yet to cross the 10% correction mark from this year's high. Volatility should continue to be expected in the near term as events in Europe continue to evolve and draw headline attention.

In Europe, Spanish and Italian 10-year bond yields shot up to their highest levels this year, while German bond yields fell to a record low. Late Thursday Moody's Investor Services downgraded sixteen Spanish banking institutions, including Banco Santander, the eurozone's largest bank, citing mounting loan losses, recessionary trends and worries about the government's ability to support lenders. The STOXX Europe 600 Index, which represents large, mid and small capitalization companies across 18 countries of the European region, declined 5.25% for the week. With the contrast that exists between the Northern and Southern economies in Europe, correlations of equity markets among core countries and those in the periphery have been decoupling with the potential of contagion declining.

This week's earnings reports came mostly from retailers. Home Depot first quarter EPS was ahead of expectations, but revenue fell short. Wal-Mart reported the best quarterly same store revenue growth increase (+2.6%) in three years. Both total revenues and earnings were ahead of analysts' estimates. "In a highly competitive retail environment, Wal-Mart US is increasing price separation across categories and driving increased traffic to both the grocery and general merchandise areas of our stores," said president and chief executive Mike Duke. Target also reported results ahead of expectations and raised full year guidance by \$0.05.

Issue	5.11.12	5.18.12	Change
Dow Jones	12,820.60	12,369.38	-3.52%
S&P 500	1,353.39	1,295.22	-4.30%
NASDAQ	2,933.82	2,778.79	-5.28%
Russell 1000 Growth	639.93	609.62	-4.74%
S&P MidCap 400	964.52	905.28	-6.14%
Russell 2000	790.06	747.21	-5.42%
MSCI EAFE	1,444.52	1,356.91	-6.07%
MSCI Small Cap	980.69	920.78	-6.47%

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, Wolfe Trahan.



Alternative Investments Market Update

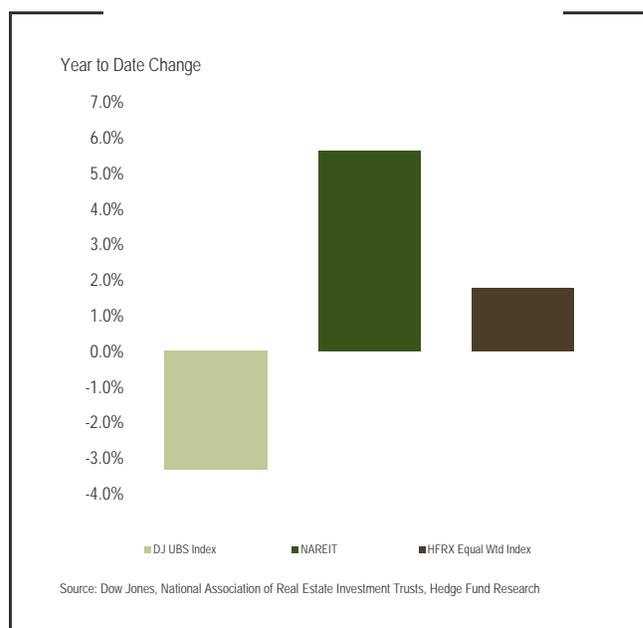
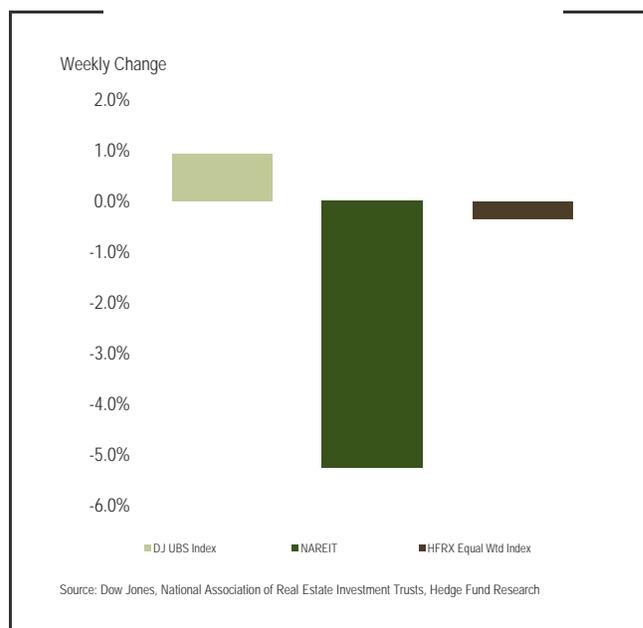
Gold recorded its strongest single-day gain since the beginning of the year of Thursday after a poor Philly Fed Manufacturing Index report and a Moody's downgrade of Spanish Banks. Price levels had been tumbling for much of May, including a 3.7% drop last week, but yesterday's spike brought the price back up to around \$1,575 per ounce.

Oil stockpiles in Cushing, Oklahoma, the largest oil storage facility, have reached a record high of 45.1 million barrels, and the total U.S. oil stock increased by 2.8 million barrels last week. This continued hike in inventories is naturally pushing prices down further, as has been the trend since late February. Additionally, European news seems to be encouraging the fall in oil prices as a less optimistic outlook continues to offer a bleak view of future European oil demand. This can be seen especially in countries like Italy, where oil demand is down over 14% from this time last year. WTI Crude now sits at about \$92.50 per barrel and Brent Crude at \$107 per barrel.

Hedge Funds have lost around 1% so far in May, bringing the year-to-date return to right around 2% according to the HFRX Global Hedge Fund Indexes. Despite the entire index losing slightly in April, Merger-Arbitrage and Event Driven funds outperformed the rest of the field. Asia Emerging focused funds gained over 7% in Q1, clearly showing stronger numbers than the western counterparts. The success of today's Facebook IPO will weigh significantly on some funds, including Goldman Sachs' largest hedge fund which owns more than 3.6 million shares of the company. Reports say Goldman could pocket at least \$60 million just from the IPO, and many times that on its plan to sell slightly less than half of the 3.6 million shares it owns from the purchase in January of 2011.

Issue	Previous Week	Current <sup>1</sup>	Change
Gold	1,580.00	1,591.90	0.75%
Crude Oil Futures	95.66	91.09	-4.78%
Copper	362.95	343.40	-5.39%
Sugar	20.22	20.47	1.24%
HFRX Equal Wtd. Strat. Index	1,120.82	1,116.86	-0.35%
HFRX Equity Hedge Index	1,021.14	1,011.59	-0.94%
HFRX Equity Market Neutral	943.28	942.26	-0.11%
HFRX Event Driven	1,372.02	1,364.16	-0.57%
HFRX Merger Arbitrage	1,509.41	1,508.14	-0.08%
Dow Jones UBS Commodity Index	134.75	136.00	0.93%
FTSE/NAREIT All REIT	154.17	146.04	-5.27%

<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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