MainStreet Advisors
Financial Market Update

June 1, 2012

Economic Update

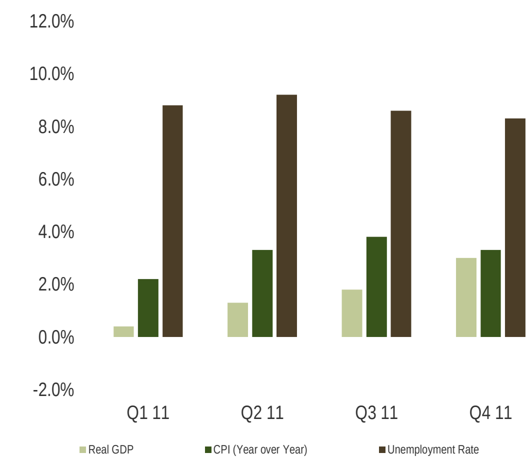
Manufacturing numbers came in this week fairly positive; the ISM new orders Index was up a full 2 points in May – the largest monthly gain in over a year. New orders are crucial to the manufacturing industry, so this is certainly good news. Backlog orders and inventories have been falling, as can be seen in the lower inventory purchasing portion of GDP, which may signal a slowdown in inventory building.

First quarter GDP growth was revised down to 1.9% on Thursday, slightly lower than the original estimate of 2.2%. This is disappointing after a 2011 fourth quarter number of 3.0%. The revision is being attributed to lower figures for personal consumption expenditures, inventory purchasing and government spending. Rising import estimates also contributed to the change. On the positive side, business investment was revised to show a slightly higher figure. Analysts are expecting GDP to maintain a 2% to 3% growth rate for the year.

Unemployment ticked back up to 8.2% as the May non-farm payroll numbers came in at a disappointing 69,000 gain; this is the lowest figure we have seen in a year, and it is drastically lower than the 150,000 gain analysts predicted indicating hiring in the U.S. is near a standstill. Construction jobs dropped alongside public sector hiring, both contributing to the disappointing numbers, but manufacturing and service industry hiring was healthy. Initial unemployment also missed expectations significantly, climbing up 10,000 to 383,000, indicating increased layoffs. This news is surprising as many other economic indicators have been showing signs of improvement, such as consumption, auto sales and manufacturing.

On a lighter note, personal income growth improved slightly in April, rising 0.2% after a 0.4% rise in March. Consumer spending was positive as well with a 0.3% gain in April after a 0.2% March figure, even with oil prices falling. It seems that even with negative job numbers, the U.S. consumer is still spending more – one of the key factors to keep this recovery going.

Economic Indicators, Quarterly Change



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

May 29th	S&P/Case-Shiller 20-city Index, Mar. Monthly Chg.	0.1%
May 29th	Consumer Confidence Index, May	64.9
May 29th	State Street Investor Confidence Index, May	86.4
May 30th	Pending Home Sales, Apr. Monthly Chg.	-5.5%
May 31st	Real GDP, Q1p Quarterly Change SAAR	1.9%
May 31st	GDP Price Index, Q1p Quarterly Change SAAR	1.7%
May 31st	Initial Jobless Claims (week ending 5/26)	383,000
May 31st	Chicago PMI Business Barometer Index, May	52.7
June 1st	Non-farm Payrolls, May Monthly Chg.	69,000
June 1st	Unemployment Rate, May	8.2%
June 1st	Personal Income, April Monthly Chg.	0.2%
June 1st	Consumer Spending, April Monthly Chg.	0.3%
June 1st	Core PCE Price Index, April Monthly Chg.	0.1%
June 1st	ISM Mfg. Index - Level, May	53.5
June 1st	Construction Spending, April Monthly Chg.	0.3%

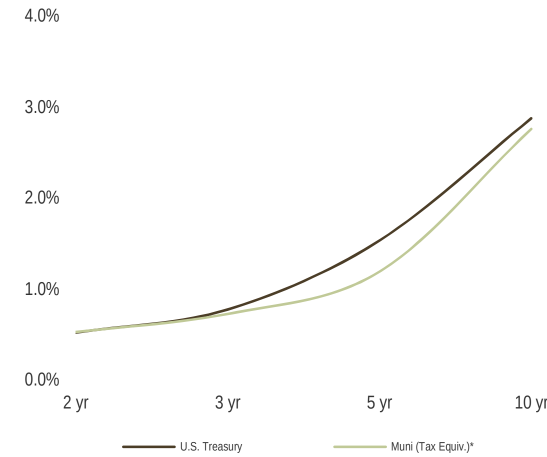
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

The yield on the 10-year U.S. Treasury note fell below 1.5% on Friday for the first time ever. The driving force behind the recent rally in government bonds has been a flood of money seeking safe-haven securities in response to the crisis in the eurozone. In addition to this, Friday's unexpectedly weak U.S. employment growth report pushed demand higher and yields lower across the entire yield curve. Given this weak report, market participants will now focus on Fed Chairman Bernanke's congressional testimony on the economic outlook on Thursday of next week for any hint of another round of quantitative easing. Although the odds of QE3 remain remote at this time, it appears the global slowdown and events in Europe are beginning to have an impact on the U.S. economy. Should conditions continue to deteriorate, we would expect the likelihood of another round of fiscal stimulus to increase.

Meanwhile, a considerable tightening of spreads for high yield bonds along with the rally in Treasuries indicates market participants have shunned riskier asset classes. Because credit spreads tend to fluctuate with the economic cycle and most strategists do not expect the U.S. economic recovery to be especially strong, spreads are not likely to tighten much from current levels.

Yield Curves

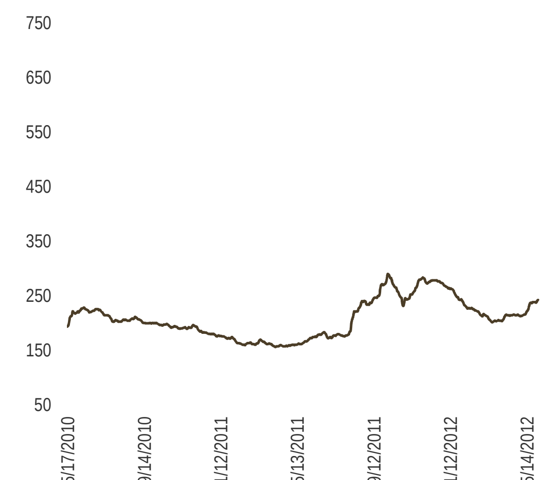


Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	5.25.12	6.1.12	Change
3 month T-Bill	0.09%	0.07%	-0.02%
2-Year Treasury	0.30%	0.25%	-0.05%
5-Year Treasury	0.76%	0.62%	-0.14%
10-Year Treasury	1.75%	1.47%	-0.28%
30-Year Treasury	2.85%	2.53%	-0.32%

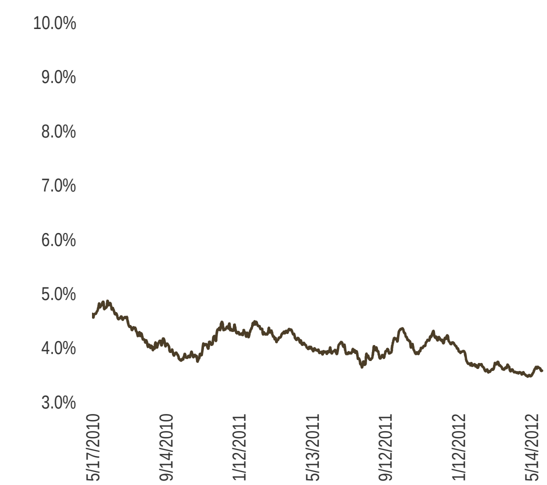
Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.

U.S. Investment Grade Corporate Bond Spreads (BBB-A), in bps



Source: Merrill Lynch

U.S. Investment Grade Corporate Bond Yields (BBB-A)



Source: Merrill Lynch

Stock Market Update

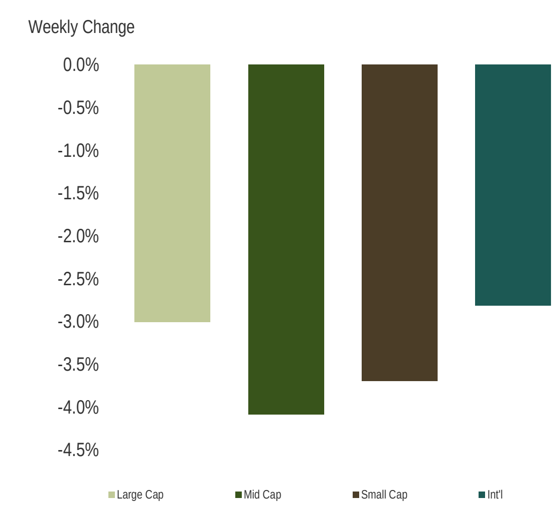
Markets turned negative this week after a combination of deteriorating global economic data and heightened European banking concerns. Thursday marked the end of May with domestic markets recording 6% to 7% losses for the month, the worst since 2007. International developed markets, as measured by the MSCI EAFE index, declined nearly 10% in May. The unexpectedly weak U.S. jobs report on Friday sent markets tumbling again. The Dow Jones Industrial Average finished the week at 12118.57 down 2.7%. The S&P 500 Index closed at 1278.04, off 3.0% from last Friday. The NASDAQ Composite Index ended the week 3.2% lower at 2747.48. The U.S. markets have now lost all of their gains year-to-date.

Investors in Europe feared the Spanish government may not be able to recapitalize its troubled banks. The euro fell to $1.24, the lowest level since 2010. The European Commission reported its economic sentiment indicator fell to 90.6 in May from 92.9 in April, the lowest level in 31 months. Asian markets did not fare as poorly with the Nikkei Index down only 1.6% and the Shanghai Composite Index up 1.7% over the five-day trading period. Asian stocks rallied early in the week on hopes of imminent economic stimulus, only to decline the next day as state media announced the stimulus package would be relatively mild compared to previous plans.

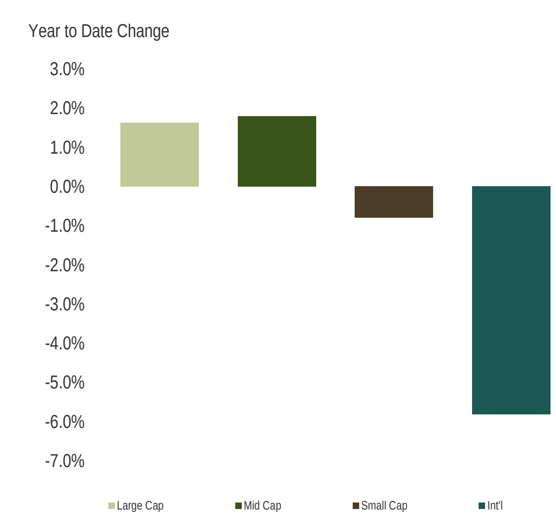
Facebook shares continued their downward slide this week as options trading began and most traders bet the stock would continue to fall. Shares rose on Thursday after an analyst upgrade, but the stock is still off 27% from its $38 IPO price. On a positive note, U.S. automakers reported strong sales in May. Chrysler sold 30% more cars than last year, the best May in five years. Ford (+13%) and GM (+11%) also saw double digit growth. Chrysler announced it will add production capacity to meet strong demand. Importers also reported positive sales results for the month.

Issue	5.25.12	6.1.12	Change
Dow Jones	12,451.95	12,118.57	-2.68%
S&P 500	1,317.64	1,278.04	-3.01%
NASDAQ	2,837.53	2,747.48	-3.17%
Russell 1000 Growth	623.12	602.24	-3.35%
S&P MidCap 400	934.36	896.17	-4.09%
Russell 2000	765.96	737.66	-3.69%
MSCI EAFE	1,350.38	1,312.34	-2.82%
MSCI Small Cap	902.09	906.30	-2.20%

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.



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



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

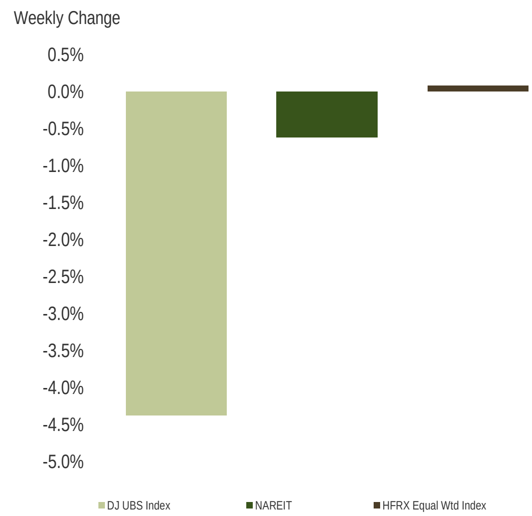
Alternative Investments Market Update

Gold rallied more than 3% on Friday, its biggest one-day gain in more than two years, as bleak U.S. employment data and a deepening eurozone crisis triggered safe-haven buying by investors who see more reasons to expect further monetary easing by central banks. For the week, gold settled at $1,624.60 an ounce, up 3.16%. The precious metal broke its trend of trading in sync with riskier assets, rising on a day when Brent crude oil slumped below $100 a barrel and the Dow Jones Industrial Average fell 2% to turn negative for the year. Analysts believe gold's safe-haven appeal has been reasserting itself, noting bullion and U.S. Treasury bonds were among the few financial assets that rose on Friday. Crude oil declined 8.32% this week, closing at $83.30 a barrel on heightened worries over a slowing global economy after weak reports on U.S. job growth and manufacturing. Despite this, OPEC power Saudi Arabia is not likely to trigger a supply cut with the country pumping at its highest rate in decades as analysts believe their budget can comfortably withstand a much lower price.

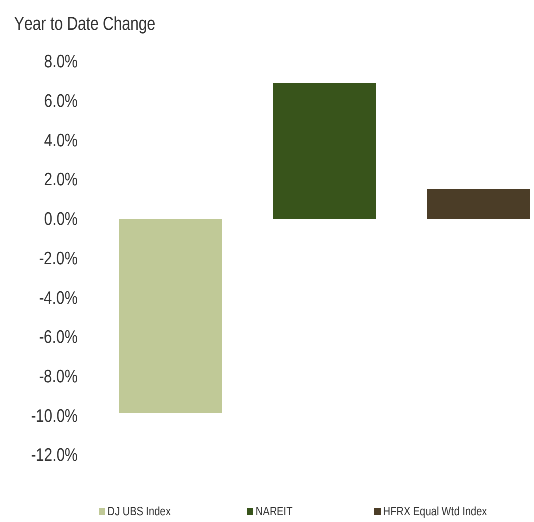
Hedge funds are beginning to bet against the bonds of core eurozone countries like Germany and France, signaling a growing fear that nations once considered safe-havens could be dragged down by the crisis in states like Greece and Spain. After a buoyant Q1 for markets, with receded fears over the eurozone debt crisis thanks to a 1-trillion-euro cash boost from the European Central Bank (ECB), hedge funds have been quick to make sure they do not miss out as concerns over the future of the single currency resurface. According to Reuters, rather than bet on the likes of Greece and Spain, whose problems are now well documented, funds are shorting the bonds of core countries as a so-called 'tail hedge' - the purchase of protection against extreme events such as the launch of eurobonds which could drive up the cost of borrowing for Germany. While such bets have so far failed to pay off, rising French bond prices drove yields to their lowest since September 2010 this month, hedge funds are targeting core countries as liquidity is better than in peripheral markets, and the funds feel the safe-haven status of these core countries has been exaggerated as the crisis elsewhere deepens.

Issue	Previous Week	Current[1]	Change
Gold	1,574.80	1,624.60	3.16%
Crude Oil Futures	90.86	83.30	-8.32%
Copper	345.20	332.30	-3.74%
Sugar	19.62	19.09	-2.70%
HFRX Equal Wtd. Strat. Index	1,113.28	1,114.12	0.08%
HFRX Equity Hedge Index	1,005.93	1,007.47	0.15%
HFRX Equity Market Neutral	940.68	947.37	0.71%
HFRX Event Driven	1,357.41	1,355.57	-0.14%
HFRX Merger Arbitrage	1,510.80	1,507.04	-0.25%
Dow Jones UBS Commodity Index	132.61	126.81	-4.37%
FTSE/NAREIT All REIT	148.72	147.80	-0.62%

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.



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

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