

# MainStreet Advisors Financial Market Update

June 22, 2012  
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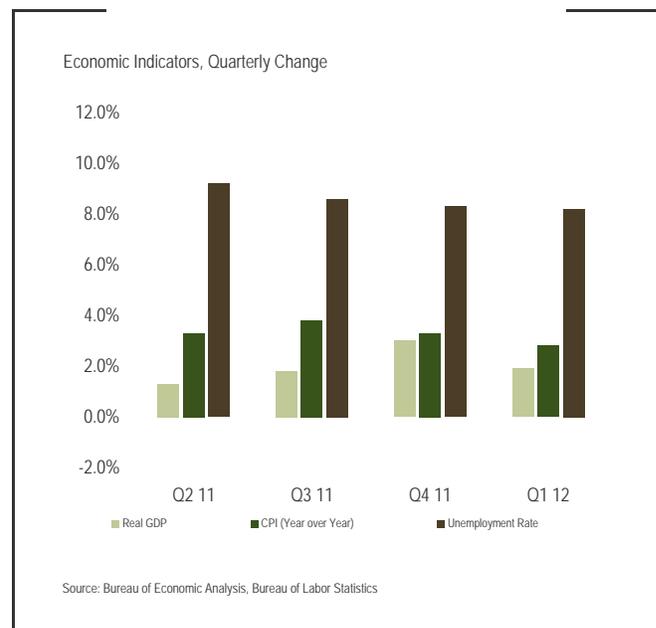
## Economic Update

Antonis Samaras was sworn in as the new Prime Minister of Greece this week after his New Democracy Party was able to form a coalition with the Pasok and Democratic Left parties. After the inconclusive May 6 election, the results of this second election signal the country's desire to remain part of the 17-nation eurozone. At the same time the coalition plans to fight to loosen the austerity requirements put upon them as part of the bailout agreement. Time will tell if other European leaders are willing to grant the struggling nation any leeway.

Existing home sales declined 1.5% in May to a 4.55 million annual rate, according to the National Association of Realtors. The report cited constrained supply and not softening demand as the likely cause for the drop. Meanwhile housing starts dropped 4.8% in April, according to a report from the Census Bureau. On a positive note, though, building permits increased to an annual rate of 780,000 – the highest level in four years – indicating builders are getting more bullish on the housing market.

The Philly Fed survey set off alarm bells as manufacturing in the region fell at its fastest pace in almost a year. The general economic index contracted for the second consecutive month to a severe -16.6 level. The survey does not always reflect the strength of the broader economy, but it gives us a clue as to whether or not we will have a good ISM number on July 2.

The number of Americans filing for first-time unemployment remains stubbornly elevated. Initial claims were up 4,000 to 387,000 for the week ended June 16, according to the Labor Department. The four-week average now stands at 386,250. These levels will keep expectations low for the June employment report, but there are still a lot of positives for the job market; job openings are at a four-year high, consumer sentiment regarding the job market is improving and the number of small businesses reporting poor sales as their biggest problem is declining.



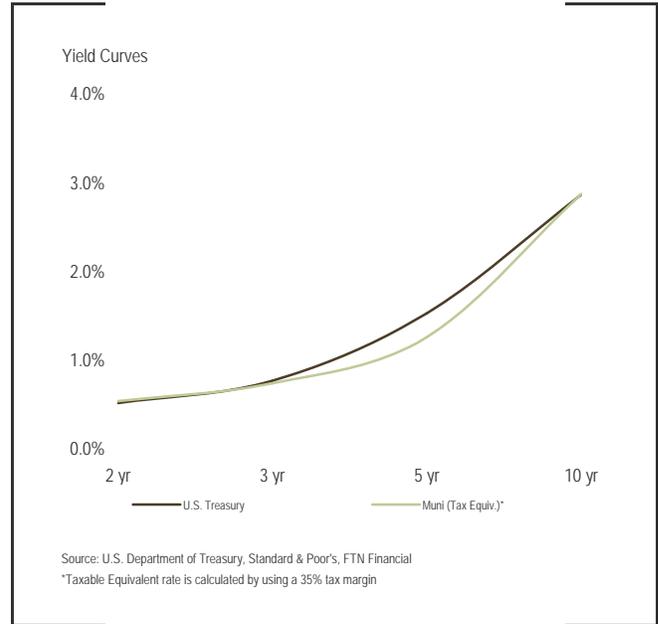
Jun. 18 <sup>th</sup>	Housing Market Index, June	29.0
Jun. 19 <sup>th</sup>	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.0%
Jun. 19 <sup>th</sup>	Housing Starts, May	708,000
Jun. 20 <sup>th</sup>	MBA Purchase Applications Index, Wkly. Chg.	-0.8%
Jun. 20 <sup>th</sup>	EIA Petroleum Status Report, Wkly. Chg.	2.9M Barrels
Jun. 21 <sup>st</sup>	Initial Jobless Claims (week ending 6/16)	387,000
Jun. 21 <sup>st</sup>	Existing Home Sales, May SAAR	4.55M
Jun. 21 <sup>st</sup>	Philadelphia Fed Survey, June	-16.6
Jun. 21 <sup>st</sup>	Leading Indicators, May Monthly Chg.	0.3%
Jun. 21 <sup>st</sup>	EIA Natural Gas Report, Wkly. Chg.	62 bcf

Bond Market Update

For the most part, U.S. Treasury rates moved higher across the yield curve this week. The benchmark 10-year note finished the week at 1.67%, up 10 basis points from the prior week. Nevertheless, this is still significantly below the 2.38% level in March, reflecting somewhat weaker U.S. economic data in recent months alongside a deteriorating European debt crisis, resulting in increased demand for safe-haven Treasuries. Following a two-day meeting, the Fed announced on Wednesday the extension of its Operation Twist stimulus program through the end of the year. The Fed is aiming to purchase an additional \$267 billion of longer-term debt that will be funded from the sale of shorter-term securities currently held on its balance sheet. Clearly, the Fed's intention is to keep borrowing costs low, which in turn should provide additional stimulus to the economy. Meanwhile, Spain's debt woes continue to dominate global press headlines. On Thursday, financial media reported that Spain was ready to ask for EU support for its ailing banking system as early as next week. Spain's objective is to reduce its funding costs by isolating the risk of sovereign debt from the banking sector which is still dealing with bad loans from a real estate bubble. So far, the market seems to be in agreement as the benchmark 10-year rate has traded down to 6.3% from above 7.1% earlier this week; levels above 7% are considered unsustainable in the long-term.

Issue	6.15.12	6.22.12	Change
3 month T-Bill	0.11%	0.09%	-0.02%
2-Year Treasury	0.30%	0.32%	0.02%
5-Year Treasury	0.73%	0.73%	0.00%
10-Year Treasury	1.64%	1.63%	-0.01%
30-Year Treasury	2.73%	2.68%	-0.05%

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



Stock Market Update

The stock market was able to gain back on Friday despite suffering one of the worst days of the year on Thursday after ratings agency Moody's downgraded 15 financial institutions. The Dow Jones Industrial Average closed at 12,640.78, down 126 points for the week, or down 0.99%. The broader S&P 500 Index ended the week down 0.58% to close at 1,335.02, while the NASDAQ Composite finished higher by 20 points, or up 0.68% to close the week out at 2,892.42.

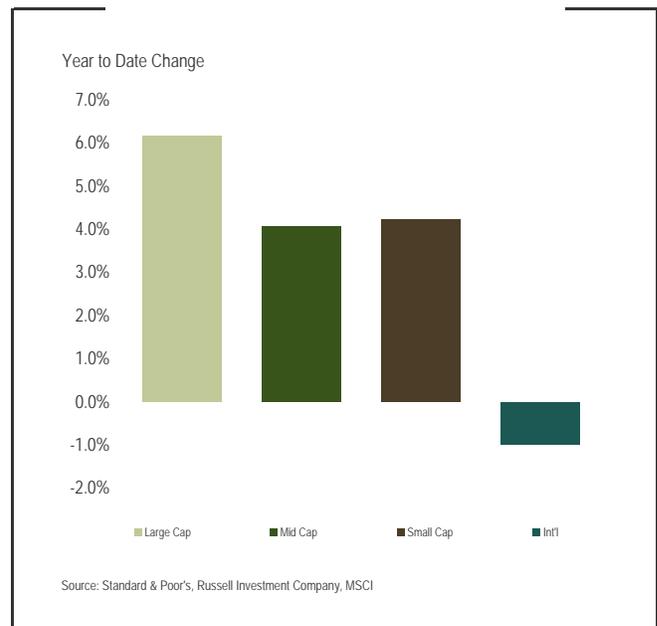
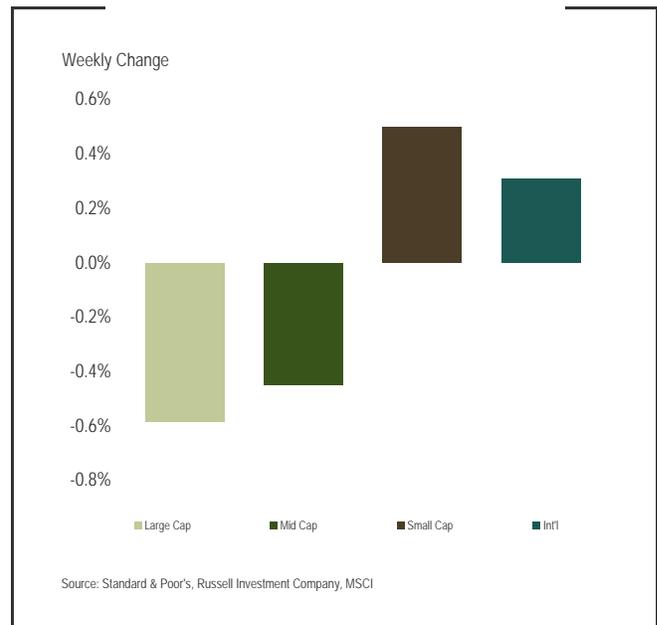
As markets remain concerned over the European debt crisis, Moody's announcement on Thursday, which downgraded the rating of 15 financial institutions, calls into question the stability of the global financial system. Moody's cited "more fragile funding conditions, wider credit spreads, increased regulatory burdens and more difficult operating conditions." The downgrade could make it more expensive for banks to borrow money, raising costs to an already fragile situation.

The downgrades were broken into three categories with the strongest of the banks being JP Morgan, HSBC and Royal Bank of Canada. Moody's noted these banks have solid capital buffers and a contained exposure to the European crisis. The weakest of the banks included Bank of America, Citigroup, Morgan Stanley and Royal Bank of Scotland, commenting this group has faced problems with volatility and risk management.

Although the financial sector took a hit this week, Discover Financial Services (DFS), who announced earnings earlier in the week, reported revenue rose 6% to \$1.85 billion from \$1.74 billion. Net interest income, or money earned from loans, rose 10% to \$1.32 billion helped by lower interest expense. Overall, the customers credit quality improved and delinquency rates fell. For the week, DFS finished up 2% to close at \$33.61.

Issue	6.15.12	6.22.12	Change
Dow Jones	12,767.17	12,640.78	-0.99%
S&P 500	1,342.84	1,335.02	-0.58%
NASDAQ	2,872.80	2,892.42	0.68%
Russell 1000 Growth	627.70	624.76	-0.47%
S&P MidCap 400	920.26	916.14	-0.45%
Russell 2000	771.32	775.15	0.50%
MSCI EAFE	1,375.59	1,379.85	0.31%
MSCI Small Cap	913.55	932.36	0.58%

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.



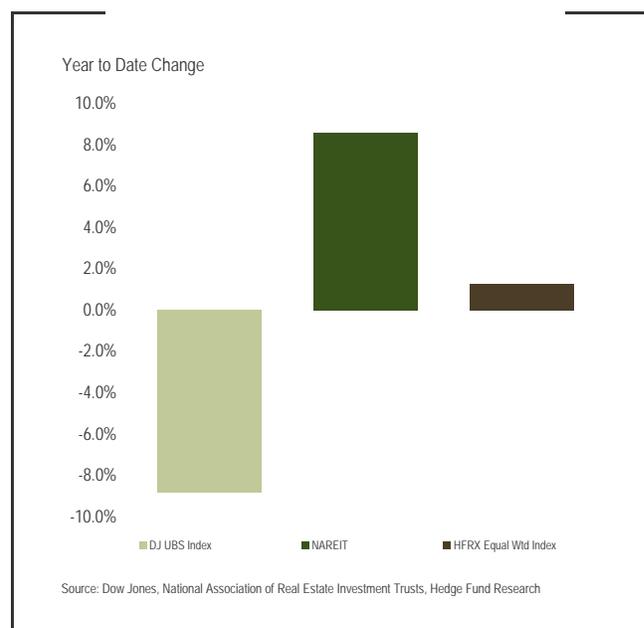
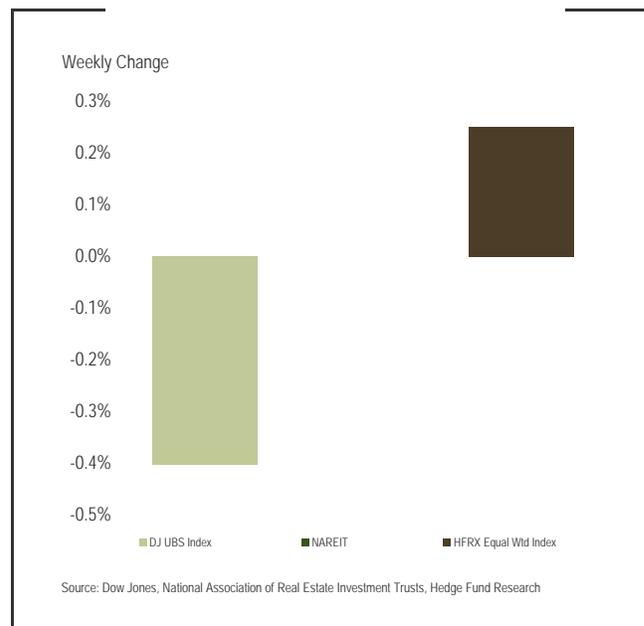
Alternative Investments Market Update

U.S. crude oil settled below \$80 this week for the first time since October as the oil markets were hit by a host of factors, including fresh signs of lackluster industrial activity. The retreat comes as U.S. and global oil inventories remain well-supplied with sluggish demand. It also follows policy moves by the Federal Reserve this week that fell short of expectations as market participants anticipated further quantitative easing to stimulate the economy, thus boosting demand for crude. For the week, crude fell \$3.88, or 4.62%, closing at \$80.14 a barrel. It was the same story with gold, as the precious metal lost 3.27% this week settling at \$1,572.50 an ounce on mounting worries about the global economy. On Thursday the metal slid 2.5%, a day after U.S. Federal Reserve policy makers took only modest steps to stimulate the world's largest economy. Inflation fears have helped fuel several years of strong gains for gold, but analysts believe investors are starting to worry about deflation after reports this week showed signs of slowing economic activity around the globe.

Hedge funds extended their May losses in the first half of this month as the HFRX Global Hedge Fund Index dipped 0.54% through June 15, leaving the index up just 0.97% on the year. According to FinAlternatives, only one of the 15 strategy, sub-strategy and regional indices compiled by Hedge Fund Research for the HFRX suite was in the black for the first two weeks of June and only barely; fundamental value equity funds rose 0.03% so far this month. Also, hedge fund assets fell \$18.8 billion in May despite a net inflow of \$9.5 billion from investors. Industry assets fell to \$2.53 trillion in May, according to data from eVestment|HFN, thanks to performance losses of \$28.3 billion. The net inflows in May came after two consecutive months of net outflows, indicating year-to-date investors have poured a net \$35 billion into hedge funds. Performance gains have contributed an additional \$37.6 billion, and as a result, hedge fund assets under management are up \$72.6 billion year-to-date, or 2.95%.

Issue	Previous Week	Current <sup>1</sup>	Change
Gold	1,625.60	1,572.50	-3.27%
Crude Oil Futures	84.02	80.14	-4.62%
Copper	341.90	331.80	-2.95%
Sugar	20.01	19.75	-1.30%
HFRX Equal Wtd. Strat. Index	1,108.29	1,111.06	0.25%
HFRX Equity Hedge Index	1,000.62	1,009.03	0.84%
HFRX Equity Market Neutral	937.71	935.17	-0.27%
HFRX Event Driven	1,345.79	1,351.81	0.45%
HFRX Merger Arbitrage	1,514.18	1,521.14	0.46%
Dow Jones UBS Commodity Index	128.79	128.27	-0.40%
FTSE/NAREIT All REIT	150.06	150.06	0.00%

<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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