

MainStreet Advisors Financial Market Update

June 29, 2012
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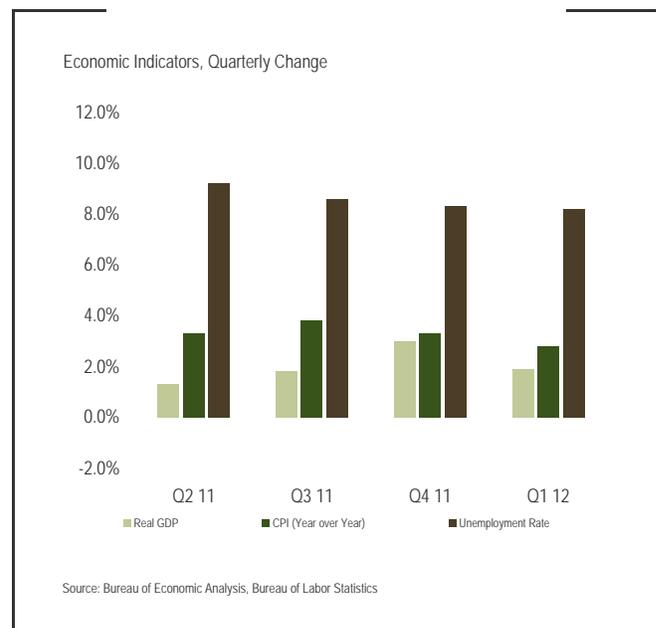
Economic Update

The third estimate for first quarter GDP was unchanged at 1.9%. There were modest upward component revisions to fixed investment and net exports as well as offsetting downward revisions to personal consumption and inventory investment. Overall economic activity was modest, and expectations for the second quarter should not be much different.

Sales of new homes were up a solid 7.6% to an annual pace of 369,000 in May. The surge in buying activity brought current supply down to 4.7 months – the lowest since 2005. The increased activity may have been brought on by concessions as both the median and average prices softened a bit. Tighter supply in both the new home and existing home spaces, coupled with the recent spike in building permits could indicate more residential construction on the horizon which would certainly be good for the overall economy.

Things are looking up in the manufacturing arena as well. New factory orders for durable goods rebounded 1.1% in May after slipping 0.2% the previous month. The gains were driven largely by the transportation component which jumped 2.7% on strong aircraft orders. Excluding transportation orders were still positive, up 0.4%.

The week ended with news that European leaders reached a deal to stabilize the eurozone and move closer to a so-called banking union. Under the deal, a single supervisory body will be created to oversee the eurozone's banks. That body would have the authority to use the eurozone's rescue funds – the European Stability Mechanism (ESM) and the European Financial Stability Facility (EFSF) – to give banks direct aid without adding to government debt. The move was greeted warmly by global equity markets, but it is by no means a cure for all Europe's problems. The ESM and EFSF have about €500 billion between them, but Spain and Italy have about €2 trillion in debt needs.



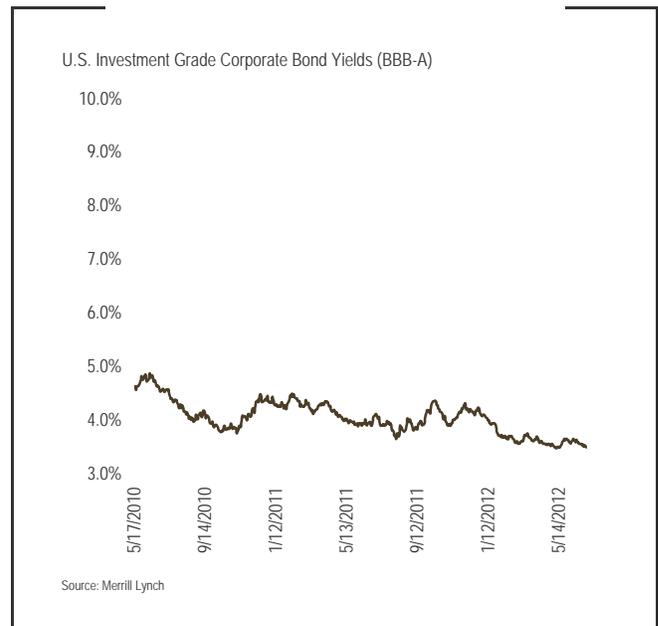
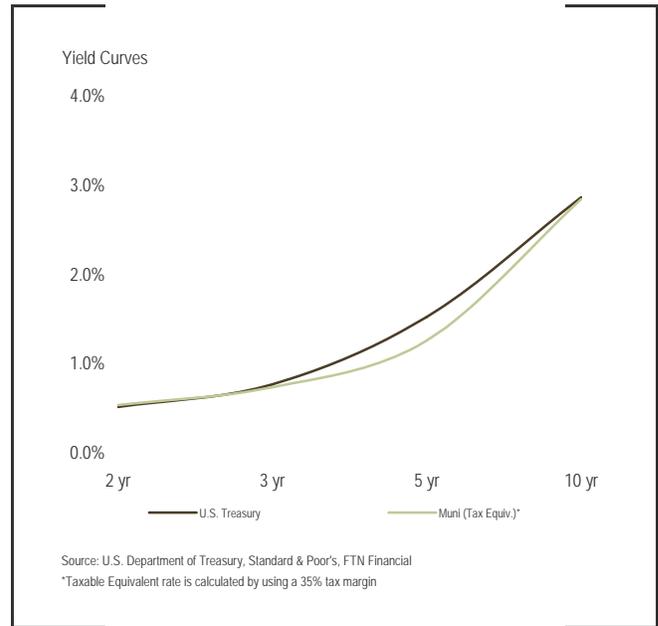
Jun. 25 th	New Home Sales, May	369,000
Jun. 26 th	ICSC-Goldman Same Store Sales, Wkly. Chg.	2.0%
Jun. 26 th	S&P/Case-Shiller 20-city Index, Apr. Monthly Chg.	0.7%
Jun. 26 th	Consumer Confidence Index, June	62.0
Jun. 26 th	State Street Investor Confidence Index, June	93.5
Jun. 27 th	MBA Purchase Applications Index, Wkly. Chg.	-7.1%
Jun. 27 th	Durable Goods New Orders, May Monthly Chg.	1.1%
Jun. 27 th	Pending Home Sales, May Monthly Chg.	5.9%
Jun. 28 th	Real GDP, Q1f Quarterly Change SAAR	1.9%
Jun. 28 th	GDP Price Index, Q1f Quarterly Change SAAR	2.0%
Jun. 28 th	Initial Jobless Claims (week ending 6/23)	386,000
Jun. 29 th	Personal Income, May Monthly Chg.	0.2%
Jun. 29 th	Consumer Spending, May Monthly Chg.	0.0%
Jun. 29 th	Core PCE Price Index, May Monthly Chg.	0.1%
Jun. 29 th	Chicago PMI Business Barometer Index, June	52.9
Jun. 29 th	Consumer Sentiment Index, June	73.2

Bond Market Update

Despite a dramatic selloff on Friday, U.S. Treasuries finished the week mostly unchanged. Late Thursday, eurozone leaders announced they would use bailout funds to directly recapitalize Spanish banks. This along with a proposed plan to make the European Central Bank the sole supervisor of the region's banking system, seen as a key step toward a banking union, encouraged market participants to focus on riskier asset classes rather than safe-haven government debt. At the same time, government bonds in the European peripheral nations including Spain and Italy rallied sharply. Yields on Spanish ten-year bonds fell by almost 0.40% to 6.54%, down from a peak of 7.30% earlier this month. Despite this selloff, U.S. Treasury yields remain near historic lows, with traders suggesting interest rates are likely to remain range-bound in the near term as continued uncertainties in the global markets remain in the fore. However, from a long-term perspective conventional wisdom says bond rates will rise given very expensive current valuations for Treasuries. The Federal Reserve's "term premium" model indicates yields on government debt are roughly 0.85% lower than what is considered fair value. The average over the past decade was a 0.50% premium. Since yields on Treasuries with maturities out to approximately 2018 remain below the rate of inflation, we continue to feel U.S. government debt offers investors an extreme low expected return/high risk proposition.

Issue	6.22.12	6.29.12	Change
3 month T-Bill	0.09%	0.09%	0.00%
2-Year Treasury	0.32%	0.33%	0.01%
5-Year Treasury	0.73%	0.72%	-0.01%
10-Year Treasury	1.63%	1.67%	0.04%
30-Year Treasury	2.68%	2.76%	0.08%

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



Stock Market Update

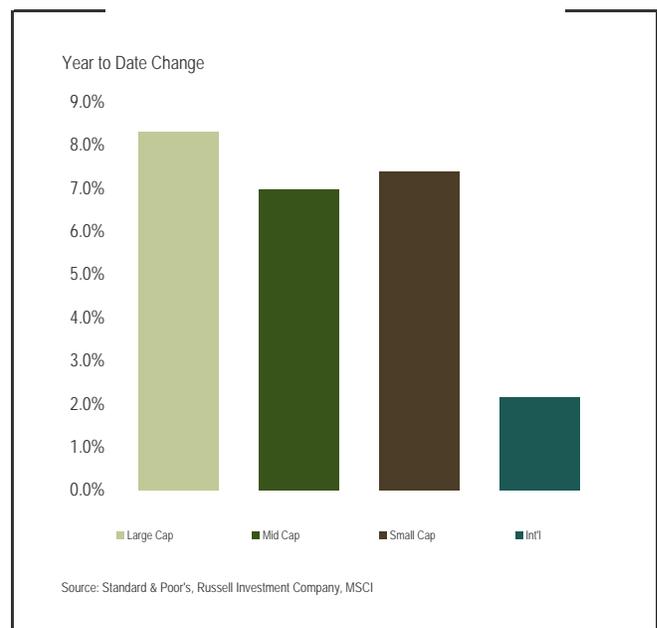
Stock markets were very strong across the board on Friday to end the week and the month in positive territory. News that EU leaders agreed to a measure to relax the repayment conditions for Spanish banks sent stocks soaring. The deal allows two of the European bailout funds to pump money directly into the most troubled European banks, as opposed to government loans to bail out the banks. The plan is intended to rescue banks without putting the countries further into debt. Strong housing data also helped domestic stock markets this week. The Dow Jones Industrial Average closed at 12880.09 up 1.9% for the week. The S&P 500 Index closed at 1362.16, an increase of 2% over last week. The NASDAQ Composite Index had its best day of the year, up 3% on Friday, to end the week 2935.05, 1.5% higher than last Friday.

European stocks participated in the Friday rally as well, as stocks in Germany, France and Spain ended the week up 2.4%, 3.4% and 3.2%, respectively. Spanish bank stocks increased between 6%-9% on Friday as the yields on Spanish government bonds dropped 42 basis points to 6.42%. Stocks in China were volatile despite the central banks injection of \$31 billion into the markets this week as investors were cautious ahead of manufacturing data to be released this weekend.

In corporate news, News Corp announced its plan to split the company into two separate businesses, entertainment and publishing. Google unveiled its first tablet to compete with the iPad. Hospital stocks reacted positively to the Supreme Court ruling on the Affordable Healthcare Act. Paychex reported fourth quarter and fiscal 2012 earnings; total revenue in 2012 grew 7% while earnings per share increased 6%. Additionally, increases in checks per client and pricing were slightly offset by lower float income due to low interest rates. Nike stock fell nearly 10% after the company reported a rare earnings miss.

Issue	6.22.12	6.29.12	Change
Dow Jones	12,640.78	12,880.09	1.89%
S&P 500	1,335.02	1,362.16	2.03%
NASDAQ	2,892.42	2,935.05	1.47%
Russell 1000 Growth	624.76	634.43	1.55%
S&P MidCap 400	916.14	941.65	2.78%
Russell 2000	775.15	798.49	3.01%
MSCI EAFE	1,379.85	1,423.38	3.15%
MSCI Small Cap	932.36	906.71	2.24%

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.



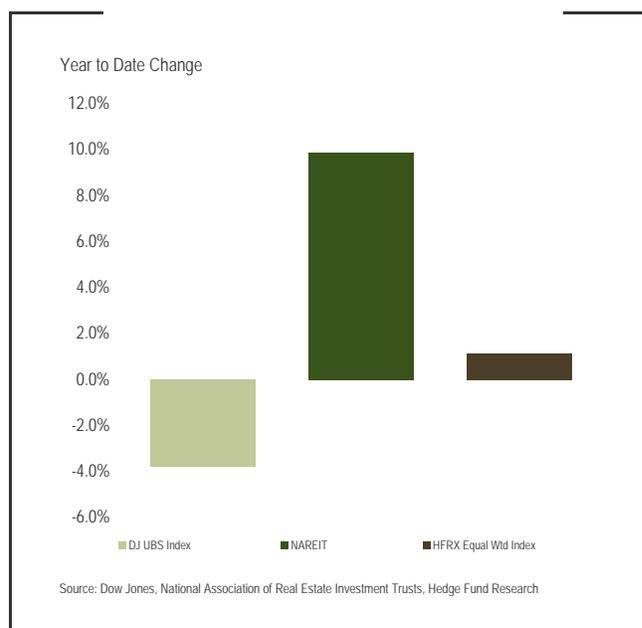
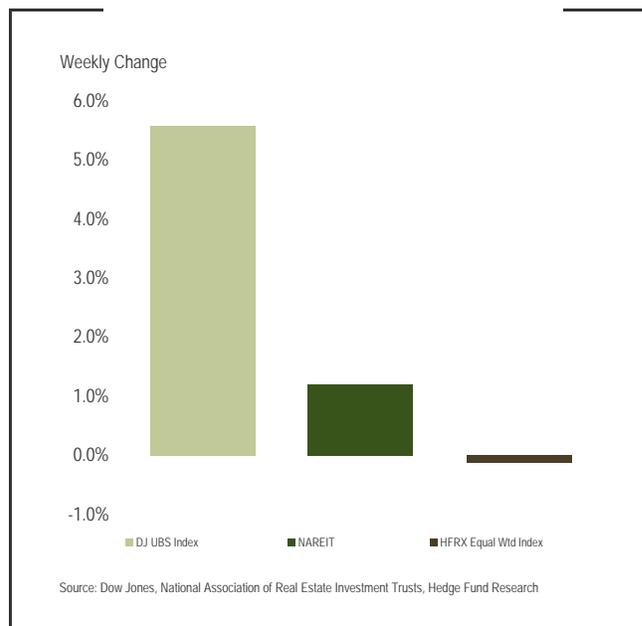
Alternative Investments Market Update

Oil rose the most in more than three years on optimism that Europe's debt crisis may be contained after leaders agreed to ease repayment rules for emergency loans to Spanish banks and relax conditions on help for Italy. Outperforming other commodities and overlooking the latest bearish news of weak consumer sentiment, crude futures gained 9.4% on Friday, trimming its biggest quarterly decline since Q4 of 2008, as leaders of the 17 euro countries dropped requirements that taxpayers get preferred creditor status on aid to Spain's banks. Many analysts believe prices may advance after the European Union's ban on the purchase, transport, financing and insurance of Iranian crude starts on July 1. Oil prices have lost value in recent weeks against a backdrop of euro anxiety and weak industry fundamentals due to plentiful oil inventories and weak demand. But Friday's news spurred a rally, as investors overlooked a negative consumer sentiment survey to send futures higher. However, crude is down roughly 18% this year and has dropped 21% this quarter. Also falling were the prices at the pump, as regular gasoline averaged nationwide, dropped 0.4 cents to \$3.369 a gallon this week, according to AAA. Gasoline prices have dropped 14% this so far this quarter.

Gold surged above \$1,600 an ounce on Friday, ending June with its first monthly gain in five months, as a European deal to shore up banks and cut borrowing costs lifted bullion's investment appeal. Despite this, the metal was on track to drop 4.5% for Q2, its biggest quarterly decline since Q3 of 2008. The metal, which has for the most part of the year moved in tandem with riskier assets, received a boost from heavy short-covering after losses earlier this week sent the metal close to being oversold. Physical gold buying in major consumer India picked up a little this week, a positive sign as weakness in Indian demand has undermined spot prices this year with Indian gold prices near record highs due to rupee weakness. Also, gold coin consumption, viewed by some as a market-fear gauge, tumbled in the Q2 to levels not seen since before the 2008 economic crisis, reflecting the metal's failure to attract safe-haven appeal despite economic uncertainty. For the week, gold settled at \$1,597.90 an ounce, up \$25.40 or 1.62%.

Issue	Previous Week	Current ¹	Change
Gold	1,572.50	1,597.90	1.62%
Crude Oil Futures	80.14	84.81	5.83%
Copper	331.80	349.70	5.39%
Sugar	19.75	21.01	6.38%
HFRX Equal Wtd. Strat. Index	1,111.06	1,109.71	-0.12%
HFRX Equity Hedge Index	1,009.03	1,005.81	-0.32%
HFRX Equity Market Neutral	935.17	932.12	-0.33%
HFRX Event Driven	1,351.81	1,344.72	-0.52%
HFRX Merger Arbitrage	1,521.14	1,513.83	-0.48%
Dow Jones UBS Commodity Index	128.27	135.42	5.58%
FTSE/NAREIT All REIT	150.06	151.85	1.19%

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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