MainStreet Advisors
Financial Market Update

July 13, 2012

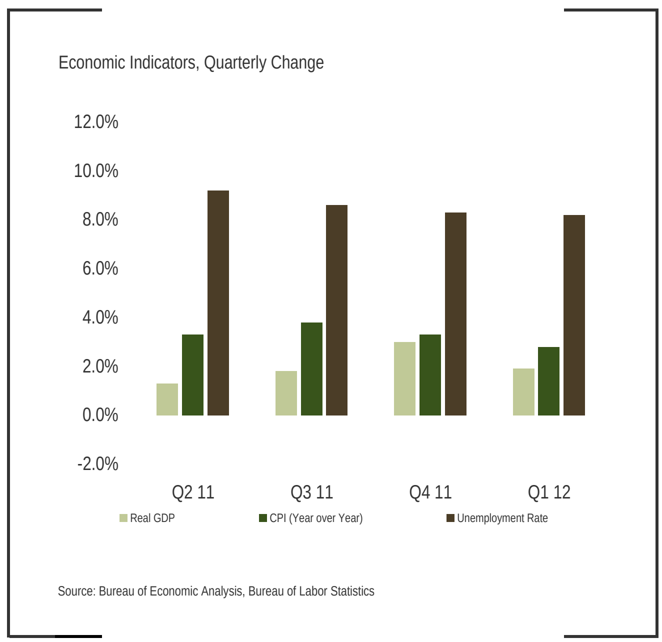
Economic Update

Minutes released this week from the Federal Reserve's June meeting showed some members voicing their concerns over the risks their accommodative policies might have for the bond market. "Some members noted the risk that continued purchases of longer-term Treasury securities could, at some point, lead to deterioration in the functioning of the Treasury securities market that could undermine the intended effects of the policy," the minutes said. This is because the Fed's open market operations manipulate the Treasury market and weaken its ability to serve as a signal on a number of different things including inflation expectations and the outlook for the U.S. economy.

The U.S. trade balance improved as expected in May thanks to lower oil prices. The trade deficit narrowed $1.9 billion to $48.7 billion. Exports rebounded 0.2 % following a 0.9% dip the previous month, and imports fell a further 0.7% after dropping 1.6% in April. The petroleum gap shrank $3.2 billion while the services surplus improved $0.2 billion. The numbers are mildly encouraging, and indicate more money is staying here in the U.S. to help support domestic demand.

The number of Americans filing for first-time unemployment benefits plummeted to its lowest level in over four years, according to the Labor Department. Initial claims for the week ended July 7 were down 26,000 to 350,000. Unfortunately we can't break out the cigars just yet as the number was clouded by a delay in summer automotive plant shutdowns due to low inventory. The number is likely to reverse some as plants eventually do shutdown to retool.

The housing market saw more than one million foreclosure filings in the first half of the year, up 2% from the previous six months, according to RealtyTrac. Most of the increase has come after the $26 billion "robo-signing" settlement was approved in April. On a positive note, though, more than 700,000 fewer homeowners were underwater on their mortgages in the first quarter, according to CoreLogic. Homeowners with equity are much less likely to default on their mortgage than those who owe more than their home is worth.



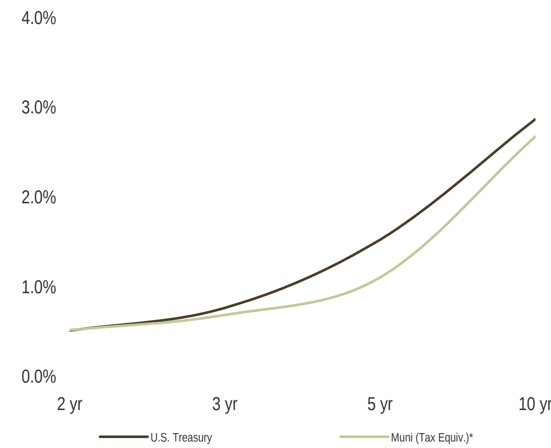
Jul. 9th	Consumer Credit, May Monthly Change	17.1B
Jul. 10th	ICSC-Goldman Same Store Sales, Wkly. Chg.	2.0%
Jul. 11th	MBA Purchase Applications Index, Wkly. Chg.	-2.1%
Jul. 11th	International Trade Balance Level, May	-48.7B
Jul. 11th	Wholesale Inventories, May Monthly Chg.	0.3%
Jul. 11th	EIA Petroleum Status Report, Wkly. Chg.	-4.7M Barrels
Jul. 12th	Initial Jobless Claims (week ending 7/7)	350,000
Jul. 12th	Import Prices, June Monthly Chg.	-2.7%
Jul. 12th	Export Prices, June Monthly Chg.	-1.7%
Jul. 12th	EIA Natural Gas Report, Wkly. Chg.	33 bcf
Jul. 13th	Producer Price Index, June Monthly Chg.	0.1%
Jul. 13th	Consumer Sentiment Index, June	72

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

U.S. Treasuries finished the week modestly higher after a light trading week. The market's muted reaction to a series of headlines this week speaks to a trend traders have been noticing – with 10-year yields below 1.5%, analysts feel the market has already priced in a weak outlook on the global economy and eurozone debt crisis. To break out of these levels, we will likely need to see some form of a grand gesture from policy makers. Safe-haven bond markets continue to see yields fall to all-time lows as U.S. two-year Treasury notes sold at auction with new record-low levels earlier this week. A similar trend carried over to some of the European countries, with short-dated Dutch bonds sinking into negative-yield territory. Meanwhile, 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 extremely low expected return/high risk opportunity. Finally, despite significant uncertainties in the markets, we feel pockets of opportunity remain, including: structured products in which credit prepayments may be mispriced, such as GNMA bonds; unpopular sectors, such as investment grade financial sector bonds, particularly large U.S. banks; municipal bonds given a strong demand/supply backdrop; and high yield securities, especially floating rate note mutual funds.

Yield Curves

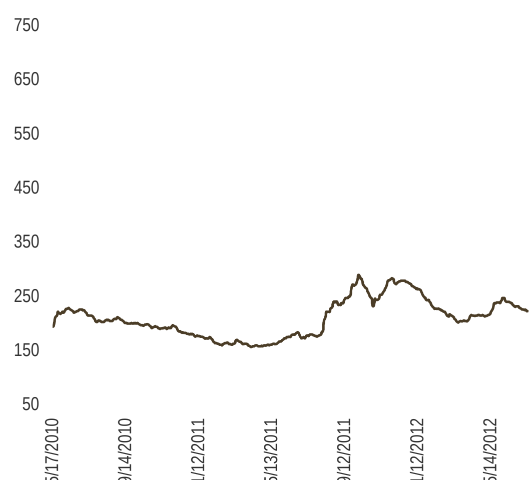


Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	7.6.12	7.13.12	Change
3 month T-Bill	0.08%	0.10%	0.02%
2-Year Treasury	0.27%	0.25%	-0.02%
5-Year Treasury	0.64%	0.63%	-0.01%
10-Year Treasury	1.57%	1.52%	-0.05%
30-Year Treasury	2.66%	2.58%	-0.08%

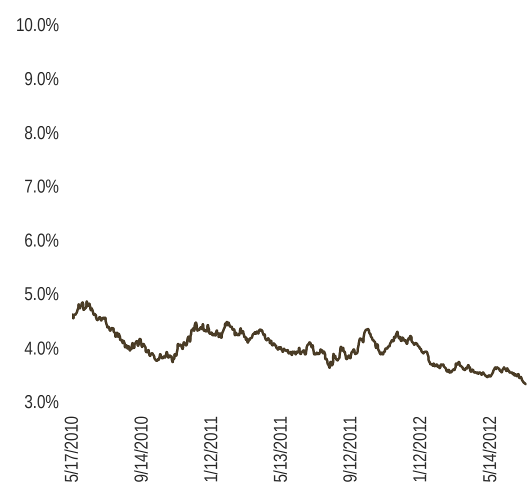
Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.

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

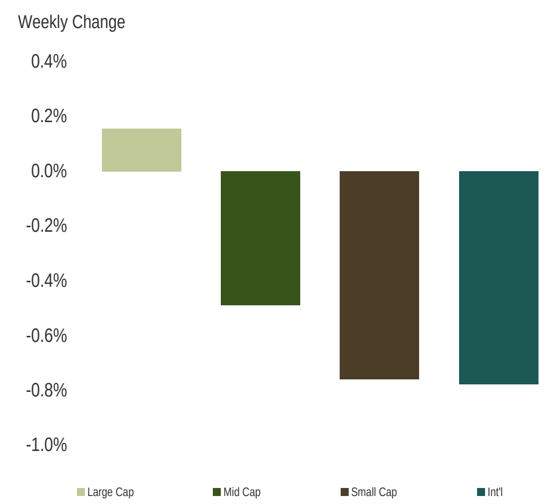
After six straight days of declines, the longest losing streak since May, stock markets were very strong across the board on Friday to end the week mainly in positive territory. Economic data from across the globe was in-line with expectations, and positive earnings reports from JP Morgan and Wells Fargo sent stocks soaring. The Dow Jones Industrial Average closed at 12777.09, even for the week. The S&P 500 Index closed at 1356.78, also flat compared to last week. The NASDAQ Composite Index ended the week 2908.47, 0.98% lower than last Friday.

China reported a drop in second quarter GDP to 7.6% from 8.1% in the first quarter, but the number is still consistent with expectations. Industrial production also declined slightly from 9.6% to 9.5%. On a positive note, urban area fixed-asset investment growth accelerated to 20.4% in the first half of 2012 from 20.1% in the first five months of the year. The Shanghai Composite Index fell 1.7% for the week. Analysts predict the Chinese government will now be forced to provide stimulus to improve the economy in the second half of the year. Germany reported industrial output improved 1.5% in May from the previous month, when it fell 2%, helping the DAX finish the week up 2.3%. Manufacturing output also increased in the UK by 1.2%, well ahead of expectations of a 0.2% from last month. Total eurozone industrial production rose 0.6% compared to the 1.1% decline reported in April.

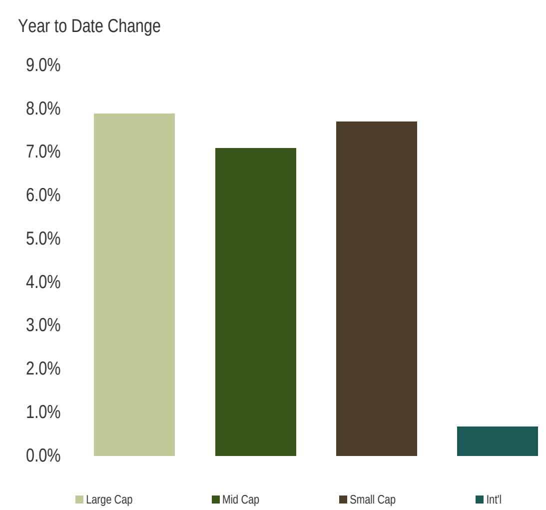
Earnings season began this week with Alcoa reporting an 81% decline in operating income due to anticipated production cuts and the general global slowdown. JP Morgan's results reported on Friday included a lower than expected $4.4 billion loss on synthetic credit derivatives. The company also announced a decline in credit-loss provisions to $214 million, down significantly from $1.81 billion last year and $726 million in the first quarter. JP Morgan stock finished up 5% on Friday.

Issue	7.6.12	7.13.12	Change
Dow Jones	12,772.47	12,777.09	0.04%
S&P 500	1,354.68	1,356.78	0.16%
NASDAQ	2,937.33	2,908.47	-0.98%
Russell 1000 Growth	634.44	632.06	-0.38%
S&P MidCap 400	947.29	942.68	-0.49%
Russell 2000	807.02	800.91	-0.76%
MSCI EAFE	1,413.83	1,402.86	-0.78%
MSCI Small Cap	955.18	914.07	-1.15%

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.

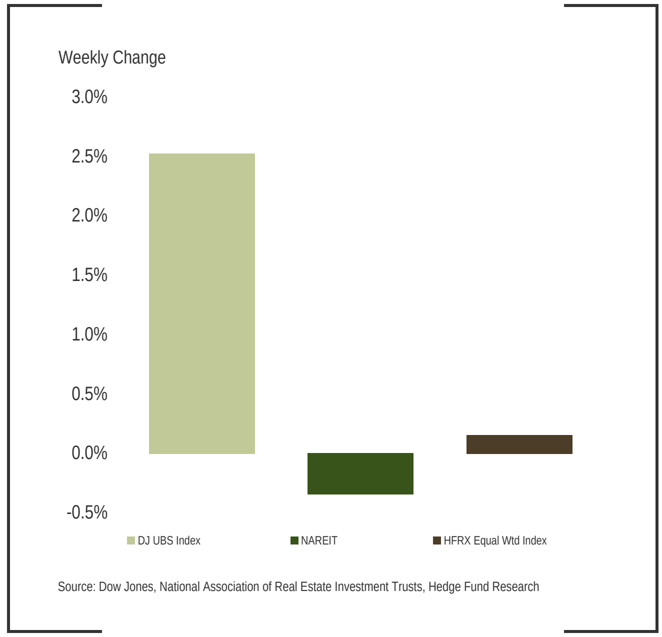


Source: Standard & Poor's, Russell Investment Company, MSCI



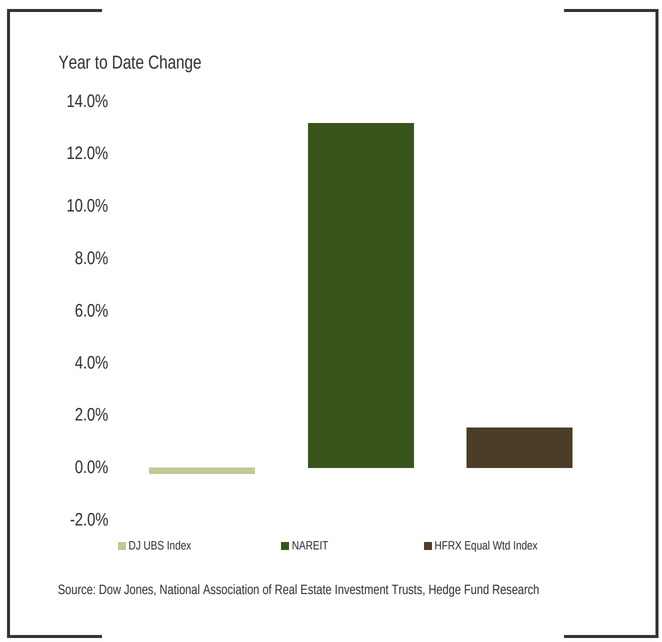
Source: Standard & Poor's, Russell Investment Company, MSCI

Alternative Investments Market Update



Lifted by sharp rallies in equities and commodities, gold rose on Friday, after data showed that China's economic growth, though slower, was still stronger than expected. The precious metal was up 0.31% for the week, settling at $1,588.10 an ounce. China's year-over-year growth was 7.6% in Q2, below the 8% level that triggered a response from policymakers in previous downturns. China's growth rate slowed for a sixth successive quarter to its weakest pace in more than three years, but economists anticipated much worse due to signs of a slowdown in the U.S. and Europe. The precious metal held gains after data showed U.S. consumer sentiment fell in early July to its lowest level in seven months while producer prices rose only slightly last month, suggesting inflation pressures remain muted for the time being, leaving the door open for further easing by the Federal Reserve.

The Obama administration sanctioned the National Iranian Tanker Co. (NITC) and four alleged front companies for Iran's oil trade. This is the latest move by the U.S. to curtail Iran's petroleum sales until Iran abandons illicit aspects of its disputed nuclear program. In a report from Bloomberg, the U.S. Treasury Department announced this week it would freeze American assets belonging to the tanker operator and block the company's transactions from the U.S. financial system. Crude oil rose after the U.S. announced these sanctions aimed at the second-biggest crude producer in the Organization of Petroleum Exporting Countries (OPEC), closing the week at $87.05 a barrel, or up 3.45%.



Retail real estate investment trusts (REITs), in particular Shopping Centers and Regional Malls, are beginning to look more attractive after gaining 6% last month, now up 21.15% for the year. Shopping malls have been hit hard since the financial meltdown, and less upscale properties suffered the most. With shoppers migrating to higher-end malls, many of these sites are being recycled into office space or apartments. Some experts believe approximately 10% of the current mall space will be reutilized in this manner. As vacancies decrease and rents increase coupled with consumers continuing to shop, this sector is expected to finish the last half of the year just as it started.

Issue	Previous Week	Current[1]	Change
Gold	1,583.20	1,588.10	0.31%
Crude Oil Futures	84.15	87.05	3.45%
Copper	341.85	349.45	2.22%
Sugar	22.25	22.73	2.16%
HFRX Equal Wtd. Strat. Index	1,112.42	1,114.13	0.15%
HFRX Equity Hedge Index	1,016.78	1,011.33	-0.54%
HFRX Equity Market Neutral	937.45	937.65	0.02%
HFRX Event Driven	1,350.14	1,346.88	-0.24%
HFRX Merger Arbitrage	1,510.04	1,512.33	0.15%
Dow Jones UBS Commodity Index	136.89	140.34	2.53%
FTSE/NAREIT All REIT	156.98	156.44	-0.34%

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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