

# MainStreet Advisors Financial Market Update

July 20, 2012  
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## Economic Update

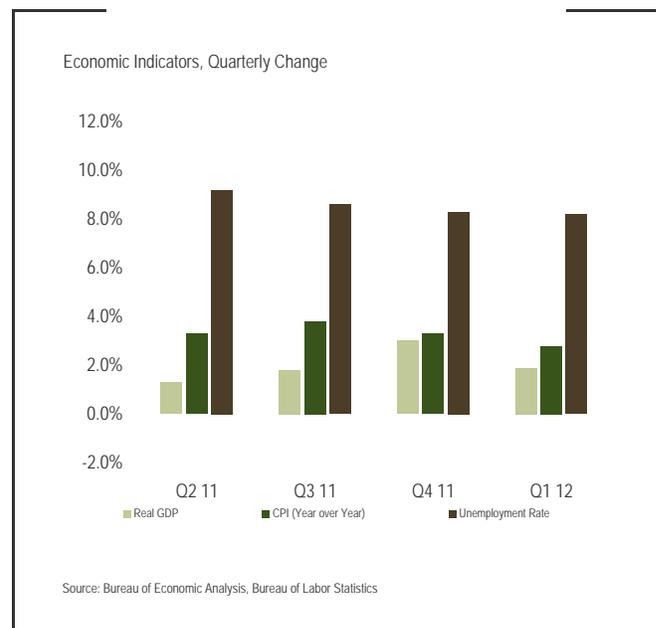
Retail sales came in Monday lower than expected at -0.5% for the month of June after falling 0.2% in May. Analysts had predicted a slight rise in retail sales for June based on positive automotive manufacturing forecasts, but motor vehicle sales fell 0.6% for the month. Core figures showed weakness across the board; no one category stood out as a major detractor or gainer. Year-over-year retail sales were up 3.8%, a positive figure but slightly discouraging after a 5.1% gain in May. With recent weakness in the job market the consumer seems to be withholding some purchases.

Industrial Production was up 0.4% in June beating analyst predictions and demonstrating a significant comeback after a 0.2% decline in May. The manufacturing component gained 0.7% helped by a 2% increase in motor vehicles output. Excluding autos manufacturing gained a healthy 0.6%. Mining output also gained 0.7% for the month. Positive manufacturing numbers are a plus for the output side of the economy as long as demand can keep up; this may not be the case, however, as new orders have been weaker in recent months.

Inflation was unchanged as gasoline prices fell significantly for the third straight month, causing the energy index to fall 1.4%. The food index rose 0.2%, and indices for medical care, apparel and recreation all gained substantially. The Federal Reserve has expressed varying views on inflation forecasts, and a flat June report should not change any opinions. The year-over-year figure maintains at 1.7%, seasonally adjusted.

Low mortgage rates have resulted in a refinancing spike as the Refinancing Index jumped 22% this week with HARP loans accounting for almost a quarter of the increase. The average contract rate for 30-year fixed mortgages declined to 3.74%, the lowest rate ever recorded. June housing starts came in at 760,000, 6.9% higher than the revised May number and up 23.6% from June of last year. Housing permits fell in June by 3.7% from May numbers, but was up 19.3% year-over-year. We see a steady, albeit slow, increase in starts since the January 2009 lows of fewer than 500,000 starts, but the 760,000 figure released today is still well below 2006 peaks of over 2,200,000 (all seasonally adjusted).

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.

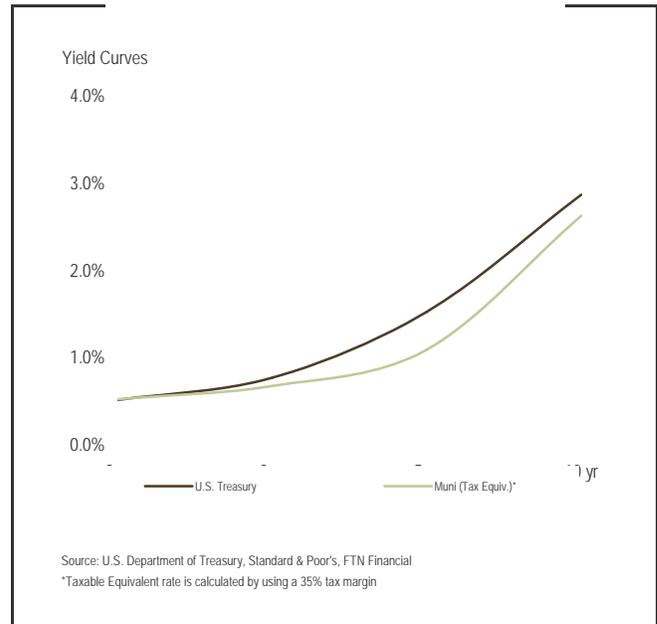


Jul. 16 <sup>th</sup>	Retail Sales, June Monthly Chg.	-0.5%
Jul. 16 <sup>th</sup>	Empire State Mfg Survey, July	7.39
Jul. 16 <sup>th</sup>	Business Inventories, May Monthly Chg.	0.3%
Jul. 17 <sup>th</sup>	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.0%
Jul. 17 <sup>th</sup>	Consumer Price Index, June Monthly Chg.	0.0%
Jul. 17 <sup>th</sup>	Industrial Production, June Monthly Chg.	0.4%
Jul. 17 <sup>th</sup>	Housing Market Index, July	35.0
Jul. 18 <sup>th</sup>	MBA Purchase Applications Index, Wkly. Chg.	16.9%
Jul. 18 <sup>th</sup>	Housing Starts, June	760,000
Jul. 18 <sup>th</sup>	EIA Petroleum Status Report, Wkly. Chg.	-0.8M Barrels
Jul. 19 <sup>th</sup>	Initial Jobless Claims (week ending 7/14)	386,000
Jul. 19 <sup>th</sup>	Existing Home Sales, June SAAR	4.37M
Jul. 19 <sup>th</sup>	Philidelphia Fed Survey, July	-12.9
Jul. 19 <sup>th</sup>	Leading Indicators, June Monthly Chg.	-0.3%
Jul. 19 <sup>th</sup>	EIA Natural Gas Report, Wkly. Chg.	28 bcf

Bond Market Update

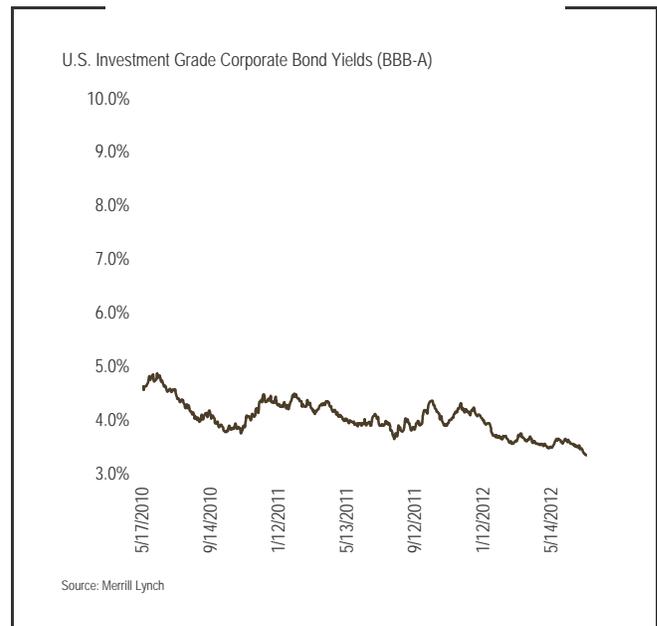
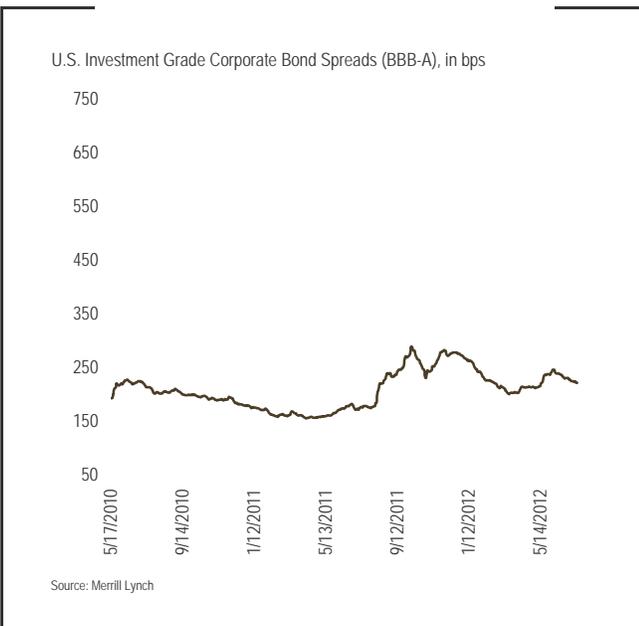
Foreign bond markets were decidedly risk-off as German 2-year notes traded with negative yields for the first time ever due to difficulties for Spanish sovereign debt. Spain auctioned 2-, 5-, and 10-year notes with bids coming in weak and coverage ratios well below levels seen as recently as last month. Spanish 2-year yields jumped well over 5% and 10-year notes topped the psychologically important 7% level. The elevation and flattening of the Spanish yield curve is reminiscent of national bond markets of nations that eventually requested bail outs. The bond market action led to additional calls for EU support for market intervention as analysts indicate that without a European Central Bank (ECB) bond buying program, any bit of bad news out of the periphery can quickly sends yields on their sovereigns soaring.

Domestically, bonds rallied across the risk spectrum with myriad domestic indices posting positive returns for the week. The broad rally signified a departure from typical market action over the last year where either the dollar and Treasuries or investment grade and high yield rallied but not both. This week corporate bonds provided solid returns while Treasuries were also bid well with 10-year yields dipping to as low as 1.46%.



Issue	7.13.12	7.20.12	Change
3 month T-Bill	0.08%	0.09%	0.01%
2-Year Treasury	0.27%	0.22%	-0.05%
5-Year Treasury	0.64%	0.59%	-0.05%
10-Year Treasury	1.57%	1.49%	-0.08%
30-Year Treasury	2.66%	2.55%	-0.11%

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



Stock Market Update

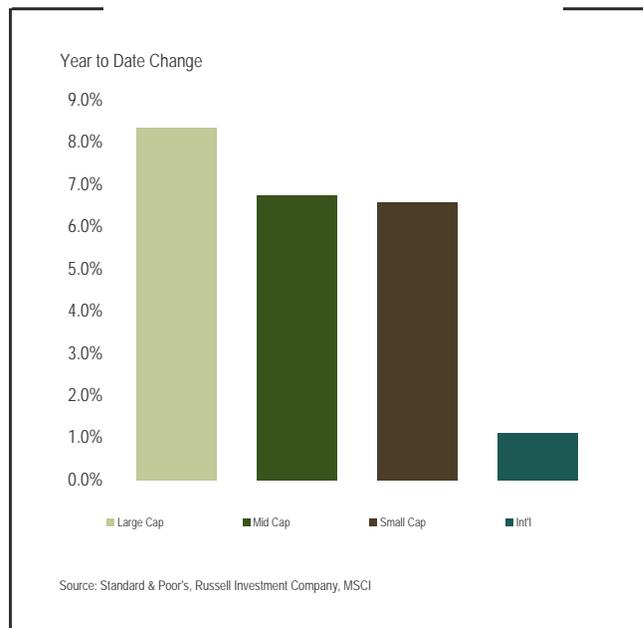
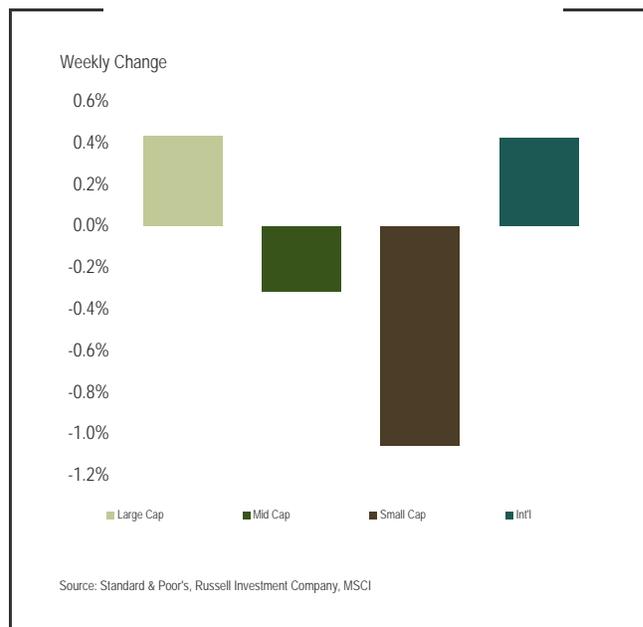
Domestic and international stock markets continued to struggle to find direction amid mixed economic signals. Domestically, weaker than expected retail sales and initial jobless claims reports offset better June housing start numbers. Markets retreated on Friday, but were able to hold on to slight gains for the week. The Dow Jones Industrial Average closed at 12822.57 up 0.36% for the week. The S&P 500 Index closed at 1362.66, a gain of 0.4% over last week. The NASDAQ Composite Index fared slightly better and managed to end the week at 2925.30, 0.6% higher than last Friday.

European stocks fell on Friday, paring the weekly advance, after eurozone finance ministers gave final approval to a 100 billion euro bailout for Spanish banks. A downward revision to growth expectations in Spain sent the yield on 10-year Spanish bonds back above 7%. Stocks in China fell for a fifth consecutive week over concerns about an economic slowdown and reduced earnings estimates. China's Shanghai Composite Index finished the week with a 0.8% decline. Japanese stocks also declined for the week, with the Nikkei Stock Average losing 0.6% for the week.

Domestically, the equity markets reacted positively to earnings reports that have generally been better than reduced expectations. Of the 118 S&P 500 companies to report so far, 67% have beaten estimates. Also, in line guidance for the rest of 2012 has eased some investors' fears of a larger slowdown in earnings. IBM, Google, Microsoft and EBay all reported better than expected numbers and saw their shares rise this week. Major averages in the U.S. were down around 1% on Friday, trimming the gains for the week. Corporate earnings will continue to be the focus of the market through August. Investors will try to get a sense of how the rest of the year will pan out as companies adjust their projections for the next two quarters.

Issue	7.13.12	7.20.12	Change
Dow Jones	12,777.09	12,822.57	0.36%
S&P 500	1,356.78	1,362.66	0.43%
NASDAQ	2,908.47	2,925.30	0.58%
Russell 1000 Growth	632.06	636.85	0.76%
S&P MidCap 400	942.68	939.72	-0.31%
Russell 2000	800.91	792.45	-1.06%
MSCI EAFE	1,402.86	1,408.83	0.43%
MSCI Small Cap	914.07	941.13	0.77%

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 ended the week on a positive note over improved market sentiment as Russia revealed it had boosted its bullion reserves in June; however, losses in other commodities amid uncertainty over the ongoing eurozone debt crisis limited further gains. The metal struggled early on as the euro tumbled once Spain's Valencia region said it would seek central government help to repay its debts, heightening fears over the fiscal problems of the eurozone's fourth-largest economy. Gold investors also took notice as Russia's central bank raised its gold reserves by 6.2 tonnes to 836.3 tonnes in June. In addition, lackluster U.S. economic data stirred deflation worries, denting gold's inflation-hedge appeal. The precious metal ended the week at \$1,583.70 an ounce, down 0.28%. Oil fell for the first time in eight days on Friday over concern that European governments were not doing enough to contain the worsening debt crisis, raising speculation that demand will slip. Prices dropped from a two-month high as Spain's cost of borrowing rose to a record after euro-area finance ministers gave final approval to a bank bailout for the country. For the week, crude ended up 5.04%, or \$4.39, to settle at \$91.44 a barrel.

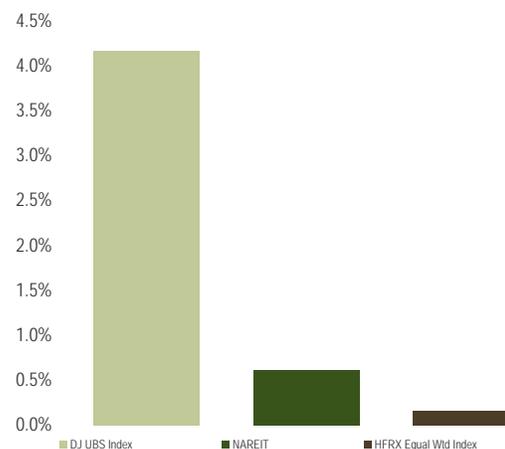
Investors dumped \$43.3 billion into hedge funds in Q2 for net inflows of \$4.1 billion, according to the latest figures from Hedge Fund Research (HFR). Q2 totals bring net year-to-date inflows to over \$20 billion. Having said that, hedge fund capital declined 1.3% from a record \$2.13 trillion in Q1 to \$2.10 trillion in Q2 as the HFR Fund Weighted Composite Index for Q2 declined 2.7%. HFR went on to note that, as in previous quarters, large funds continued to be the biggest benefactors of increased inflows with more than \$11 billion going to firms with over \$5 billion AUM in Q2. Firms with less than \$5 billion AUM experienced net redemptions of about \$6.9 billion. HFR stated about 30% of all funds experienced net inflows in the second quarter of 2012 while 70% experienced net outflows. So far through July, the average hedge fund has risen 0.56%, according to the HFRX Global Hedge Fund Index, pushing the benchmark to up 1.79% through the first half of the year. All but three of the strategies and sub-strategies tracked by Hedge Fund Research were up through mid-July as well.

Issue	Previous Week	Current <sup>1</sup>	Change
Gold	1,588.10	1,583.70	-0.28%
Crude Oil Futures	87.05	91.44	5.04%
Copper	349.45	344.40	-1.45%
Sugar	22.73	23.92	5.24%
HFRX Equal Wtd. Strat. Index	1,114.13	1,115.89	0.16%
HFRX Equity Hedge Index	1,011.33	1,018.16	0.68%
HFRX Equity Market Neutral	937.65	936.35	-0.14%
HFRX Event Driven	1,346.88	1,347.90	0.08%
HFRX Merger Arbitrage	1,512.33	1,509.07	-0.22%
Dow Jones UBS Commodity Index	140.34	146.19	4.17%
FTSE/NAREIT All REIT	156.44	157.39	0.61%

<sup>1</sup> Prices reflect most recent data available at the time of publication

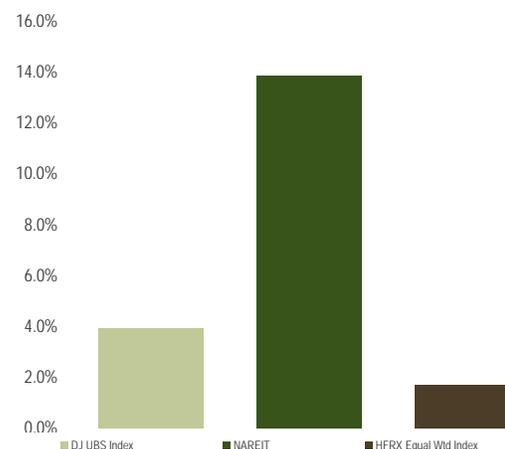
Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research, Bloomberg, The Wall Street Journal, The International Monetary Fund.

Weekly Change



Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research

Year to Date Change



Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research

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