

# MainStreet Advisors Financial Market Update

March 28, 2013  
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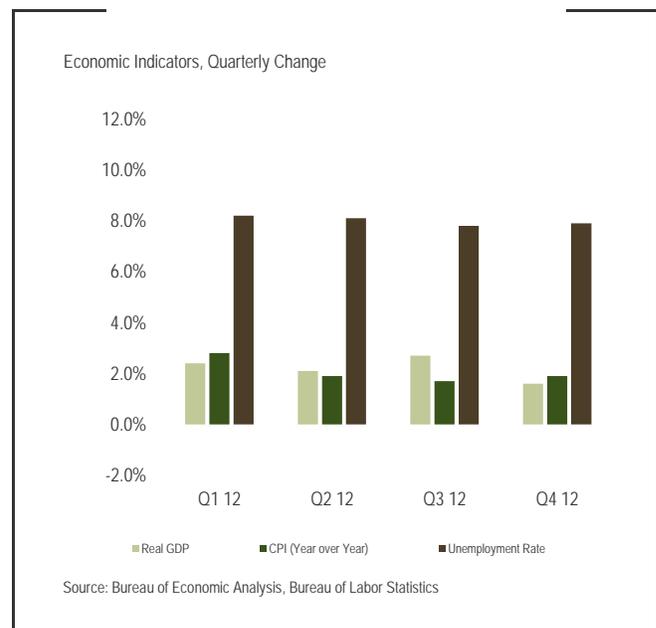
## Economic Update

After days of frantic negotiations a deal was struck on Monday to stave off the disorderly collapse of Cyprus' two largest banks – the Bank of Cyprus and Popular Bank of Cyprus – and a likely exit from the eurozone for the tiny Mediterranean country. The new bailout plan protects deposits of less than €100,000 but will result in a "haircut" totaling about €4.2 billion from larger depositors at the two banks. Shareholders and bondholders of the two banks will likely be completely wiped out as the two are broken up into a "good bank" and a "bad bank". Long lines formed as Cypriot banks opened again to customers for the first time in two weeks on Thursday. So far things appear to be orderly, and with strict limits on cash withdrawals a run on the banks has not occurred.

The third estimate of fourth quarter GDP was revised up slightly to 0.4% from the second estimate of 0.1%. The upward revision was largely due to a smaller net export gap and stronger growth in nonresidential structures. Despite the uptick, fourth quarter GDP is still underwhelming largely due to temporary factors. The initial estimate for first quarter GDP will be released in one month and consensus expectations are for much stronger growth.

The housing market data released this week is showing a mix of lower sales volume but higher prices. New home sales dropped 4.6% in February to an annual pace of 411,000 while the median sales price rose 3.0% to \$246,800. The downtick in sales volume coupled with a small increase in inventory helped the supply increase to 4.4 months from 4.2 months in January. The S&P Case-Shiller 20-City index, whose data is a little staler, showed a price increase of 1.0% in January.

Consumer confidence fell 8.3 points in March to 59.7, eliminating most of the rebound seen in February. Higher payroll taxes and gas prices were contributing factors to the drop. Despite the decline in the overall number, plans to buy houses are up which is a good sign for the housing market. However the lack of confidence does raise questions about the consumers' willingness to spend.



Mar. 26 <sup>th</sup>	ICSC-Goldman Same Store Sales, Wkly. Chg.	-1.7%
Mar. 26 <sup>th</sup>	Durable Goods New Orders, Feb. Monthly Chg.	5.7%
Mar. 26 <sup>th</sup>	S&P/Case-Shiller 20-city Index, Jan. Monthly Chg.	1.0%
Mar. 26 <sup>th</sup>	New Home Sales, February	411,000
Mar. 26 <sup>th</sup>	Consumer Confidence Index, March	59.7
Mar. 26 <sup>th</sup>	State Street Investor Confidence Index, March	88
Mar. 27 <sup>th</sup>	Pending Home Sales, Feb. Monthly Chg.	-0.4%
Mar. 27 <sup>th</sup>	EIA Petroleum Status Report, Wkly. Chg.	3.3M Barrels
Mar. 28 <sup>th</sup>	GDP Price Index, Q4 Quarterly Change SAAR	1.0%
Mar. 28 <sup>th</sup>	Real GDP, Q4 Quarterly Change SAAR	0.4%
Mar. 28 <sup>th</sup>	Initial Jobless Claims (week ending 3/23)	357,000
Mar. 28 <sup>th</sup>	Chicago PMI Business Barometer Index, March	52.4
Mar. 28 <sup>th</sup>	EIA Natural Gas Report, Wkly. Chg.	-95 bcf

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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.

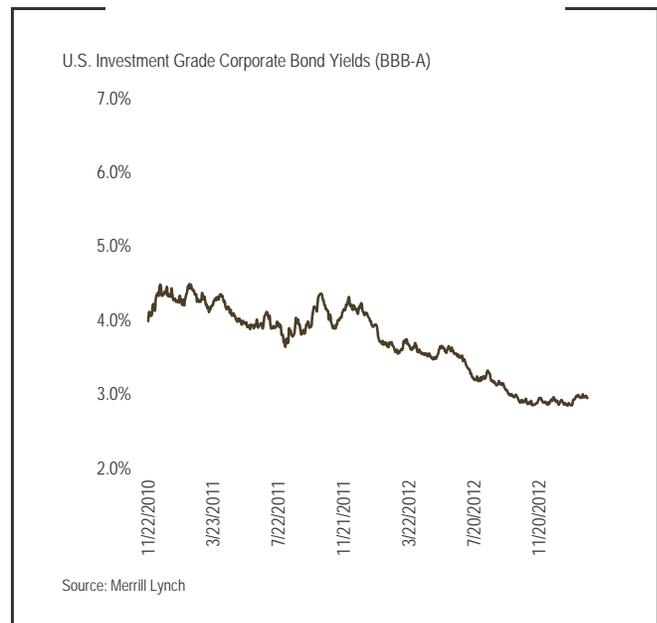
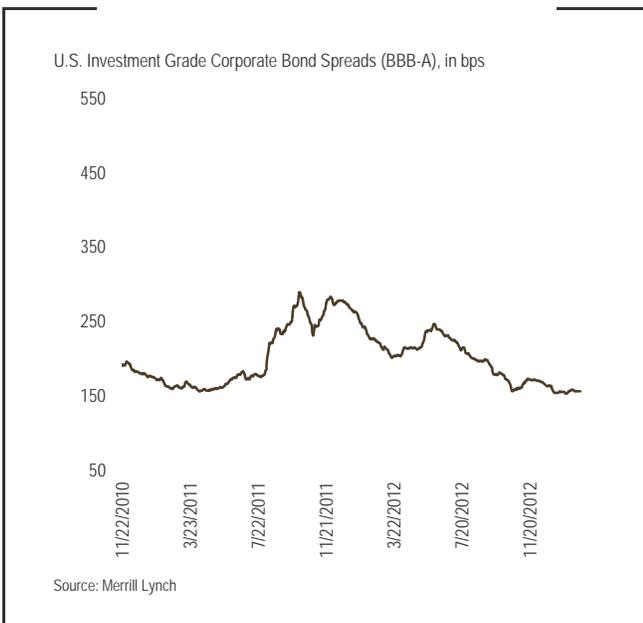
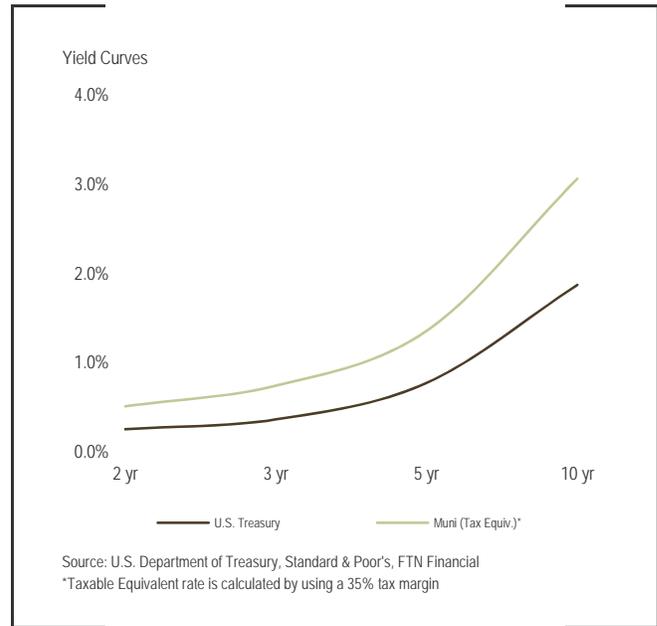
Bond Market Update

U.S. Treasury prices ended the week higher after a strong rally on Wednesday on the news from Italy, including a weaker debt auction and an unsuccessful attempt to form a coalition government. Not surprisingly, the prices of Italian bonds declined, pushing their yields further above safe-haven German bunds. Following a rescue agreement earlier this week in Cyprus, some market participants are concerned the banks in Italy, Spain and Portugal may have trouble with funding, which would be negative for bonds and the euro.

Meanwhile, the fiscal picture for most U.S. states looks solid, based on our research. The Nelson A. Rockefeller Institute of Government recently reported the U.S. state tax collection has grown for 11 straight quarters and remains above pre-recession levels. However, this may be already reflected in current yields. Nonetheless, the Barclays Municipal TR Index returned 0.25% in Q1 2013, which outpaced negative returns from U.S. Treasuries. The best performing bond segments so far this year have been riskier high yield and senior floating-rate notes. Following the recent cut of Puerto Rico general obligation debt to near junk level, S&P placed the Puerto Rico Employees Retirement System on negative credit watch this week. During the week, Fitch Ratings put the United Kingdom on watch for a possible downgrade due to higher than expected debt-to-GDP ratio. On a positive note, the agency affirmed the highest rating and stable outlook for Australia and assigned a first-ever investment grade rating to Philippines. The latter can be seen as another sign of improving credits and long-term growth potential of emerging markets.

Issue	3.21.13	3.28.13	Change
3 month T-Bill	0.07%	0.07%	0.00%
2-Year Treasury	0.26%	0.25%	-0.01%
5-Year Treasury	0.80%	0.77%	-0.03%
10-Year Treasury	1.93%	1.87%	-0.06%
30-Year Treasury	3.13%	3.10%	-0.03%

SEE IMPORTANT DISCLOSURES ON BACK PAGE. Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.



Stock Market Update

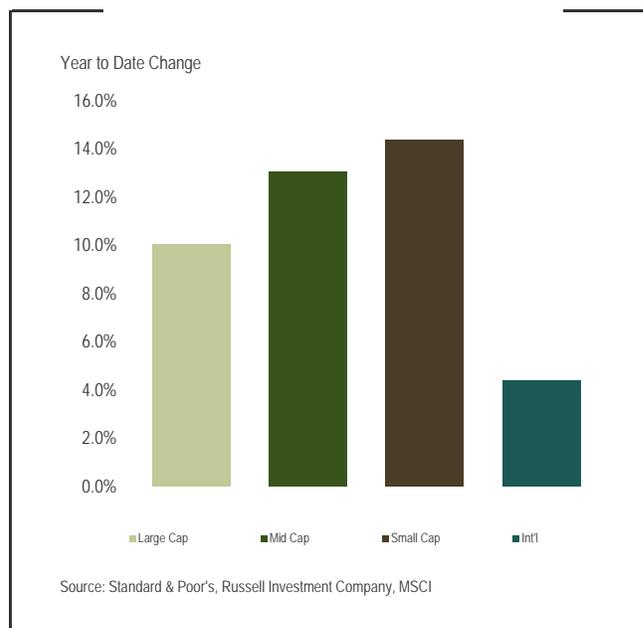
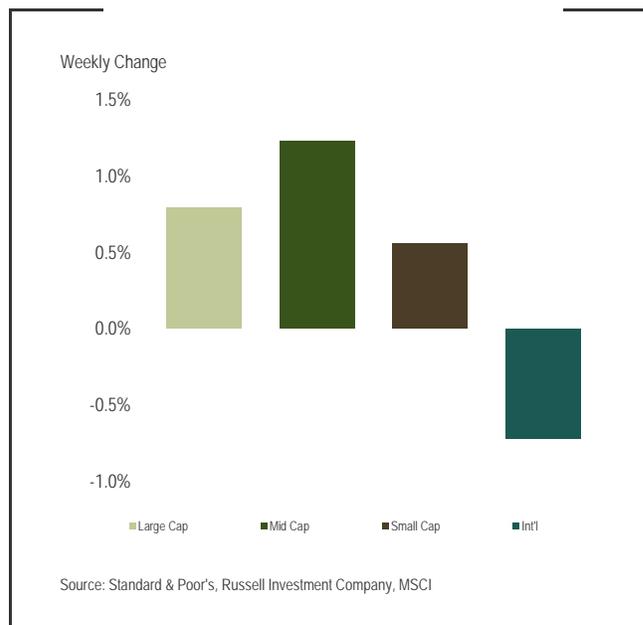
The Dow Jones Industrial Average passed its all time high earlier in the month. Similarly, the S&P 500 crossed its previous high set back in October of 2007 despite a shortened trading week and low volume on Thursday. The largest gains over the first quarter were in January; however, all three indices finished the month of March up over 3%. During the last past week the Dow Jones Industrial Average closed at 14,578.54, finishing the quarter up over 11%. The broader S&P 500 Index ended the week at an all time high to close at 1,569.19, while the NASDAQ Composite finished higher and closed the week at 3,267.52.

Several companies contributing to performance of the equities market are turnaround stories. Netflix (NFLX) has been the best performing stock in the first quarter after being a drag on performance last year. The company had several missteps in 2012 that management has overcome, and the stock finished the first quarter up over 100% to close out the month at \$189.35/share. Other turnaround companies making news in the first quarter were Best Buy (BBY) and Hewlett-Packard (HPQ), which are up 87% and 65%, respectively.

The newly rebranded Blackberry (BBRY), which launched their long delayed operating system in January, announced a surprise profit on Friday morning. Blackberry lost \$118 million dollars last year, but has rebounded posting a first quarter profit of \$94 million. The profit was due to both a cost cutting initiative and, more importantly, to the sales of its new Z10 phone. Shares of the company finished the first quarter at \$14/share, up over 20% year-to-date.

Issue	3.21.13	3.28.13	Change
Dow Jones	14,512.03	14,578.54	0.46%
S&P 500	1,556.89	1,569.19	0.79%
NASDAQ	3,245.00	3,267.52	0.69%
Russell 1000 Growth	710.96	717.88	0.97%
S&P MidCap 400	1139.67	1153.68	1.23%
Russell 2000	946.27	951.54	0.56%
MSCI EAFE	1,686.72	1,674.60	-0.72%
MSCI Small Cap	176.34	176.02	-0.18%

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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

Despite a mile-long train hauling oil from Canada to Chicago derailing and leaking 30,000 gallons of crude oil in Minnesota this week, crude managed to gain 3.42% to settle at \$97.08 a barrel for the week. Prices edged higher thanks to weak U.S. data, which sparked concerns over the strength of the country's economic recovery, while traders continued to keep a close eye on the developments in Cyprus and Italy. Prices for the commodity are on track for significant gains this month and for the first quarter of the year. Also announced this week, the Organization of the Petroleum Exporting Countries (OPEC) crude oil output is on course to reach its lowest level since October 2011 as unrest in Libya, pipeline leaks in Nigeria and Iraqi export disruptions weigh on supplies. Supply from OPEC is set to average 30.18 million barrels per day, down from 30.42 million per day in February, a Reuters survey of shipping data and sources at oil firms found this week. The survey stated that top OPEC exporter Saudi Arabia is still keeping a lid on output, trading at \$109 a barrel, well above their preferred level of \$100.

Gold ended the week down 0.74%, closing at \$1,596.38 an ounce. The precious metal is on track for a 1.6% gain in March though, the metals first monthly increase in six, amid concerns about the financial stability of the eurozone thanks in large part to the crisis in Cyprus. However, gold is on pace to finish Q1 down 4.8%, which combined with its downbeat end to 2012 led the metal to drop 10% over the past two quarters. The precious metal's recent slide has been irregular compared to historic trends, as the last time the metal fell in two consecutive quarters was in 2001, according to the Wall Street Journal.

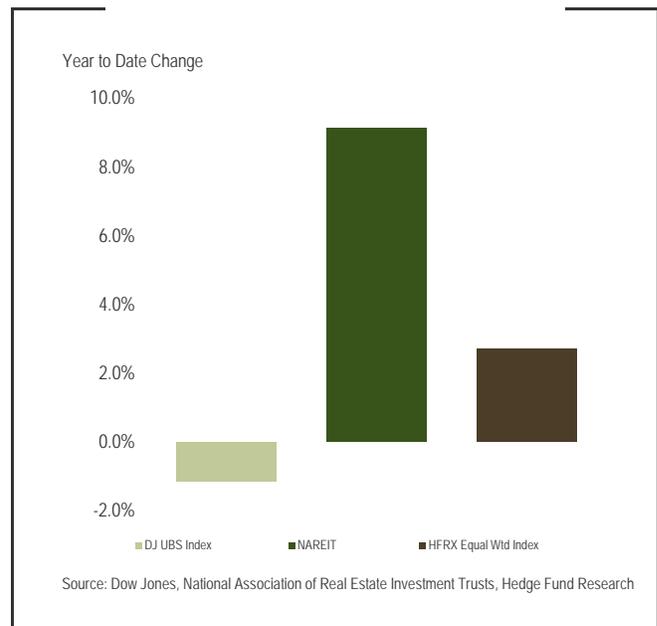
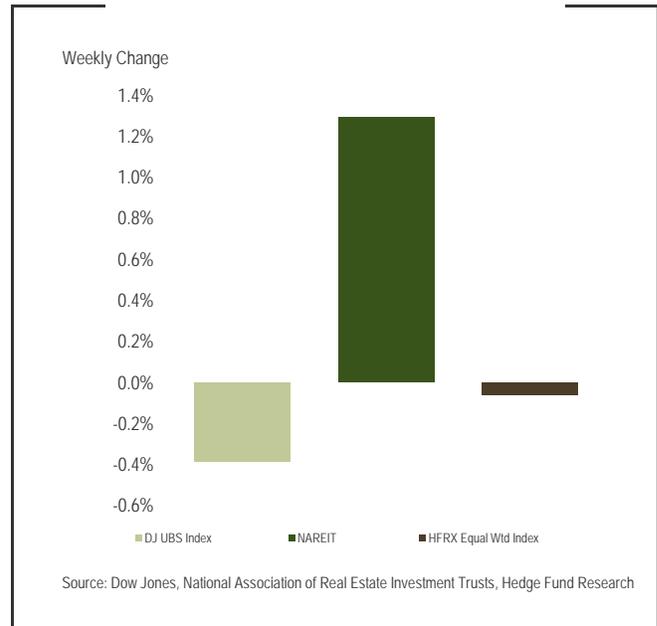
Corn plunged the most in nine months, triggering a slump in soybeans and wheat, after the U.S. government said domestic inventories were larger than analysts forecast and that farmers will harvest the most since 1936. According to the Department of Agriculture, inventories of corn fell to a nine-year low of 5.399 billion bushels in the U.S., the world's biggest grower and exporter, mostly because last year's drought cut output.

Issue	Previous Week	Current <sup>1</sup>	Change
Gold	1,608.24	1,596.38	-0.74%
Crude Oil Futures	93.87	97.08	3.42%
Copper	346.85	340.50	-1.83%
Sugar	18.20	17.66	-2.97%
HFRX Equal Wtd. Strat. Index	1,155.25	1,154.53	-0.06%
HFRX Equity Hedge Index	1,104.22	1,102.98	-0.11%
HFRX Equity Market Neutral	940.59	939.85	-0.08%
HFRX Event Driven	1,459.62	1,459.21	-0.03%
HFRX Merger Arbitrage	1,518.67	1,518.56	-0.01%
Dow Jones UBS Commodity Index	138.01	137.48	-0.39%
FTSE/NAREIT All REIT	167.99	170.16	1.29%

SEE IMPORTANT DISCLOSURES ON BACK PAGE.

<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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