

# MainStreet Advisors Financial Market Update

May 17, 2013  
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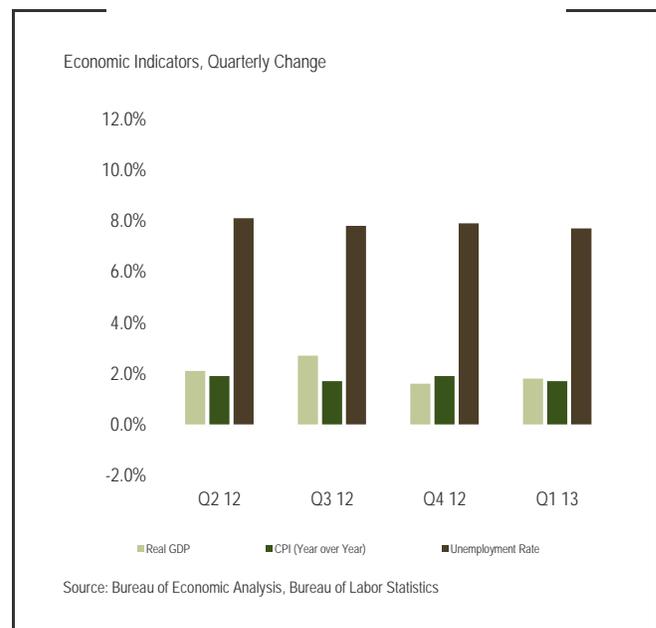
## Economic Update

Retail sales edged up 0.1% in April beating expectations for a 0.3% decline. Sales at gas stations were down 4.7%, which hurt the headline number, but was good news because it was a reflection of lower prices at the pump. Sales of motor vehicles were up 1.0% and strength was also seen in building and garden equipment, which was up 4.7%. While this is by no means a knock-out month for retail sales, it does appear that consumers are still spending despite the negative impact of the payroll tax hike. It is also interesting to note that consumer refinancing activity has not been as stimulative to consumer spending as in previous cycles. Cash-out refs made up less than 30% of all refinancing in the fourth quarter of 2012 as compared to 90% in 2008.

The NAHB housing market index rose for the first time since December climbing three points to 44. The report noted an improvement in the six-month outlook for sales at 53 even as buyer traffic remains depressed at 33. Housing starts were disappointing in April plunging 16.5% to an annualized pace of 853,000. On the bright side, housing permits jumped to over one million for the first time in five years, pointing to improvement in the summer months ahead.

Headline inflation continued its downward trend in April with the consumer price index falling 0.4% after declining 0.2% the previous month, and is now running at only 1.1% year-over-year. The energy component fell 4.3% with gasoline dropping 8.1%, while food rose a modest 0.2%. Stripping out these components core inflation nudged up 0.1% and is running at 1.7% year-over-year. Prices also fell at the producer level, declining 0.7% for the month. We have Japan's "Abenomic" monetary easing to thank for the disinflationary growth we are experiencing. As Japan crushes the value of the Yen many other countries around the world have once again started to cut rates. This has been very supportive of the U.S. dollar which has allowed equities to rise while commodity prices fall.

Germany narrowly avoided recession in the first quarter of 2013, but its return to growth was not enough to pull the eurozone economy out. France GDP declined 0.2% and the overall eurozone has now been stuck in recession for a record six consecutive quarters.



May 13 <sup>th</sup>	Retail Sales, April Monthly Chg.	0.1%
May 13 <sup>th</sup>	Business Inventories, March Monthly Chg.	0.0%
May 14 <sup>th</sup>	Import Prices, April Monthly Chg.	-0.5%
May 14 <sup>th</sup>	Export Prices, April Monthly Chg.	-0.7%
May 15 <sup>th</sup>	Producer Price Index, April Monthly Chg.	-0.7%
May 15 <sup>th</sup>	Empire State Mfg Survey, May	-1.43
May 15 <sup>th</sup>	Industrial Production, April Monthly Chg.	-0.5%
May 15 <sup>th</sup>	Housing Market Index, May	44.0
May 16 <sup>th</sup>	Consumer Price Index, April Monthly Chg.	-0.4%
May 16 <sup>th</sup>	Housing Starts, April	853,000
May 16 <sup>th</sup>	Initial Jobless Claims (week ending 5/11)	360,000
May 16 <sup>th</sup>	Philidelphia Fed Survey, May	-5.2
May 17 <sup>th</sup>	Consumer Sentiment Index, May	83.7
May 17 <sup>th</sup>	Leading Indicators, April Monthly Chg.	0.6%

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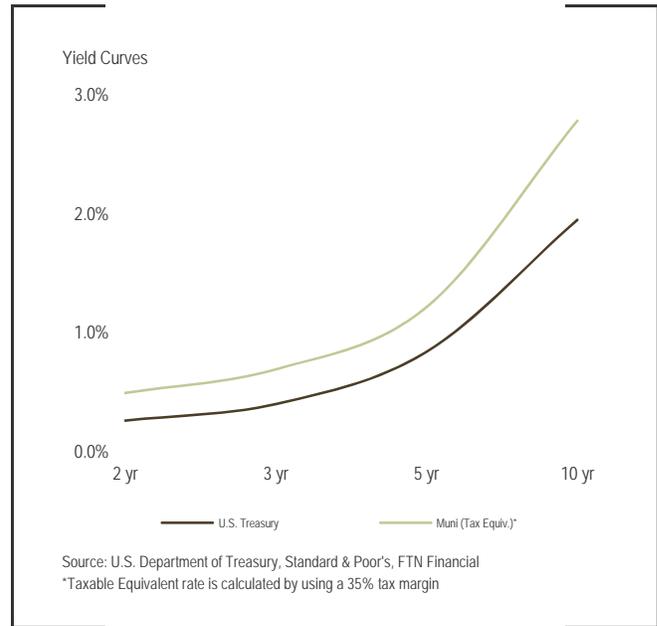
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

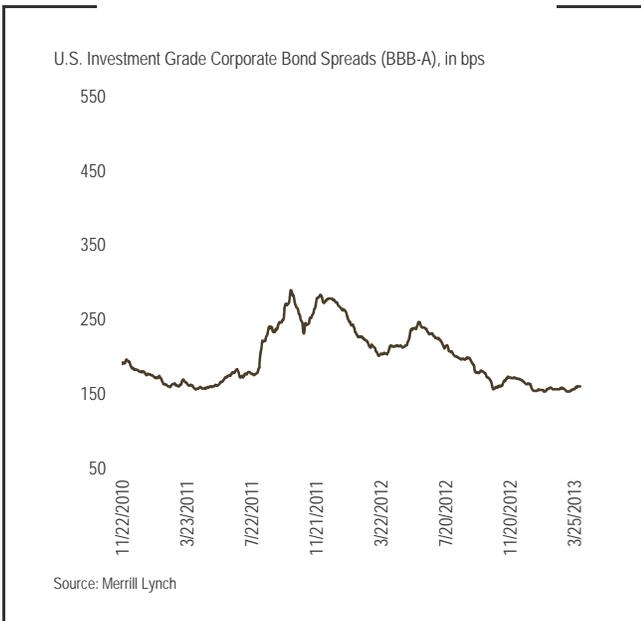
U.S. Treasuries extended their losing streak, falling modestly for the week amid stronger than expected consumer confidence and leading economic indicator reports. This data comes at a time when anxiety has been mounting the Fed could start cutting back on their bond-purchase program, suggesting yields could move higher going forward. The central bank's steady purchases have been a major factor holding bond yields near historic lows. However, on Thursday Federal Reserve Bank of San Francisco President John Williams indicated the purchase program might taper off as soon as this summer. Meanwhile, although monetary policy and the underlying health of the corporate sector remain supportive of the high-yield market in the short-term, we continue to recommend a cautious stance in this asset class from a long-term perspective. The 2003 to 2007 credit cycle may provide an instructive template on how the current cycle may eventually play out. Spreads narrowed throughout 2006 even after the Fed boosted its target lending rate. They continued to trend lower in early 2007 despite weakening corporate balance sheets. While these two factors together created a considerable headwind for high-yield, spreads still needed a catalyst before reversing direction. That catalyst appeared in mid-2007 as the Fed's Senior Loan Officer Survey indicated banks were actively tightening lending standards. With the supply of credit to low-quality firms shut down, the high-yield market declined significantly. In the short-term, we feel spreads likely trend lower. However, should the Fed begin to phase out its easy monetary policy programs and the banking sector begin tightening credit conditions, which may materialize sooner than most market participants anticipate, the high-yield sector will sell-off significantly.

Issue	5.10.13	5.17.13	Change
3 month T-Bill	0.04%	0.04%	0.00%
2-Year Treasury	0.26%	0.26%	0.00%
5-Year Treasury	0.82%	0.84%	0.02%
10-Year Treasury	1.90%	1.95%	0.05%
30-Year Treasury	3.10%	3.17%	0.07%

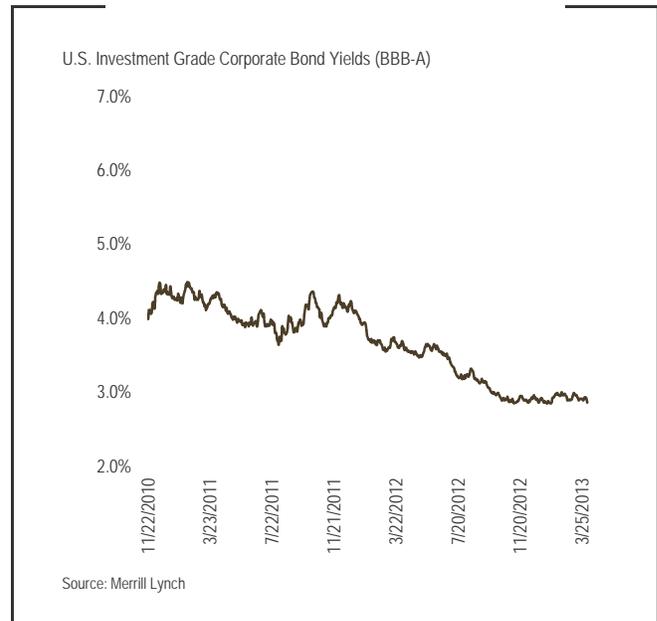
SEE IMPORTANT DISCLOSURES ON BACK PAGE. Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.



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



Source: Merrill Lynch



Source: Merrill Lynch

Stock Market Update

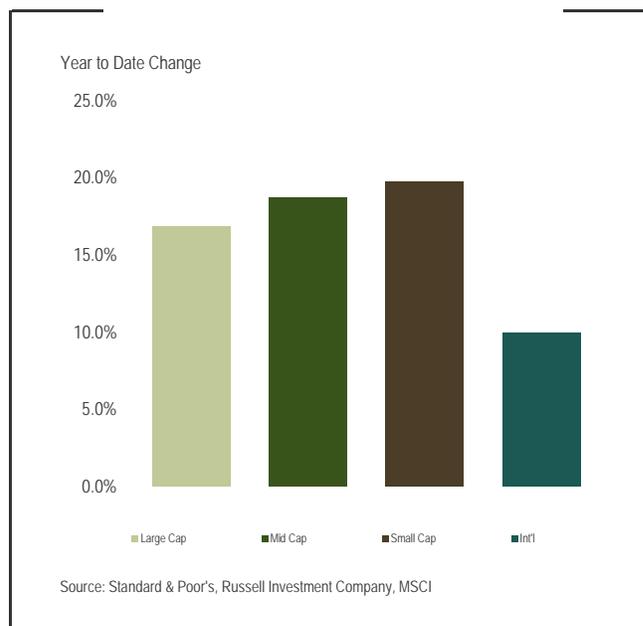
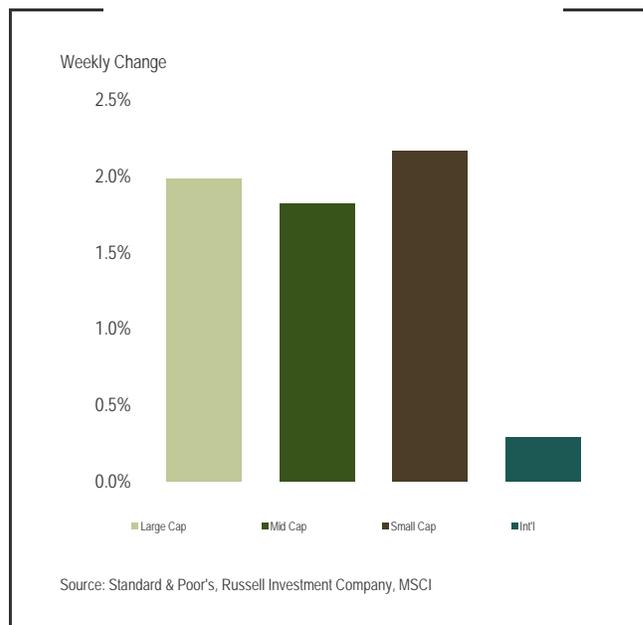
Stocks began the week on a positive note following a better than expected retail sales report. Markets declined Thursday due to concerns the Fed may soon put an end to its bond-buying program, but bounced back on Friday with the Dow up 121 points as investors cheered the rebound in April's leading economic indicators and the increase in consumer sentiment. For the week the Dow Jones Industrial Average rose 1.6%, closing at 15354.40. The broader S&P 500 Index ended 2.0% higher at 1666.12, while the NASDAQ Composite Index climbed 1.8% over the five-day trading session to finish at 3498.97.

European equities were also strong. The STOXX Europe 600 Index was up 1.2% for the week, closing at its highest level since June, 2008. The Nikkei Index climbed another 3.6%, finishing the week above 15,000 for the first time in five years. Continued yen strength and expectations that non-financial Japanese companies will post a 20% growth in pretax profits for the twelve months ending March 31, 2014 helped boost Japanese stocks.

Tech giants Cisco and Dell both reported earnings this week. Cisco's net income increased 14.5% on 5% growth in revenues. Higher sales of cloud computing data centers, video, and wireless systems were enough to offset weakness in the company's traditional switches and routers. Cisco stock closed the day up 13%. Dell's revenues fell 2% as the shift to tablets and smartphones continues to negatively impact PC demand. Several major retailers announced their quarterly results as well. Macy's same store sales beat expectations despite concerns about cooler spring weather. Management also announced a 25% increase in its annual dividend and a \$1.5 billion boost to its share buyback program. Wal-Mart's quarterly U.S. sales were below forecasts, declining for the first time since 2011.

Issue	5.10.13	5.17.13	Change
Dow Jones	15,118.49	15,354.40	1.56%
S&P 500	1,633.70	1,666.12	1.98%
NASDAQ	3,436.58	3,498.97	1.82%
Russell 1000 Growth	751.45	763.92	1.66%
S&P MidCap 400	1189.93	1,211.54	1.82%
Russell 2000	975.16	996.28	2.17%
MSCI EAFE	1,758.89	1,763.95	0.29%
MSCI Small Cap	182.58	182.19	-0.22%

SEE IMPORTANT DISCLOSURES ON BACK PAGE.  
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 fell for a seventh straight session on Friday, its longest streak in four years, as speculation that the Federal Reserve may soon rein in monetary easing lifted the dollar. The dollar rose, hitting a near three-year high against a currency basket, helped by comments from San Francisco Fed chief John Williams earlier this week that the bank could begin easing up on stimulus this summer. Constant outflows from gold-backed exchange-traded funds have also undermined the metal. Shares in SPDR Gold Trust (GLD) dropped nearly 6% this week and are down almost 15% quarter to date. Oil had a volatile week, registering modest gains the past two sessions, settling into an almost flat pattern as contradictory data has pulled the price in two directions. Weak data out of the U.S., the largest oil consumer, and a growing oil glut continue to put downward pressure on crude prices. A factor that has had the ability to limit the impact on supply is the U.S. bottleneck effect, which is the difficulty in moving large amounts of oil from landlocked production regions to the coast. China, another one of the world's major crude consumers, is also seeing a slowdown in its oil-driven industries. According to China's National Bureau of Statistics, the country's refinery activity dropped to 9.36 million barrels a day in April, the lowest since August 2012.

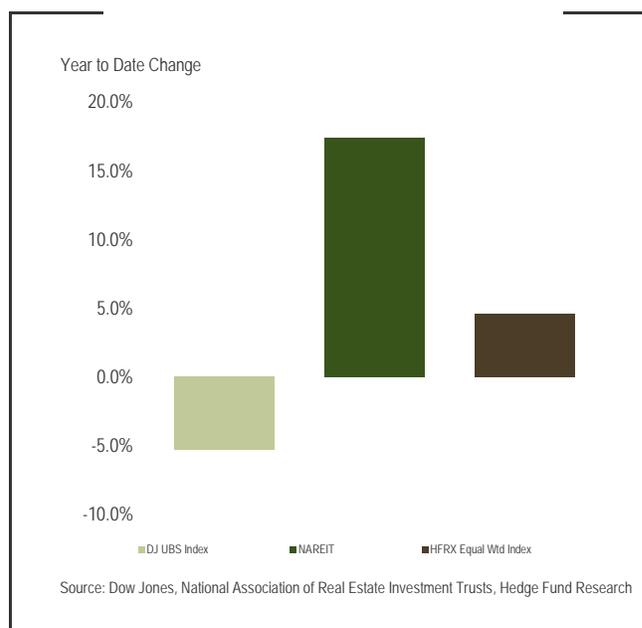
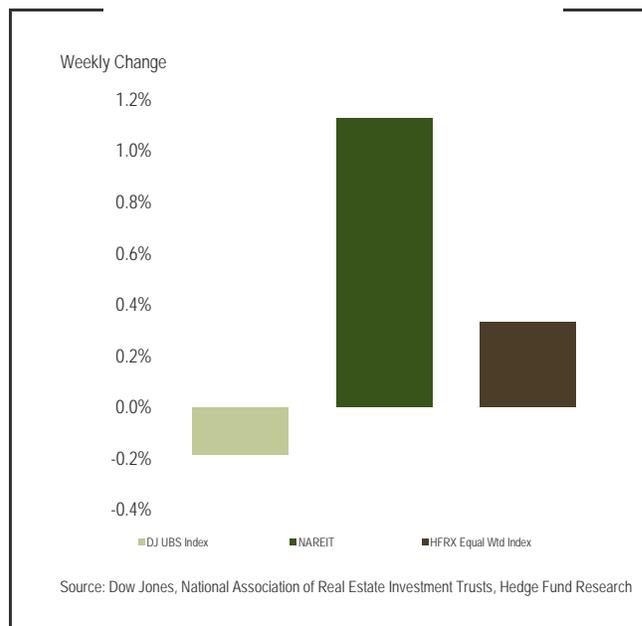
Also announced this week, commercial mortgage-backed securities (CMBS) delinquencies in the U.S. fell last month to their lowest level in five years, according to the latest data from ratings agency Fitch Ratings. Late payment for CMBS declined 19 basis points in April, going down to 7.44% from 7.63% in March. The report went on to note that the total amount of new delinquencies in April, \$747 million, dropped below the \$1 billion mark for the first time since February 2009. The apartment sector saw its delinquency rate fall the most of any individual sector, dropping from 8.91% in March to 8.38% in April. On the other hand, Fitch found that CMBS delinquencies rose to 9.82% for the industrial sector in April, up from 9.41% in the previous month. Analysts expect that the volume of CMBS loan resolutions is likely to remain strong as the share of real estate owned assets is at an all-time high, representing 45% of the total outstanding delinquencies.

Issue	Previous Week	Current <sup>1</sup>	Change
Gold	1,443.54	1,356.92	-6.00%
Crude Oil Futures	95.86	95.99	0.14%
Copper	337.20	331.25	-1.76%
Sugar	17.43	16.89	-3.10%
HFRX Equal Wtd. Strat. Index	1,172.02	1,175.89	0.33%
HFRX Equity Hedge Index	1,121.25	1,127.14	0.53%
HFRX Equity Market Neutral	941.35	938.32	-0.32%
HFRX Event Driven	1,490.21	1,499.30	0.61%
HFRX Merger Arbitrage	1,536.07	1,534.77	-0.08%
Dow Jones UBS Commodity Index	131.94	131.70	-0.18%
FTSE/NAREIT All REIT	181.04	183.08	1.13%

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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MAINSTREET ADVISORS™

120 North LaSalle Street, 37th Floor  
Chicago, Illinois 60602  
312.223.0270 direct  
312.223.0276 fax  
[www.mainstreetadv.com](http://www.mainstreetadv.com)