

# MainStreet Advisors Financial Market Update

July 30, 2010  
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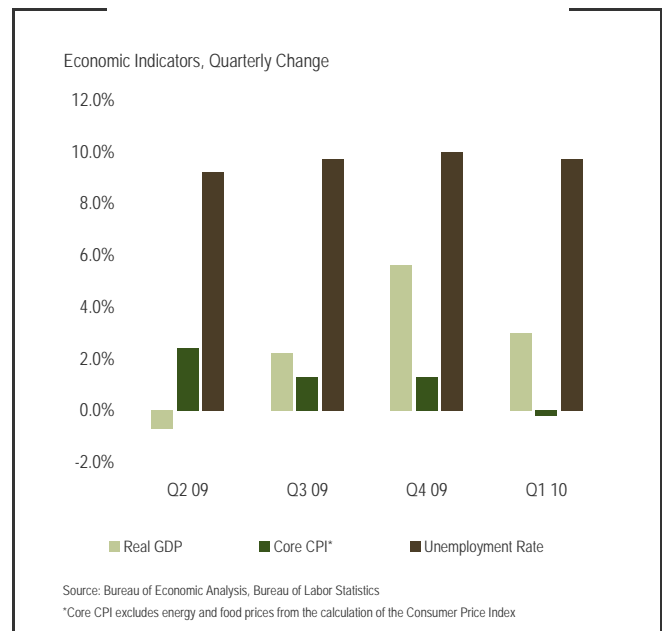
## Economic Update

Advance estimates for second quarter gross domestic product (GDP), released Friday by the U.S. Department of Commerce, narrowly missed consensus estimates but reflected growth for the fourth consecutive quarter. Data indicated that the economy expanded at a 2.4% annual rate, following a revised expansion of 2.7% in the first quarter. The primary sources of growth included increased nonresidential fixed investment, exports, and personal consumption expenditures. A surge in imports and a deceleration in private inventory investment partially offset growth.

The Conference Board announced that its Consumer Confidence Index declined again in July, following a significant pullback in June. The survey of 5,000 U.S. households indicated that consumers have become more concerned about the near-term economic outlook. According to Director of The Conference Board Consumer Research Center Lynn Franco, increasing apprehension about the jobs market and business conditions is "casting a dark cloud over consumers that is not likely to lift until the job market improves." The Thomson Reuters/University of Michigan Surveys of Consumers also reflected a sharp deterioration in consumer sentiment as job prospects remain disappointing a year into the recovery.

New home sales rebounded 23.6% in June to a seasonally adjusted annual rate of 330,000. While this is a significant improvement from record lows in May, sales are 16.7% below activity in June 2009. Many economists had anticipated the recent volatility in housing activity following the expiration of the home buyer tax credits. Meanwhile, national home prices continued to improve in May, as shown by the S&P/Case-Shiller Home Price Indices.

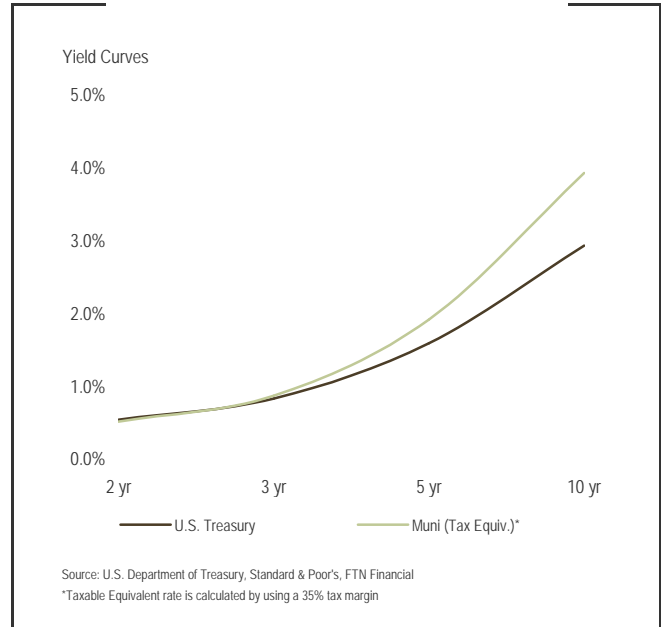
New orders for manufactured durable goods declined 1.0% or \$2.0 billion in June, according to the U.S. Department of Commerce. The decline was largely attributed to the transportation component. Transportation equipment experienced a 2.4% pullback for the month due to a large decrease in non-defense aircraft and parts.



July 26 <sup>th</sup>	New Home Sales, June	330,000
July 27 <sup>th</sup>	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.6%
July 27 <sup>th</sup>	Consumer Confidence Index, July	50.4
July 27 <sup>th</sup>	State Street Investor Confidence Index, July	96
July 28 <sup>th</sup>	MBA Purchase Applications Index, Wkly. Chg.	2.0%
July 28 <sup>th</sup>	Durable Goods New Orders, June Monthly Chg.	-1.0%
July 28 <sup>th</sup>	EIA Petroleum Status Report, Wkly. Chg.	7.3M Barrels
July 29 <sup>th</sup>	Initial Jobless Claims ( Week ending 7/24)	457,000
July 29 <sup>th</sup>	EIA Natural Gas Report, Wkly. Chg.	28 bcf
July 30 <sup>th</sup>	GDP Price Index, Q2 Quarterly Change SAAR*	1.8%
July 30 <sup>th</sup>	Real GDP, Q2 Quarterly Change SAAR*	2.4%
July 30 <sup>th</sup>	Employment Cost Index, Q2 Quarterly Change	0.5%
July 30 <sup>th</sup>	Chicago PMI Business Barometer Index, July	62.3
July 30 <sup>th</sup>	Consumer Sentiment Index, July	67.8

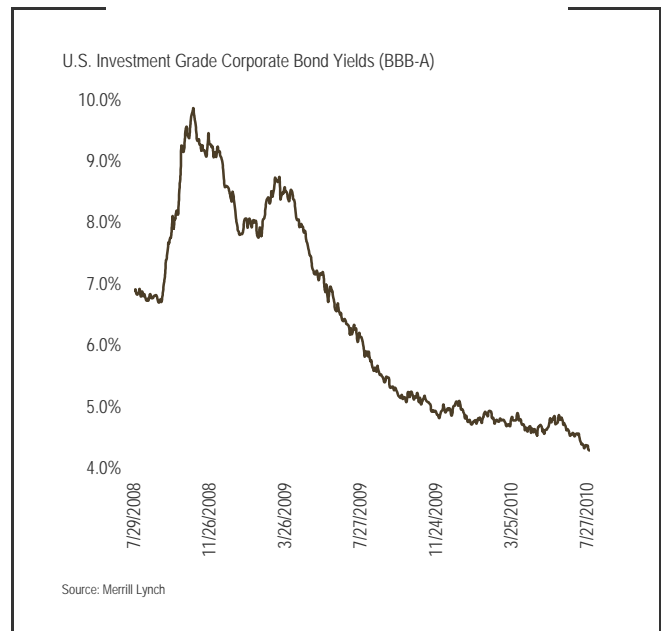
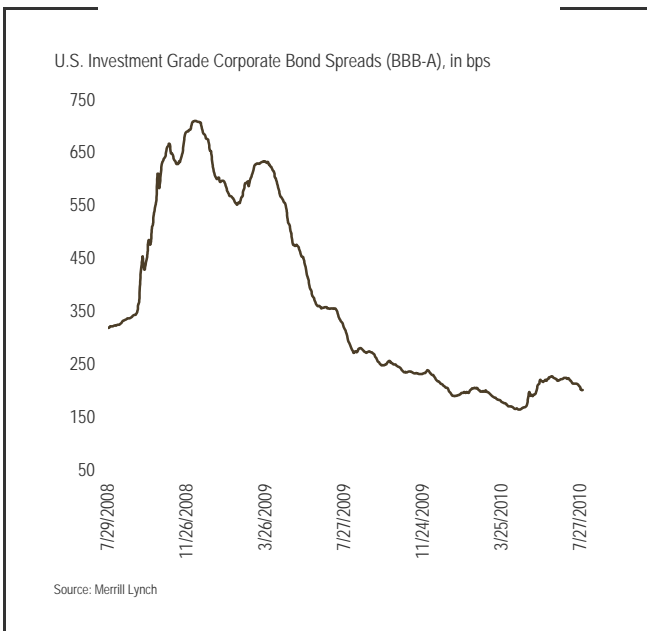
Bond Market Update

After yet another volatile week, U.S. Treasuries finished mostly unchanged with modest gains in the short-end after a Friday rally pushed two-year note yields to the lowest levels ever. Prospects for slow economic growth along with low inflation have strategists focusing on a scenario in which the Federal Reserve could become more accommodative. Futures on the CME show traders cut the odds that policy makers will raise the benchmark interest rate by April to 31% from 54% a month ago. The absence of inflationary pressures has begun to trouble some members of the central bank. St. Louis Fed president James Bullard said that, "the U.S. is closer to a Japanese-style outcome (deflation) today than at any time in recent history" and that the economy may require "a permanent, low nominal interest rate outcome." Bullard, a voting member of the Federal Open Market Committee, said the Fed's quantitative easing program offered "the best tool to avoid such an outcome." Under quantitative easing, central banks purchase Treasuries, mortgages and commercial loans to flood the banking system with masses of money to promote lending and increase liquidity in the markets. With the likelihood of quantitative easing increasing and because low inflation levels increase the appeal of Treasuries as real return expectations rise, some market participants expect even lower yields in the short-term.



Issue	7.23.10	7.30.10	Change
3 month T-Bill	0.16%	0.15%	-0.01%
2-Year Treasury	0.60%	0.55%	-0.05%
5-Year Treasury	1.69%	1.60%	-0.09%
10-Year Treasury	2.96%	2.94%	-0.02%
30-Year Treasury	3.95%	3.98%	0.03%

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



Stock Market Update

Domestic stocks finished the week in dramatic fashion, with a late rally on Friday that pulled the markets out of a sell-off that resulted from a lower-than-expected second quarter economic growth announcement. Major indices ended relatively flat for the week, with the NASDAQ Composite down 0.65%, the S&P 500 down 0.10%, and the Dow Jones Industrial Average up 0.40%. July marked the best month for stocks in a year, with each significant index gaining nearly 7%. The strong performance hails from a slew of favorable second quarter earnings reports released in July, giving investors a source of confidence that was lacking in May and June when sentiment was dragged down by concerns over the impact of euro zone debt troubles and China's efforts to halt growth.

Merck & Co (MRK) dropped 1.71% in trading Friday after announcing that its revenue was below the average analyst forecast. The company attributes its sharp second quarter earnings decline to costs resulting from its continuing restructuring efforts and its recent takeover of Shering-Plough Corp.

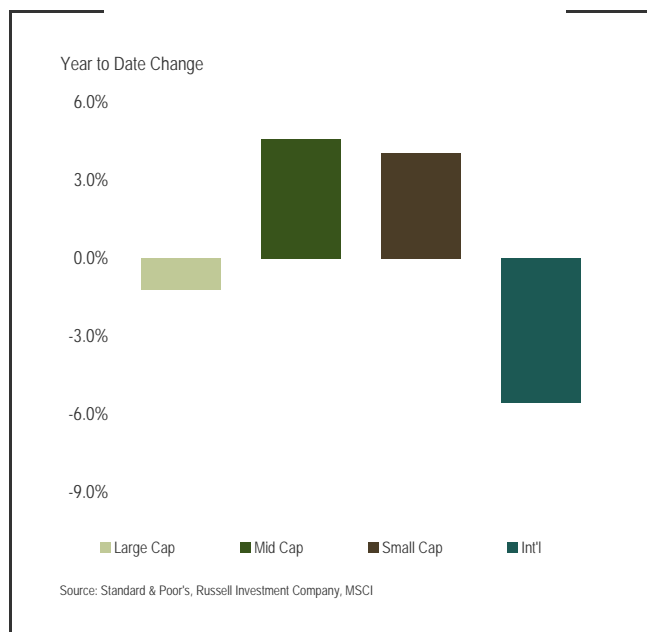
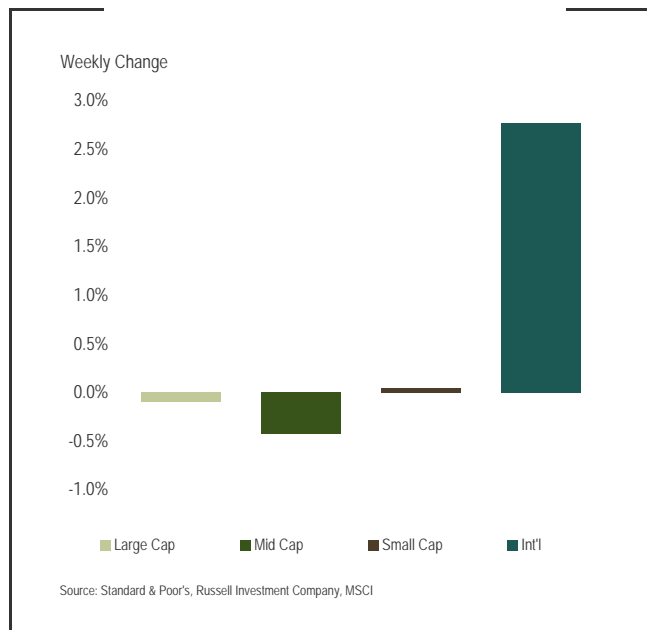
Chevron Corporation (CVX) released earnings on Friday that reflected tripled net income for the second quarter, sending shares up a modest 0.25%. Higher crude oil prices and a 3% rise in worldwide net oil-equivalent production have significantly benefitted the company, causing it to revise its 2010 growth forecast upward.

Walt Disney (DIS) announced that it would sell Miramax Films, causing the stock to fall 1.29% on the week. Filmyard Holdings, an investors group, will purchase the studio for nearly \$660 million.

European stocks fell this week, reacting to the deceleration in U.S. gross domestic product. David Semmens, an economist with Standard Chartered Bank in New York, said that European sentiment hinges upon a dire contribution from the U.S. consumer, commenting that "without a pick-up in hiring in the U.S. we expect GDP growth to continue to fade through 2010."

Issue	7.23.10	7.30.10	Change
Dow Jones	10,424.62	10,465.94	0.40%
S&P 500	1,102.66	1,101.60	-0.10%
NASDAQ	2,269.47	2,254.70	-0.65%
Russell 1000 Growth	493.52	490.63	-0.59%
S&P MidCap 400	763.5	760.27	-0.42%
Russell 2000	650.64	650.89	0.04%
MSCI EAFE	1,445.68	1,485.63	2.76%
MSCI EM	973.39	993.84	2.10%
MSCI Small Cap	138.55	142.86	3.11%

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.



Alternative Investments Market Update

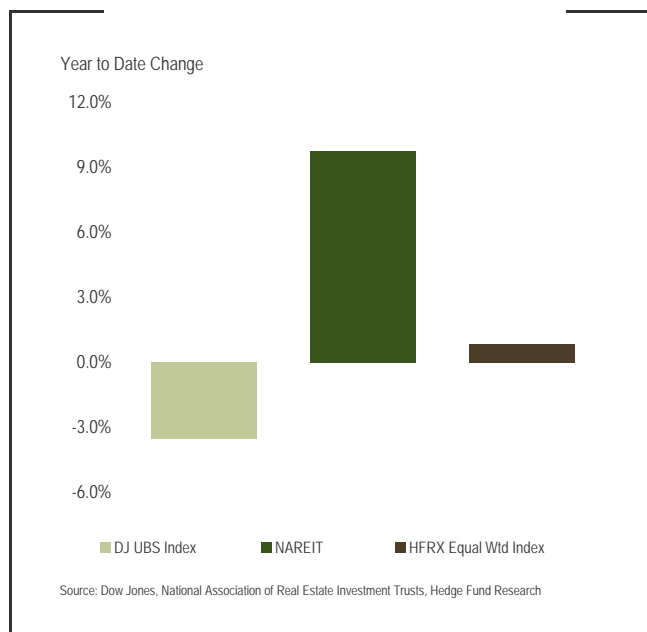
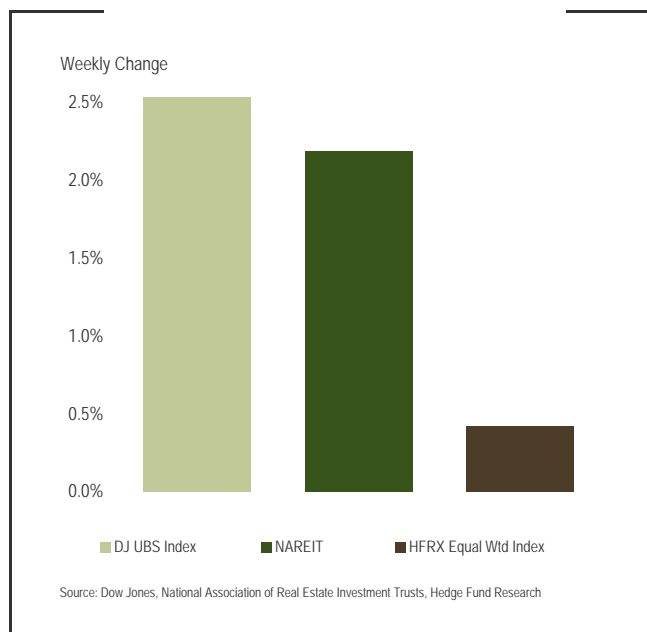
Last week's oil supply worries dissipated after Tropical Storm Bonnie passed through with little effect. Crude oil futures fell early in the week due to inconclusive economic data and Wednesday's report from the Department of Energy showing growth in crude oil stockpiles. However, the report indicated strengthening demand in certain regions. Oil rebounded later in the week on improving economic data from the euro zone, resulting in a falling U.S. dollar. Equities have been a proxy for crude futures all year as oil markets have lacked conviction. Gold moved little this week, down \$4.10, or -0.35%. The precious metal slid early in the week to new three-month lows, despite commodities with wider industrial uses rising. Investors left safe haven assets following surprising U.S. housing data and better-than-expected European stress test results. Most of the week's losses were recouped on Thursday and Friday as investors searched for bargains and disappointing GDP data again increased safe haven purchases. Wheat futures rose to 13-month highs Friday on worries that the Soviet Union will limit exports. The region continues to suffer from severe drought, causing the Food and Agriculture Organization to downgrade production expectations for 2010.

A New York State judge agreed to delay the latest round of lawsuits relating to Goldman Sachs (GS) and its controversial collateralized debt obligation called ABACUS. In total, the bank is facing 18 separate lawsuits and contends that they are facing excessive charges after already settling with the SEC for \$550 million.

The Centre for the Study of Financial Innovation released a controversial report on the private equity industry this week. The report argues that PE firms charge too high of fees, while generating disappointing returns. The Private Equity Council, which represents firms such as Blackstone Group, Carlyle Group, and Kohlberg Kravis & Roberts, pushed back with performance data indicating outperformance of 7% and 11% over a three and five year period.

Issue	Previous Week	Current <sup>1</sup>	Change
Gold	1,187.90	1,183.80	-0.35%
Crude Oil Futures	79.09	78.95	-0.18%
Copper	319.25	330.90	3.65%
Sugar	18.26	19.57	7.17%
HFRX Equal Wtd. Strat. Index	1,116.51	1,121.21	0.42%
HFRX Equity Hedge Index	1,106.27	1,118.97	1.15%
HFRX Equity Market Neutral	1,005.92	1,002.83	-0.31%
HFRX Event Driven	1,341.22	1,345.70	0.33%
HFRX Merger Arbitrage	1,447.65	1,460.08	0.86%
Dow Jones UBS Commodity Index	129.90	134.25	3.35%
FTSE/NAREIT All REIT	120.66	123.30	2.19%

<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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