MainStreet Advisors
Financial Market Update

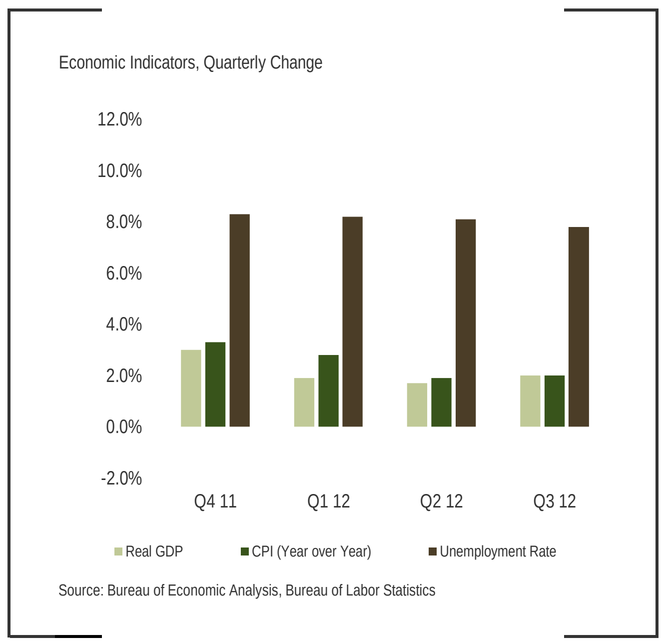
January 11, 2013

Economic Update

President Obama announced his nomination of Jack Lew to be Tim Geithner's successor as Treasury Secretary on Thursday. Jack Lew currently serves as White House chief of staff and has spent most of his career dealing with fiscal issues in Washington. If Lew can help strike a deal with Republicans before the debt ceiling deadline in early March, it could help boost markets. But Republicans have criticized Lew for his uncompromising attention to detail in the 2011 debt ceiling talks, and his confirmation may prove to be a contentious one. Wall Street seems to lack confidence in the nomination as well, citing a lack of business and financial experience save a short stint at Citigroup as Chief Operating Officer of their alternative investments unit where he was a manager, not an expert in financial markets, and the company lost billions during his tenure. A concern of far less importance but a good source of comedic material has been the issue of his signature, which would be printed on all U.S. currency. It can best be described as nothing but a series of connected loops that bear no resemblance whatsoever to any letter in the English Language. Despite the criticisms, Jack Lew will likely be confirmed as the new Treasury Secretary and only time will tell if he was a good choice.

The U.S. trade deficit widened sharply in November to $47.8 billion, up $5.7 billion from the previous month. The petroleum gap actually shrank during the month, but a $4.6 billion jump in imports of consumer goods helped push the trade deficit higher. $1.8 billion of that increase came from cell phones which can be attributed to sales of the new iPhone 5 here in the U.S. While the number could take a bite out of the fourth quarter GDP estimate due out later this month, this is likely just a one-time spike in the trade deficit and not the beginning of a trend.

One of the beneficiaries of weaker trade data here in the U.S. was China. The world's second largest economy reported exports were up 14% in December over last year. As things begin to pick up again in China it is putting some upward pressure on otherwise tame inflation. Chinese consumers paid 2.5% more for goods and services than they did a year ago, up from 2.0% in November.

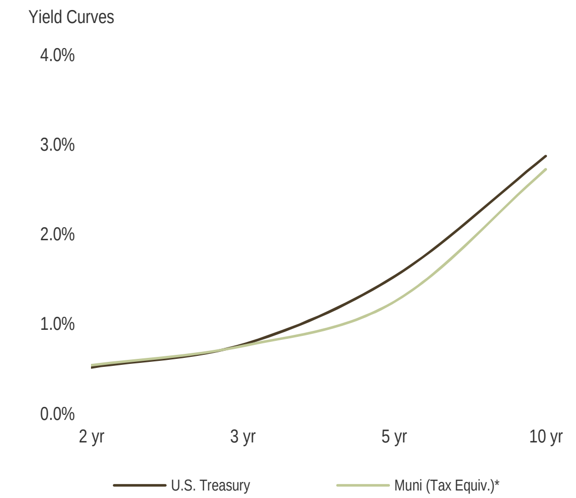


Jan. 8th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-4.2%
Jan. 8th	Consumer Credit, Nov. Monthly Change	16.0B
Jan. 9th	MBA Purchase Applications Index, Wkly. Chg.	11.7%
Jan. 9th	EIA Petroleum Status Report, Wkly. Chg.	1.3M Barrels
Jan. 10th	Initial Jobless Claims (week ending 1/5)	371,000
Jan. 10th	Wholesale Inventories, Nov. Monthly Chg.	0.6%
Jan. 10th	EIA Natural Gas Report, Wkly. Chg.	201 bcf
Jan. 11th	International Trade Balance Level, November	-48.7B
Jan. 11th	Import Prices, December Monthly Chg.	-0.1%
Jan. 11th	Export Prices, December Monthly Chg.	-0.1%

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

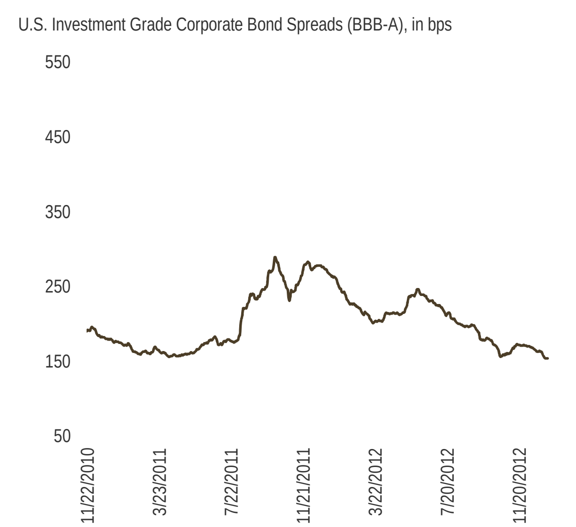
After gains earlier in the week, U.S. Treasuries finished marginally lower after a sell-off on Thursday and Friday as traders locked in profits. Looking ahead, many strategists feel the main risk factor in the market remains a standoff during the upcoming debt ceiling negotiations. The U.S. Treasury is expected to come up against its mandated borrowing limit sometime next month, a deadline that will complicate negotiations over a number of automatic spending cuts scheduled to take effect at the end of February. Should politicians not find a compromise, the risk of another credit downgrade to U.S. Government debt increases, making additional market turmoil likely. From an international perspective, European bonds are beginning 2013 with historically low yields, particularly Germany, France, Finland and the Netherlands. However, many strategists expect the fundamental political and economic environment to remain supportive of European fixed income markets, especially for higher risk assets. Deleveraging is still the primary goal for both governments and banks, with the center of the public savings discussion partially moving away from Europe to the United States and Japan. Against this backdrop, we expect the G4 central banks (the Bank of England, the Bank of Japan, the Federal Reserve and the European Central Bank), to remain in expansion mode well into 2014 or even 2015, thus keeping interest rate curves relatively steep.



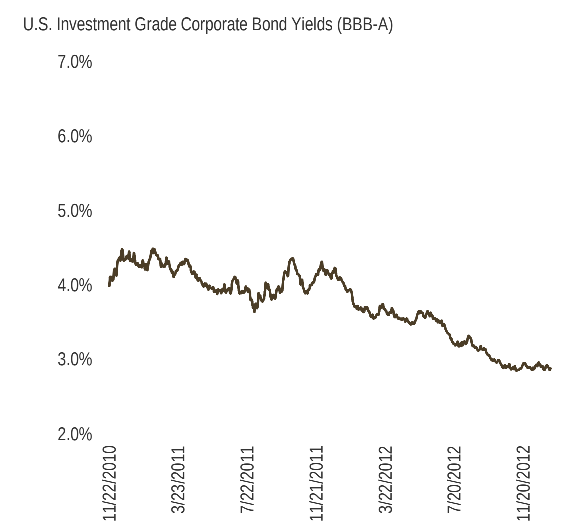
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	1.4.13	1.11.13	Change
3 month T-Bill	0.08%	0.07%	-0.01%
2-Year Treasury	0.27%	0.26%	-0.01%
5-Year Treasury	0.81%	0.78%	-0.03%
10-Year Treasury	1.92%	1.89%	-0.03%
30-Year Treasury	3.12%	3.05%	-0.07%

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



Source: Merrill Lynch



Source: Merrill Lynch

Stock Market Update

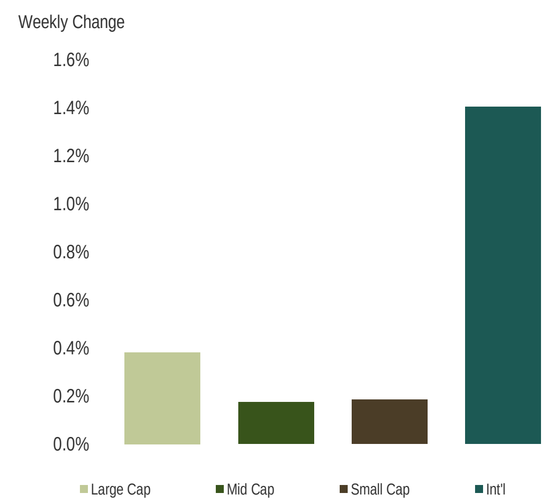
Most major domestic stock markets were slightly positive this week after rallying in the first few days of the New Year. The Dow Jones Industrial Average closed Friday at 13488.43, up 0.4% for the week. The S&P 500 Index reached its highest level in five years on Thursday and finished the week at 1472.05, higher by 0.4%. The NASDAQ Composite Index increased 0.8% since last Friday to close at 3125.63. Lipper reported cash inflows into stock mutual funds during the first week of 2013 were the largest in more than 11 years at $7.9 billion. Equity ETFs added another $13.3 billion, demonstrating the boost to investor confidence as a result of the “fiscal cliff” deal.

On Friday the Japanese government announced a plan to spend $116 billion on public works and disaster mitigation projects, subsidies for companies investing in new technology, and offers of financial aid to small businesses. Japans’ new Prime Minister Shinzo Abe believes these measures will add two percentage points to the country’s economic growth rate and create about 600,000 jobs. The Nikkei Index jumped 1.4% on Friday to bring its year-to-date price change to nearly 4%.

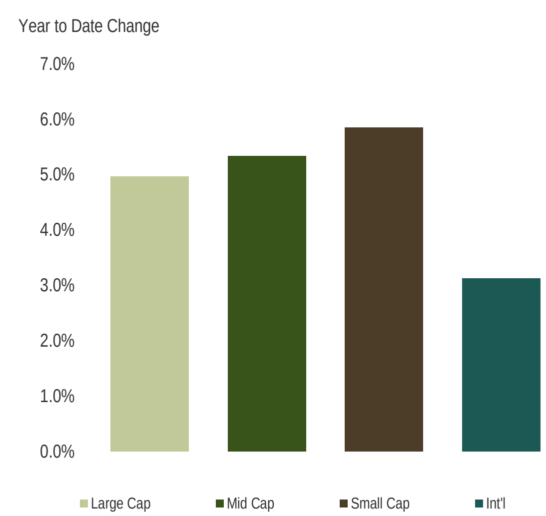
Fourth quarter 2012 earnings season began this week with strong results from Alcoa, reporting in-line results and forecasting improved demand for 2013. Wells Fargo announced better than expected revenues and earnings as record low interest rates led to a refinancing boom, offset partially by a decline in net interest margin. American Express pre-announced adjusted earnings ahead of expectations citing an 8% increase in card spending and continued low write-offs. The company also announced it will take several one-time charges, including one stemming from headcount reductions in its travel business. On a positive note, Ford announced it will hire 2200 white collar workers, its largest increase in more than ten years.

Issue	1.4.13	1.11.13	Change
Dow Jones	13,435.21	13,488.43	0.40%
S&P 500	1,466.47	1,472.05	0.38%
NASDAQ	3,101.66	3,125.63	0.77%
Russell 1000 Growth	675.36	679.00	0.54%
S&P MidCap 400	1056.07	1057.91	0.17%
Russell 2000	879.15	880.77	0.18%
MSCI EAFE	1,633.07	1,655.98	1.40%
MSCI Small Cap	1,082.68	1,076.99	1.85%

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

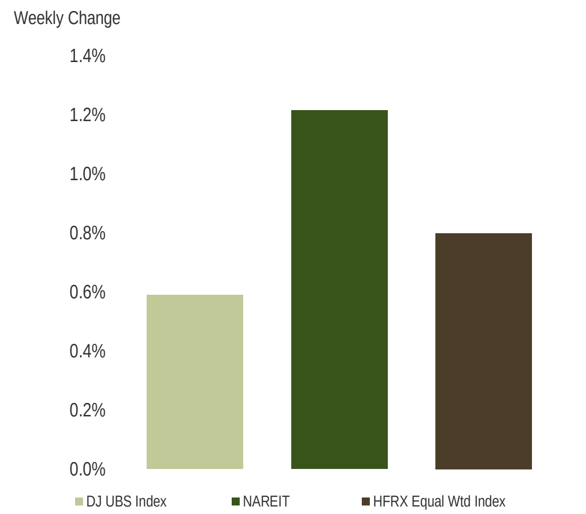


Source: Standard & Poor's, Russell Investment Company, MSCI

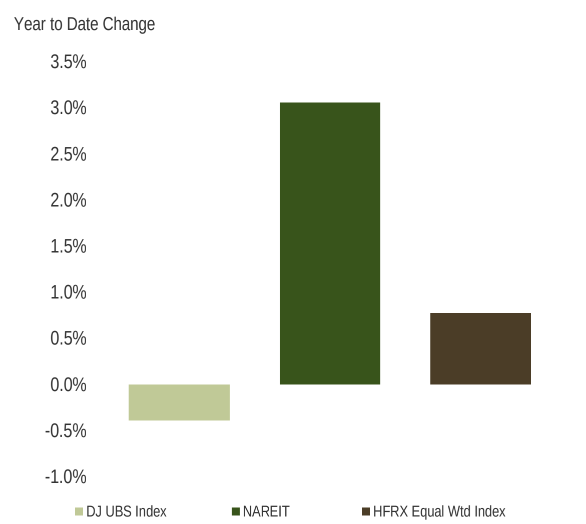
Alternative Investments Market Update

Crude oil fell Friday, retreating from three-month highs earlier in the week with traders locking in profits from recent gains and data out of China raising worries regarding fuel demand. Oil's drop was due in large part to data out of China, which raised concerns about economic growth in the world's largest energy consumer. This week, China reported a higher December inflation rate than expected, which led many to believe the Chinese government's capacity to boost the economy through stimulus programs may be limited. This came after reports earlier in the week about Chinese export data for December, which showed a growing demand for foreign goods. Also this week, Saudi Arabia, the world's largest oil producer, said it cut oil output 5% in December to 9.025 million barrels a day. Initially analysts took this cut as a sign that prices could rise amid lower supplies and seasonal demand patterns that show growing production elsewhere; however, now analysts are becoming fearful that Saudi ministers are responding to weak demand, which could mean further price declines in the future. Before Friday, oil prices had gained more than 11% since its November lows as improving economic conditions and signs of rising fuel demand prompted bets on higher prices. For the week, oil gained 0.62% to settle at $93.68 a barrel.

Gold ended the week slightly higher as well, adding 0.28%, closing at $1,662.70 an ounce after tracking a rise in the euro when the ECB announced its decision to hold interest rates steady. The metal fell back later in the week though as traders fully digested the decision. Indian imports picked up this week as buyers anticipated a potential gold import tax increase. In China, traders saw a rise in seasonal demand ahead of the lunar new year as well. Albeit a tiny gain, the precious metal notched its first weekly rise in seven weeks.
After a year of mediocre returns, hedge funds suffered their biggest month of withdrawals in more than three years last month as dissatisfied investors moved their money out of the industry. Hedge fund administrator SS&C GlobeOp's Capital Movement Index, which tracks monthly net subscriptions to and redemptions from funds, measured down 2.58% last month, representing the biggest monthly outflow of cash seen since October 2009.



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



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

Issue	Previous Week	Current[1]	Change
Gold	1,658.05	1,662.70	0.28%
Crude Oil Futures	93.10	93.68	0.62%
Copper	369.95	366.00	-1.07%
Sugar	18.85	19.17	1.70%
HFRX Equal Wtd. Strat. Index	1,123.88	1,132.86	0.80%
HFRX Equity Hedge Index	1,044.37	1,060.09	1.51%
HFRX Equity Market Neutral	934.19	931.91	-0.24%
HFRX Event Driven	1,378.72	1,402.19	1.70%
HFRX Merger Arbitrage	1,508.22	1,510.10	0.12%
Dow Jones UBS Commodity Index	137.73	138.55	0.59%
FTSE/NAREIT All REIT	160.54	162.49	1.21%

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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