

MainStreet Advisors Financial Market Update

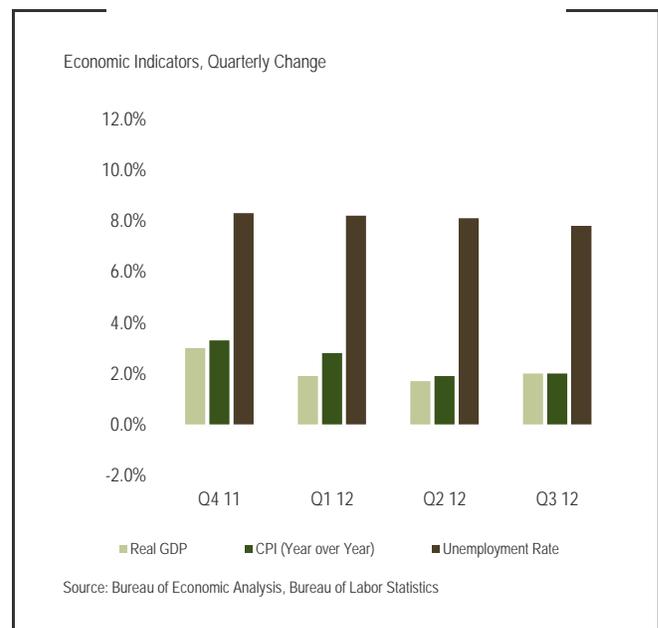
January 18, 2013
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Economic Update

China's economic growth is officially starting to accelerate. Fourth quarter GDP surprised to the upside coming in at 7.9%, marking the end of a two-year growth slowdown for the world's second largest economy. Gross domestic product for the full year was up 7.8%, beating the government's 7.5% target. This has alleviated some concerns the country may face a hard landing amidst a recession in Europe and efforts by their own government to cool the Chinese real estate market. There is still the risk that inflation may heat up as they transition from an investment economy to a consumer driven economy.

There is still no indication of inflation posing a threat to the current equity market rally. The consumer price index came in flat for the month of December thanks to lower energy prices. Inflation is now running at an annual pace of 1.7%, down slightly from 1.8% in November. Prices at the producer level fell 0.2% with decreases seen in energy, food and capital goods. The core rate excluding food and energy was up a mild 0.1%. Oil prices have been rising over the past four weeks, though, so we may see an uptick in January inflation numbers.

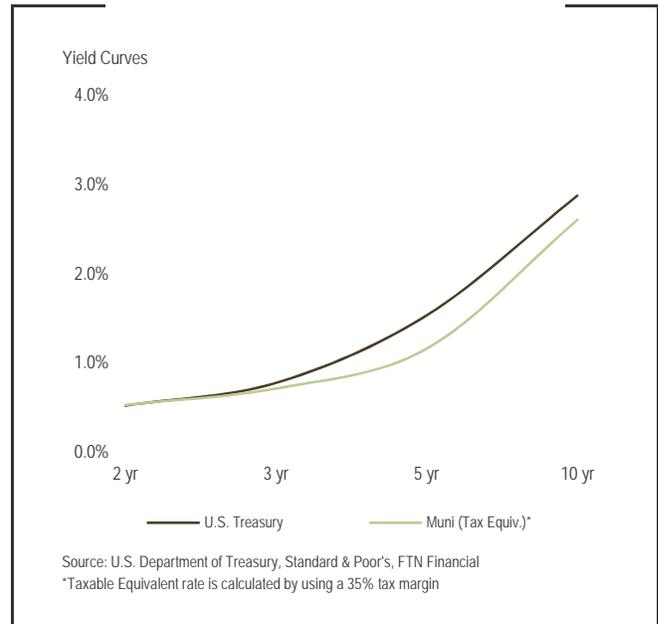
The housing market recovery showed its first signs of slowing down in a number of months as the NAHB housing market index was flat at 47 for the month of January. This was the first time in seven months the report did not improve and the first time in nine months it came in below expectations. The index, which tracks the sentiment of homebuilders, proved to be a good leading indicator for the equity markets last year so this report gives us a little pause. Housing starts on the other hand were up a sharp 12.1% last month to an annual pace of 954,000 -- the highest level we have seen since the summer of 2008. The steadily improving job market has been supportive of the housing market of late. Initial unemployment claims hit a recovery low for the week ended January 12, falling 37,000 to 335,000. If we continue to see these kinds of numbers we should expect a good employment report for the month of January.



Jan. 15 th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-0.6%
Jan. 15 th	Producer Price Index, December Monthly Chg.	-0.2%
Jan. 15 th	Retail Sales, Dec. Monthly Chg.	0.5%
Jan. 15 th	Empire State Mfg Survey, January	-7.8
Jan. 15 th	Business Inventories, Nov. Monthly Chg.	0.3%
Jan. 16 th	MBA Purchase Applications Index, Wkly. Chg.	15.2%
Jan. 16 th	Consumer Price Index, December Monthly Chg.	0.0%
Jan. 16 th	Industrial Production, Dec. Monthly Chg.	0.3%
Jan. 16 th	Housing Market Index, January	47.0
Jan. 16 th	EIA Petroleum Status Report, Wkly. Chg.	-1.0M Barrels
Jan. 17 th	Housing Starts, December	954,000
Jan. 17 th	Initial Jobless Claims (week ending 1/12)	355,000
Jan. 17 th	Philadelphia Fed Survey, January	-5.8
Jan. 17 th	EIA Natural Gas Report, Wkly. Chg.	-148 bcf
Jan. 18 th	Consumer Sentiment Index, January	71.3

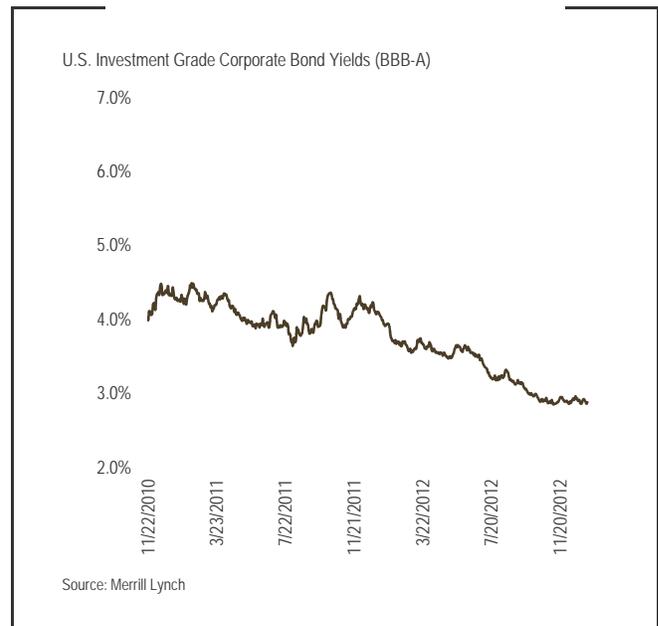
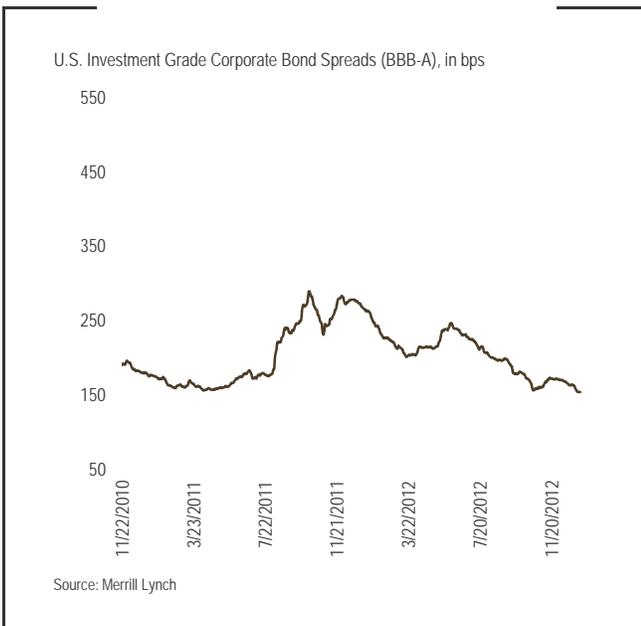
Bond Market Update

Reflecting continued concerns over the final outcome of the lingering fiscal negotiations, U.S. Treasuries finished the week higher as investors sought out the safety of intermediate and long-term government debt. At the same time, reports Congress may vote in favor of a three-month extension of the nation's borrowing limit provided a boost to short-term Treasury Bills. Prior to this report, T-Bills had faced considerable selling pressures given their prices are the most vulnerable to a default by the U.S. government. Yields on four-month paper were traded higher than securities due in three months, indicating investors were willing to pay a premium to avoid maturities with a high default risk. Separately, Fitch Ratings warned the government's failure to raise the debt limit would "very likely" prompt a downgrade of U.S. Treasuries, dismissing the assurance of some Republicans that the Treasury Department would be able to use incoming tax receipts to prioritize the payment of government debt and interest. Meanwhile, after considerable outflows out of municipal bond mutual funds during December in response to a proposed 28% cap on tax-exempt interest, inflows into the sector have increased considerably during 2013. While munis may not be included in any immediate tax reform proposals this year, spending cut discussions will likely keep the idea of new taxes in the spotlight, sparking demand for tax-exempt securities.



Issue	1.11.13	1.18.13	Change
3 month T-Bill	0.07%	0.08%	0.01%
2-Year Treasury	0.26%	0.26%	0.00%
5-Year Treasury	0.78%	0.77%	-0.01%
10-Year Treasury	1.89%	1.87%	-0.02%
30-Year Treasury	3.05%	3.03%	-0.02%

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

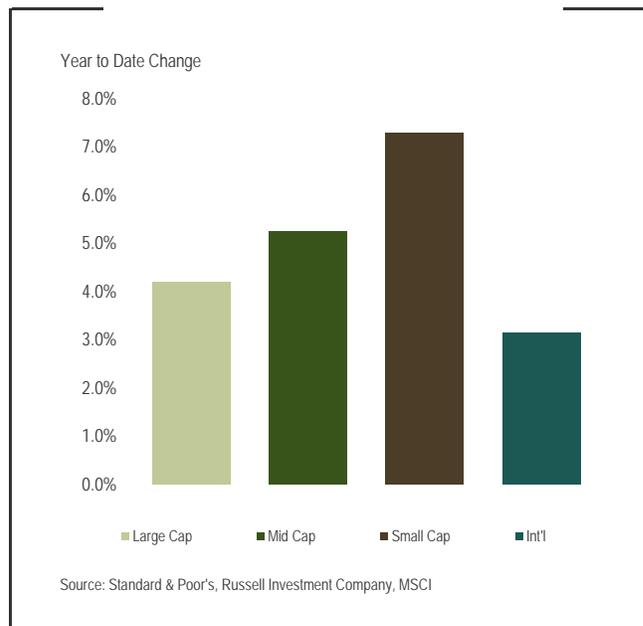
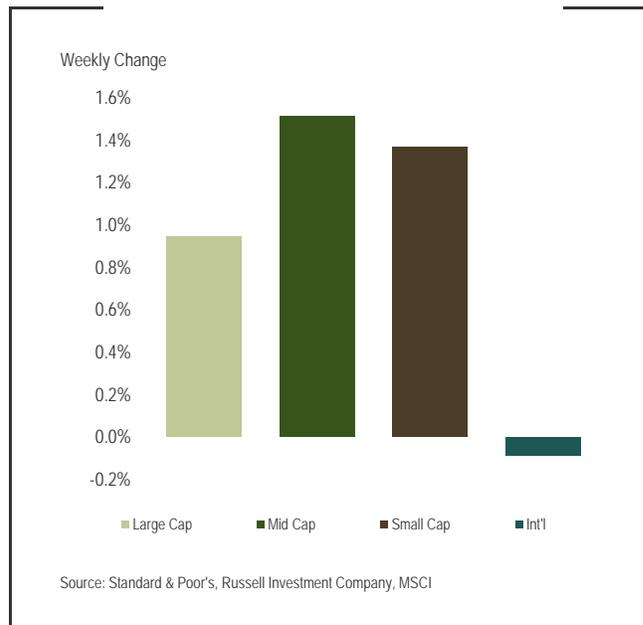


Stock Market Update

The markets were mostly flat to start the day Friday and rallied in the last hour of trading to finish positive for the third week in a row. The Dow Jones Industrial Average closed at 13,649.70 or up 1.2% to finish at its highest level in five years. The broader S&P 500 Index ended the week up 1.0% to close at 1,485.98, while the NASDAQ Composite finished higher 0.30% to close the week out at 3,134.71.

Shares of Apple (AAPL) have been making news this week as the stock dipped below \$500 a share from a high of over \$700 back in September. Much of the decline has been the rumored slowdown in iPhone sales. Analyst's estimates for the first quarter will be a shipment of 40 million iPhones which would be a 16% decline from the previous quarter. Additionally, AAPL has continuously traded on news of future products which at the time seem to be lackluster at best. News is not all bad if you bought the stock 5 year ago, currently your gain on the stock would be in excess of 300%.

Other companies making news on the earnings front are Intel (INTC) in the technology sector and Capital One Financial (COF) in the financial sector. Both companies turned in lackluster results as INTC lowered its forecast below the street estimates citing a slowdown in PC demand. COF turned in disappointing earnings, also lowering its guidance for the year. On Friday INTC fell 6.31% to finish the week at 21.25/share while COF finished down 7.47% to close the week at 56.99/share.



Issue	1.11.13	1.18.13	Change
Dow Jones	13,488.43	13,649.70	1.20%
S&P 500	1,472.05	1,485.98	0.95%
NASDAQ	3,125.63	3,134.71	0.29%
Russell 1000 Growth	679.00	683.21	0.62%
S&P MidCap 400	1057.91	1073.93	1.51%
Russell 2000	880.77	892.8	1.37%
MSCI EAFE	1,655.98	1,654.54	-0.09%
MSCI Small Cap	1,076.99	1,073.15	0.02%

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.

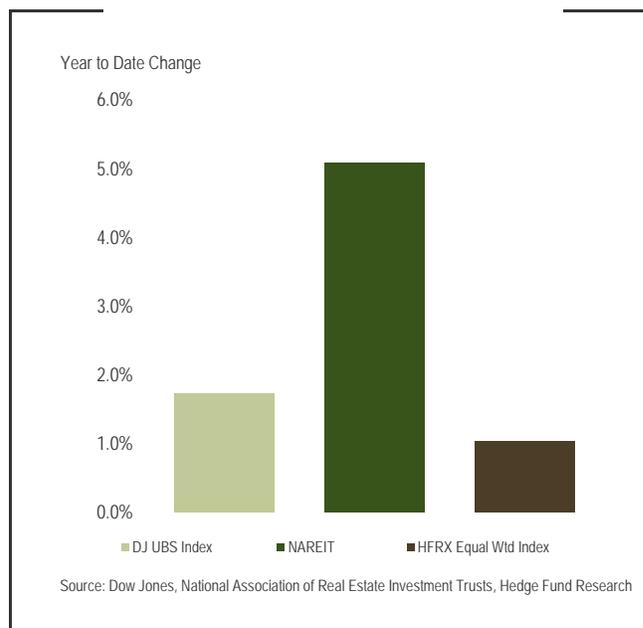
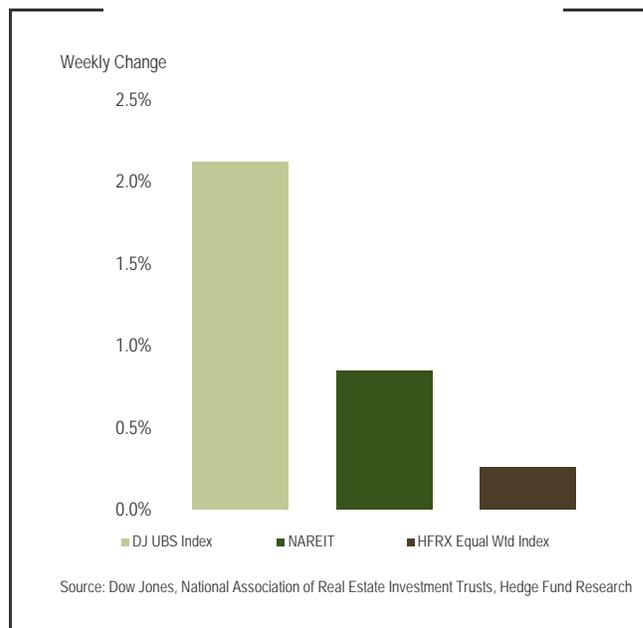
Alternative Investments Market Update

Crude oil flirted with the break-even point this week, as traders weighed optimistic Chinese economic data and a bullish monthly oil report against weak U.S. oil demand. Supporting oil prices Friday were expectations that an expanding Chinese economy would translate into higher crude demand. China, the world's second largest crude consumer, reported a Q4 growth rate of 7.9%, up from 7.4% in the previous quarter, and topping economists' expectations of 7.8% growth. Crude was also bolstered by the International Energy Agency (IEA) raising its global oil demand forecast for 2013, citing stronger demand from China. The IEA expects global demand to increase by 900,000 barrels per day to 90.8 million. Oil was also helped by supply disruption fears courtesy of the Islamic militant attack and hostage-taking on a gas plant in Algeria, an OPEC member. Despite all this, demand remains weak domestically as the U.S., the world's biggest consumer of crude, saw demand for petroleum products refined from crude, like gasoline, fall 2% to a 16-year low in 2012 while domestic crude oil production jumped to a 15-year high, the American Petroleum Institute announced this week. Gold also posted gains this week, adding 1.33%, settling at \$1,684.84 an ounce, mainly from physical demand in China ahead of their New Year in February along with the aforementioned better-than-forecasted Chinese GDP data.

Hedge fund assets reached a record \$2.25 trillion in 2012, gaining \$60 billion in Q4. According to Hedge Fund Research (HFR), the industry posted both performance gains and inflows in Q4, with the HFRI Fund Weighted Composite Index gaining 1.3% on the month, bringing its full-year gains to 6.2%. The industry saw net asset inflows of \$3.4 billion, for full-year gains of \$34.4 billion. For the year, the biggest winners were relative value arbitrage funds, which added 10.5% on the year and attracted \$41.4 billion in new capital, including \$6.5 billion during Q4. Relative value arbitrage funds now manage \$609 billion, overtaking equity hedge strategies for the first time since 1991. Equity hedge strategies gained 1.86% last quarter, despite investors withdrawing \$1.2 billion during the period. Total assets in equity hedge strategies finished 2012 at \$598 billion.

Issue	Previous Week	Current ¹	Change
Gold	1,662.70	1,684.84	1.33%
Crude Oil Futures	93.68	95.34	1.77%
Copper	366.00	367.60	0.44%
Sugar	19.17	18.37	-4.17%
HFRX Equal Wtd. Strat. Index	1,132.86	1,135.77	0.26%
HFRX Equity Hedge Index	1,060.09	1,065.03	0.47%
HFRX Equity Market Neutral	931.91	931.78	-0.01%
HFRX Event Driven	1,402.19	1,411.16	0.64%
HFRX Merger Arbitrage	1,510.10	1,513.17	0.20%
Dow Jones UBS Commodity Index	138.55	141.48	2.12%
FTSE/NAREIT All REIT	162.49	163.86	0.84%

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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