

MainStreet Advisors Financial Market Update

October 4, 2013
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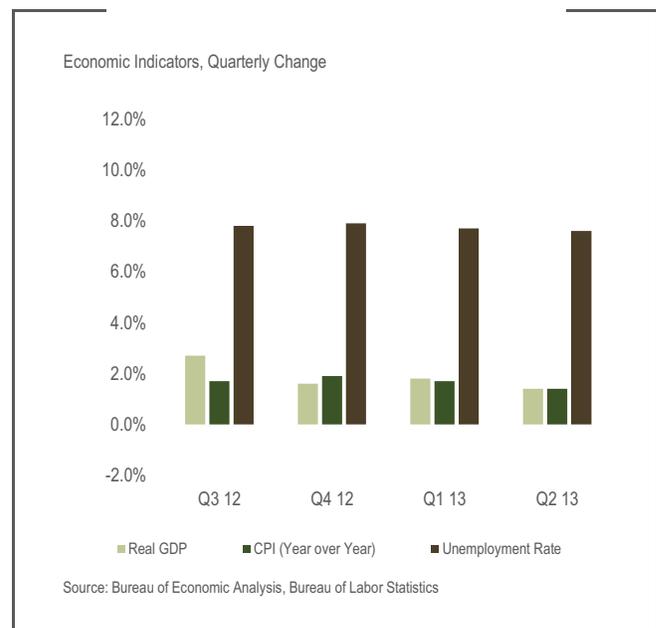
Economic Update

The Federal Government shut down on Tuesday and remains closed with the exception of essential services. As it stands now the deal Republicans want in exchange for raising the debt ceiling includes a package of substantial entitlement reforms, changes to the ACA (Obamacare), and other concessions. To say the Republicans and Democrats are far apart on this is an understatement, and Democrats are pressing their political advantage and refusing to provide the GOP with even the slightest concession to allow them to save a little face and end the shutdown. Republicans are not winning the public relations battle at the moment so we may see some Republicans break ranks soon in order to pass a clean continuing resolution. In the meantime, the odds of a technical default, where the debt ceiling is not raised before the Treasury runs out of cash, are rising quickly.

The much-anticipated September employment report was not released today on account of the government shutdown. We did however get initial unemployment claims data which came in at 308,000 for the week ended September 28. The four-week average continued to trend lower suggesting the labor market continues to improve. Furloughed government workers will not be included in future reports but contractors affected by the shutdown will be included.

ISM's manufacturing PMI ended the quarter with another solid report climbing to 56.2. It was the best reading since 2011 where comparisons against softer rates of growth made gains appear more substantial. Growth on the service side of the economy slowed with the non-manufacturing survey falling 4.2 points to 54.4 for the month. Despite this activity, the third quarter as a whole accelerated which bodes well for GDP growth in the quarter.

Silvio Berlusconi suffered a humiliating defeat in Italy when he ordered his party members to cast a vote of no-confidence against Prime Minister Enrico Letta. About one third of the party members publicly said they would not force Berlusconi to abandon his bid to topple the government. This is a positive for risky assets in Europe and could finally mark the beginning of the end for Berlusconi's political career.



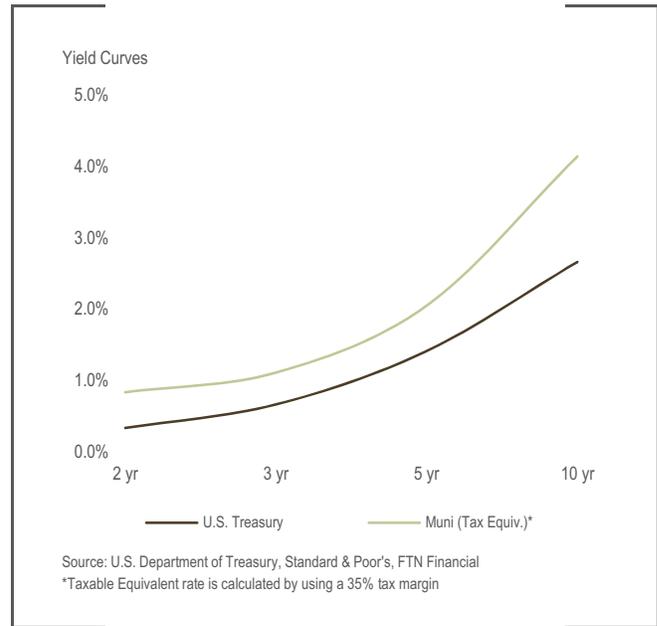
Sep 30 th	Chicago PMI Business Barometer Index, Sep.	55.7
Oct 1 st	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.2%
Oct 1 st	ISM Mfg. Index - Level, September	56.2
Oct 2 nd	MBA Purchase Applications Index, Wkly. Chg.	-0.4%
Oct 2 nd	EIA Petroleum Status Report, Wkly. Chg.	5.5M Barrels
Oct 3 rd	Initial Jobless Claims (week ending 9/28)	308,000
Oct 3 rd	ISM Non-Mfg. Index, September	54.4
Oct 3 rd	EIA Natural Gas Report, Wkly. Chg.	101 bcf

SEE IMPORTANT DISCLOSURES ON BACK PAGE.

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.

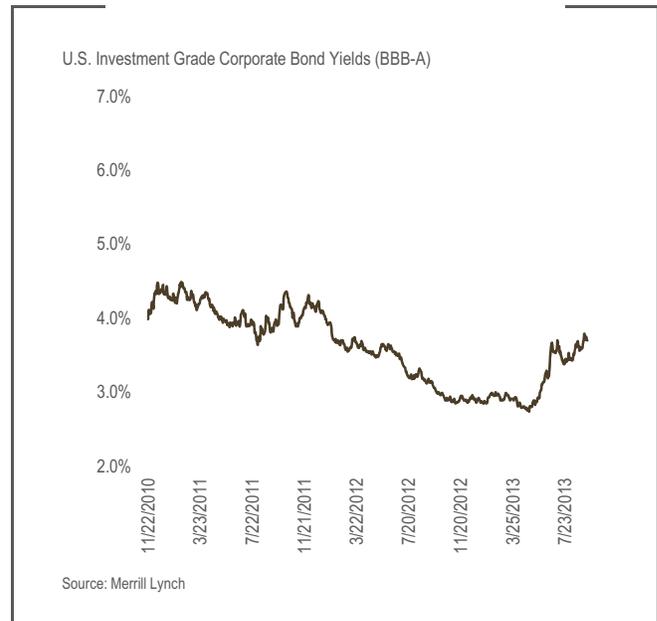
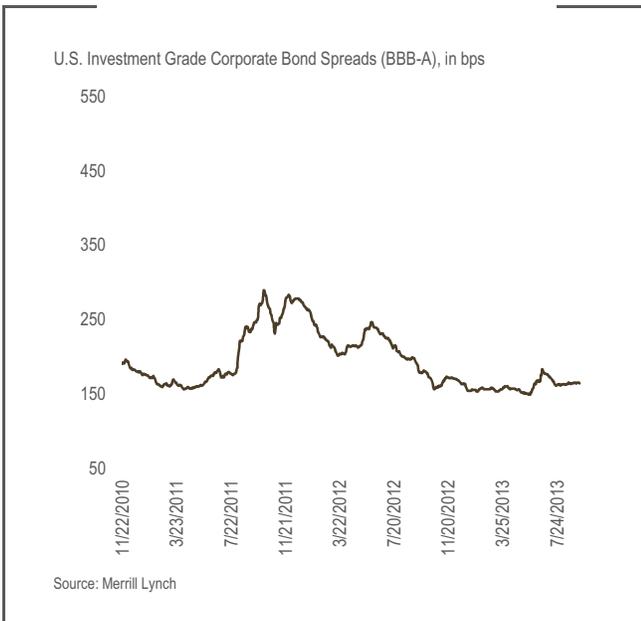
Bond Market Update

After rallying over the last three weeks, U.S. Treasuries finished mostly unchanged as investors await a resolution to the government shutdown. In a sign of ongoing concerns over the debt ceiling and technical default, many money managers have sold T-Bills maturing closest to the debt ceiling deadline, purchasing longer maturity securities. This move has caused the short-term yield curve to invert with a 0.19% yield on the one-month bill and a 0.03% yield on the three-month, the largest inversion since September of 2008. Looking ahead, most strategists expect Treasuries to trade in a tight range until the government reaches a budget deal. Meanwhile, trading in high yield bonds has slowed to levels not seen since 2008, with volumes dropping by 18% relative to the first half of the year. Investment grade bond trading, although supported by Verizon's record \$49 billion sale last month, has also slackened falling 13% during the same period. Many market participants are now more reluctant to sell high yield bonds due to liquidity concerns, as the country's biggest banks continue to trim holdings in the face of higher capital requirements set by the Basel Committee and risk-curbing rules, introduced by the Dodd-Frank Act. At the same time, uncertainties regarding tapering of the Fed's bond-buying program have slowed demand for "risk-on" securities. Until these uncertainties get resolved, strategists expect volume in this sector of the market to remain below average.



Issue	9.27.13	10.4.13	Change
3 month T-Bill	0.02%	0.03%	0.01%
2-Year Treasury	0.34%	0.33%	-0.01%
5-Year Treasury	1.40%	1.41%	0.01%
10-Year Treasury	2.64%	2.66%	0.02%
30-Year Treasury	3.68%	3.73%	0.05%

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



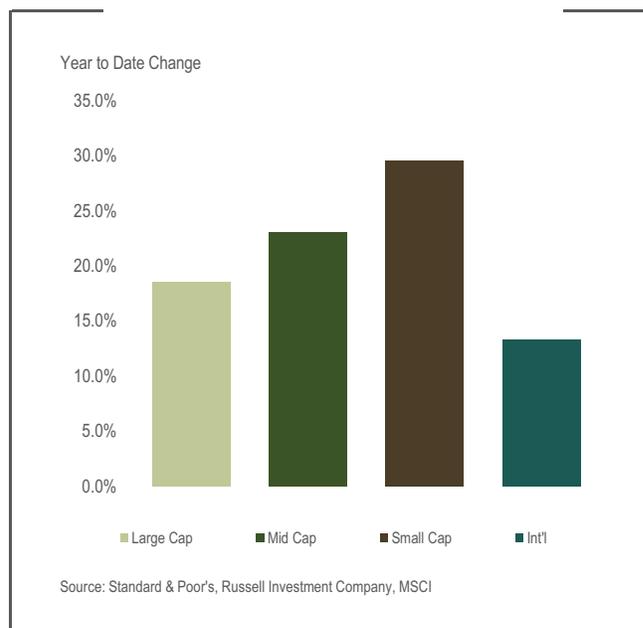
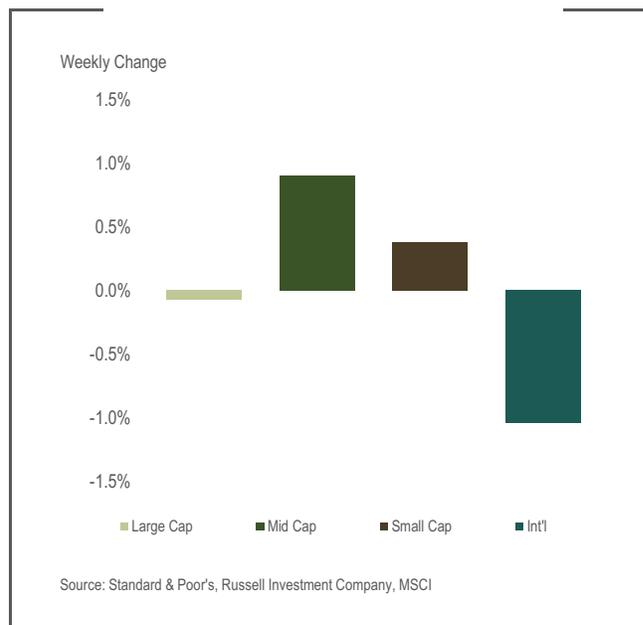
Stock Market Update

The government shutdown took effect as no deal was finalized at the eleventh hour putting the equity markets on high alert. The first trading day after the shutdown the equity markets sold off only to recover the following day. Economists put more emphasis towards the looming debt ceiling as an imminent risk facing the economy and the markets. A government shutdown is one issue, but a default on U.S. debt could put additional strain on the equity markets.

Overall for the week the markets have been volatile, but finished the week relatively flat. The Dow Jones Industrial Average closed at 15,072.58, down 1.22% for the week. The broader S&P 500 Index ended the week down 0.07% to close at 1,690.50, while the NASDAQ Composite finished up 0.69% to close the week out at 3,807.77.

The European markets ended the week slightly negative posting a return of negative 0.64% while emerging market equities continue to be one of the better performing equity asset classes with a return of 2.43% for the week. The Federal Reserve's delay of the tapering of the bond buying program has put upward pricing pressure on the emerging markets as most of the countries continue to fight off inflation. This week the Bank of India raised its short term lending rate by a quarter percentage point to 7.5%, as the country contends with a high inflation rate.

The most anticipated IPO since Facebook (FB), Twitter, announced on Thursday after the close that it has filed for an initial public offering and is looking to raise over \$1 billion. This news sent shares of Tweeter Home Entertainment (TWTRQ) up over 600% before the stock was halted as investors confused the company with the Twitter debut. Another notable IPO was Potbelly's Sandwich Shop (PBPB) which opened up Friday at \$14/share and finished higher by almost 120% to close its first day of trading at \$30.77/share.



Issue	9.27.13	10.4.13	Change
Dow Jones	15,258.24	15,072.58	-1.22%
S&P 500	1,691.75	1,690.50	-0.07%
NASDAQ	3,781.59	3,807.75	0.69%
Russell 1000 Growth	789.63	790.35	0.09%
S&P MidCap 400	1244.18	1,255.44	0.91%
Russell 2000	1074.18	1,078.25	0.38%
MSCI EAFE	1,835.85	1,816.70	-1.04%
MSCI Small Cap	195.94	194.61	-0.68%

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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

Crude oil prices dropped earlier in the week on concerns over weak near-term refiner demand, along with the potential consequences of the shutdown. These concerns were overshadowed, however, by worries over a potential disruption from a tropical storm in the Gulf of Mexico. Several oil companies announced late this week that they would be removing personnel from offshore rigs as a precaution as Tropical Storm Karen approached, and were closely monitoring forecasts to alter operations at refineries if needed. Worries about the storm tempered earlier losses that were fueled over fear that near-term inventories were too high as refiners reduce operations on a seasonal basis. The Energy Information Administration (EIA) released figures that showed that U.S. refiners cut their crude-oil processing rates to the lowest level since early June, helping crude stocks climb much higher than expected, by 5.5 million barrels in the week.

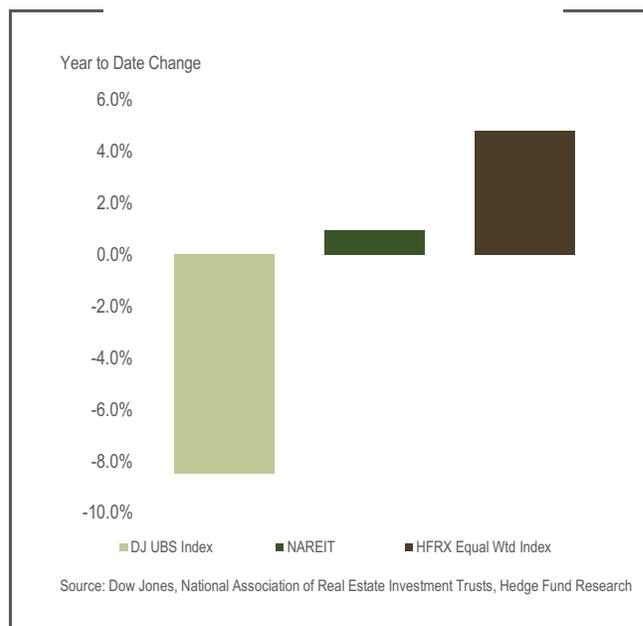
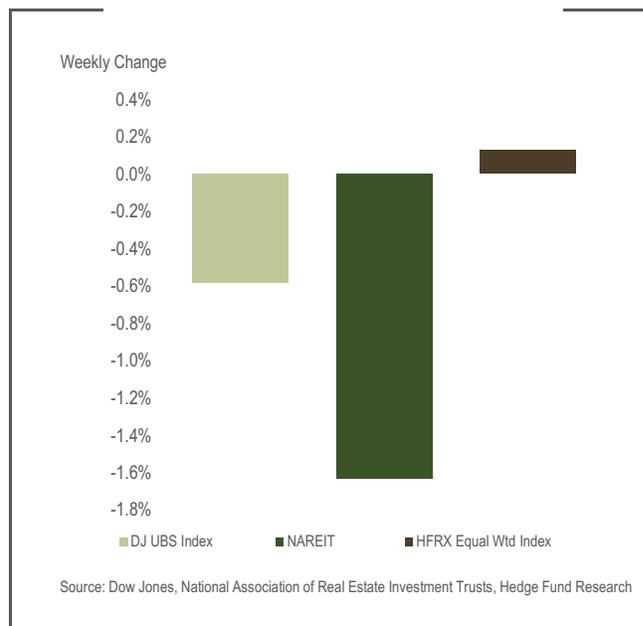
Gold fell this week on speculation that the effect of the partial U.S. government shutdown would be short-lived, crippling demand for the precious metal as a store of value. On top of this, the massive Comex sell order earlier this week sent the price below \$1,300 an ounce, which played a major role in the metal reaching its biggest weekly drop in three weeks. Gold was able to recover, but unable to escape the red for the week.

The impact on hedge funds of the October 1 government shutdown is beginning to play out. While the Securities and Exchange Commission (SEC) remains open due to its ability to self-fund for a few weeks, its "sister agency", the Commodity Futures Trading Commission (CFTC), has shut down. These are the agencies that provide oversight to the securities and commodities markets that hedge funds trade in, along with supporting rule-making, registration, and the examination systems that backbone the hedge fund industry. Forbes notes that the CFTC closure could not have come at a worse time as the agency is just at the point of putting in place a large number of their Dodd-Frank mandates including, most importantly, the creation of the swap execution facilities for derivative trading. If the shutdown drags on and the SEC runs out of funding, analysts foresee its closure plunging the industry into unknown territory. During previous government shutdowns, hedge funds had little regulation or oversight, which is certainly not the case today.

Issue	Previous Week	Current ¹	Change
Gold	1,337.36	1,309.82	-2.06%
Crude Oil Futures	102.72	103.63	0.89%
Copper	331.90	329.90	-0.60%
Sugar	17.74	18.48	4.17%
HFRX Equal Wtd. Strat. Index	1,176.79	1,178.30	0.13%
HFRX Equity Hedge Index	1,120.03	1,124.75	0.42%
HFRX Equity Market Neutral	934.44	934.12	-0.03%
HFRX Event Driven	1,535.03	1,541.35	0.41%
HFRX Merger Arbitrage	1,551.76	1,551.47	-0.02%
Dow Jones UBS Commodity Index	128.01	127.26	-0.58%
FTSE/NAREIT All REIT	160.04	157.43	-1.63%

SEE IMPORTANT DISCLOSURES ON BACK PAGE.

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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