MainStreet Advisors Financial Market Update

October 18, 2013

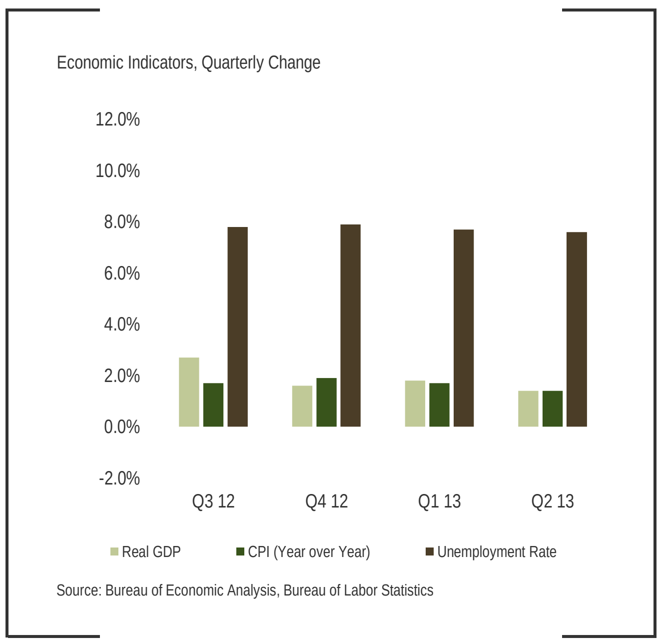
Economic Update

The big news from Washington is that the shutdown has ended with a Wednesday night scramble and an early Thursday morning signature from President Obama. The government is now funded through January 15th and the debt “cushion” extends through February 7th, when the President and Congress will go through this process again (hopefully with less pain). Employees can return to work, government functions are open, and markets can breathe easy for the time being. With that said, this temporary bill does not address all of the issues that have come into play during this political mess, so it is possible that we see a similar situation again in January. Citigroup Chief Equity Strategist Tobias Levkovich warns “Kicking the proverbial can down the street does not address the long-term fiscal imbalances … Averting disaster should not be confused with problem solved.”

Upcoming data releases will likely be affected by the wake of the shutdown, so Q4 GDP and other economic points may be inconsistent for the time being. The U.S. outlook continues to remain favorable now that the political confusion has subsided for a short time, and we look ahead to the anticipated QE tapering in the first quarter of 2014.

One data point that is still available despite the government shutdown is homebuilder confidence. Homebuilder confidence slipped for the second month in a row in October, falling to 55 from a recovery peak of 58 in August. Uncertainty in Washington was cited as a special negative this month, but supply constraints on both labor and available lots was also a factor. Despite the slide, the index is still showing the best readings in nearly ten years.

Several industry districts noted expected increases in capital spending in the coming months, including manufacturing and high-tech services, according to the Philadelphia, Cleveland, Kansas City, and St. Louis surveys. This comes as a welcome indication of potential strength in the industrial sector in 2014, although some isolated districts did continue to highlight modest or low growth to come.



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

Oct 15th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-0.7%
Oct 15th	Empire State Mfg Survey, October	1.52
Oct 16th	MBA Purchase Applications Index, Wkly. Chg.	0.3%
Oct 16th	Housing Market Index, October	55.0
Oct 17th	Initial Jobless Claims (week ending 10/12)	358,000
Oct 17th	Philidelphia Fed Survey, October	19.8

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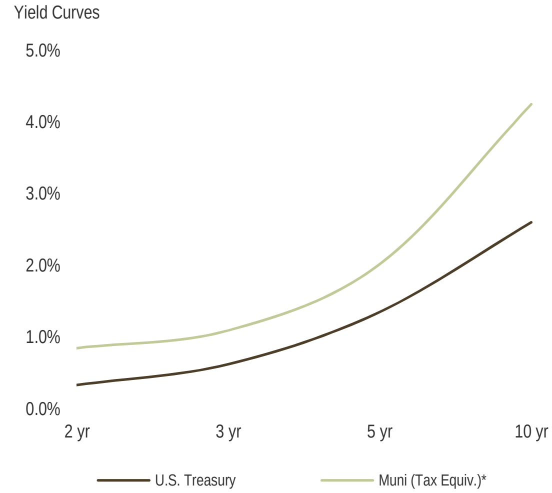
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

The U.S. bond markets returned to relative normalcy after Congress lifted the debt ceiling and averted a potential default on U.S. debt. Yields on 1-month Treasury bills soared over .34% early in the week as investors shunned paper maturing closest to the deadline set by the Treasury. That move inverted the yield curve out to two years and caused significant problems in the repo markets. After a deal was reached, yields plummeted below 0.05% where they had averaged for most of the year. Longer term debt also rallied on the news with investors speculating that the government shutdown would trim fourth quarter GDP and reduce the possibility of the Federal Reserve tapering their asset purchases this year.

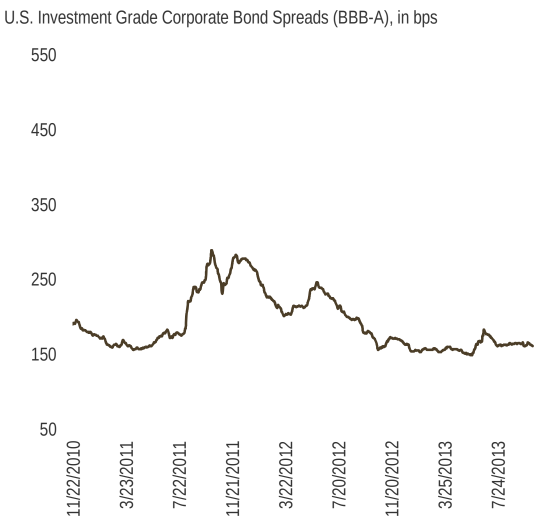
With the Treasury market functioning normally again, the corporate bond market is expected to resume operating at full capacity. After strong issuance in September, sales of corporate bonds sank 44% in October as political uncertainty prompted companies to hold back on tapping the capital markets. With the Washington deal in hand, companies are lining up to issue new paper and fund capital needs through year end.



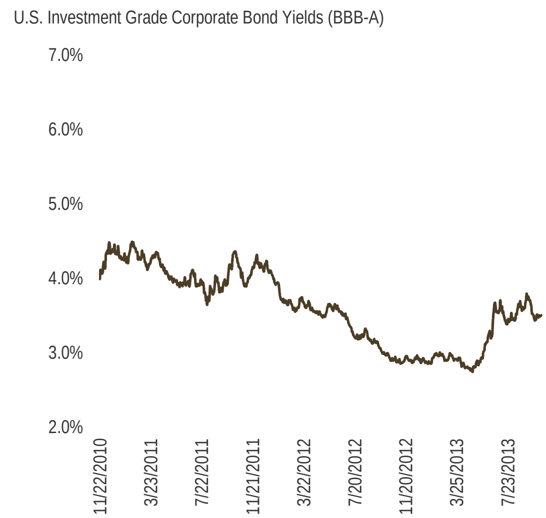
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	10.11.13	10.18.13	Change
3 month T-Bill	0.05%	0.04%	-0.01%
2-Year Treasury	0.35%	0.33%	-0.02%
5-Year Treasury	1.44%	1.35%	-0.09%
10-Year Treasury	2.71%	2.60%	-0.11%
30-Year Treasury	3.75%	3.65%	-0.10%

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



Source: Merrill Lynch



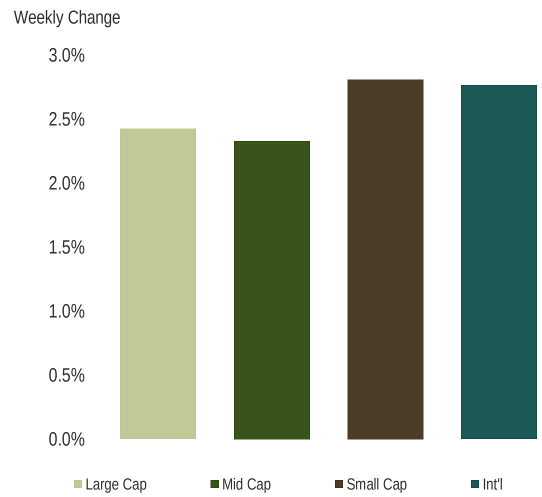
Source: Merrill Lynch

Stock Market Update

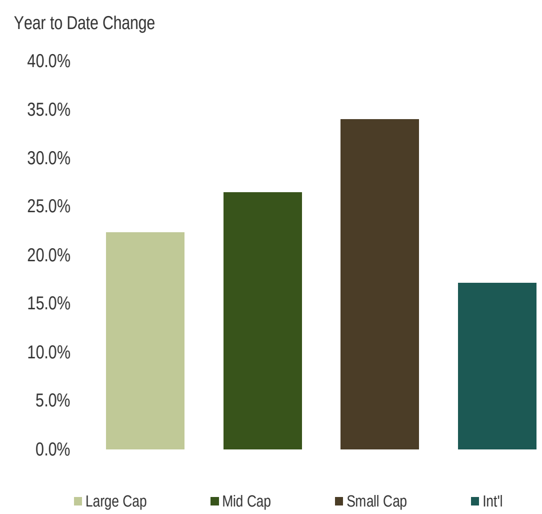
Domestic equity markets had a positive week and saw the S&P 500 Index reach a new all-time high. The deal to end the shutdown and move the debt ceiling deadline to February has only postponed the political dysfunction for a few months. The equity markets for the time being will get back to focusing on corporate earnings and the economic health of the country. The Dow Jones Industrial Average closed at 15,399.65, gaining 163 points for the week, or up 1.07%. The broader S&P 500 Index ended the week up 2.42% to close at 1,744.50. The NASDAQ Composite Index also finished higher, up 3.23% for the week to close at 3914.28.

International equity markets were mostly higher for the week as news that China's economy grew at 7.8% in the third quarter met expectations and represents its fastest growth rate this year. European stocks as measured by the STOXX 600 Index closed out the week up 2.0%, near a five-year high. Japan's Nikkei stock index climbed 1.1% for the week, its second straight weekly gain. In China, the Shanghai Composite Index climbed on Friday but ended the week down 1.5%, giving back some of the previous week's strong gains.

Earnings season moved to the forefront this week as several large bell weathers reported third quarter results. The earnings so far, with around 70 S&P 500 companies having reported, have been mixed with some notable misses and beats. IBM missed on revenues, showing a decline of 4% in revenues versus the year ago period, and saw its shares fall to a 52-week low. Among the companies reporting better than expected earnings included Abbott, Pepsi, Johnson & Johnson, Charles Schwab, General Electric, and Google. Investors reacted positively to Google's report and pushed the stock price over $1,000 per share on Friday. Google saw its revenues grow sequentially and year over year and the company was able to increase its gross margin to 60.6%. Google also increased its cash and short term investments to $56.5 billion on strong free cash flow for the quarter. The next couple of weeks of earnings reports should give investors a clearer picture of whether or not fourth quarter earnings will come in as strong as expected.



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



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

Issue	10.11.13	10.18.13	Change
Dow Jones	15,237.11	15,399.65	1.07%
S&P 500	1,703.20	1,744.50	2.42%
NASDAQ	3,791.87	3,914.28	3.23%
Russell 1000 Growth	791.26	812.23	2.65%
S&P MidCap 400	1261.2	1,290.59	2.33%
Russell 2000	1084.32	1,114.77	2.81%
MSCI EAFE	1,827.93	1,878.47	2.77%
MSCI Small Cap	195.82	201.47	2.89%

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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

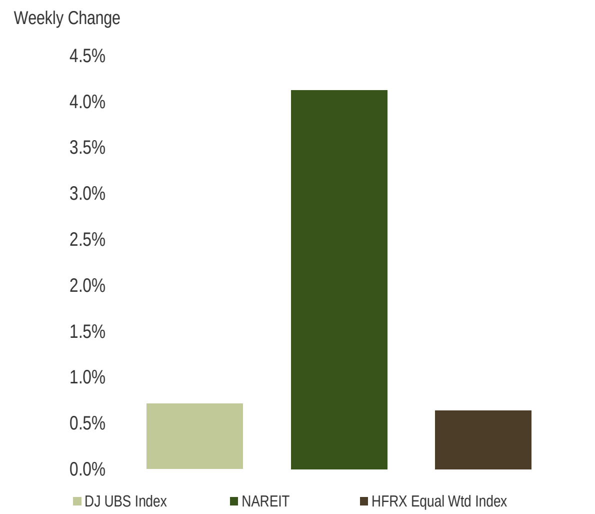
Gold held near $1,320 an ounce on Friday, heading for its biggest weekly gain in two months on expectations that the partial U.S. Government shutdown will lead the Federal Reserve to postpone tapering of its stimulus program. It could have been an even stronger week for gold had a rally in global equities on Friday not curbed demand for the metal as an alternative investment. The MSCI All-Country World Index of stocks extended a rally to a five-year high after China's economic growth accelerated. The precious metal had leaped 3% earlier in the week after the deal to re-open the U.S. Government and a downgrade to the country's sovereign rating by a Chinese rating agency knocked the dollar, prompting a rush among over-extended shorts to cover. The metal's 20% drop this year has largely been due to speculation that the Fed's $85 billion monthly bond-buying program, which had driven gold higher by keeping a cap on interest rates while fueling inflation fears, will be tapered. Barring a miracle, gold is headed for its first annual drop since 2000 as investors lost faith in the precious metal as a store of value.

The price of oil rebounded around $101 a barrel on Friday, boosted by a bounce in China's economic growth, along with traders awaiting the release of official figures on domestic stockpiles of crude and gasoline. Crude dropped earlier in the week as investors weighed the economic impact of the 16-day government shutdown. The main support for oil came from data released by the Chinese government, which showed the world's second-largest economy grew by an annual 7.8% in Q3, improving on the two-decade low figure of 7.5% posted in Q2. With the regular supply report from the Energy Department postponed this week by the shutdown, investors went to the American Petroleum Institute (API) instead. The API announced that U.S. stocks of crude rose by 5.9 million barrels last week, nearly doubling analyst expectations.

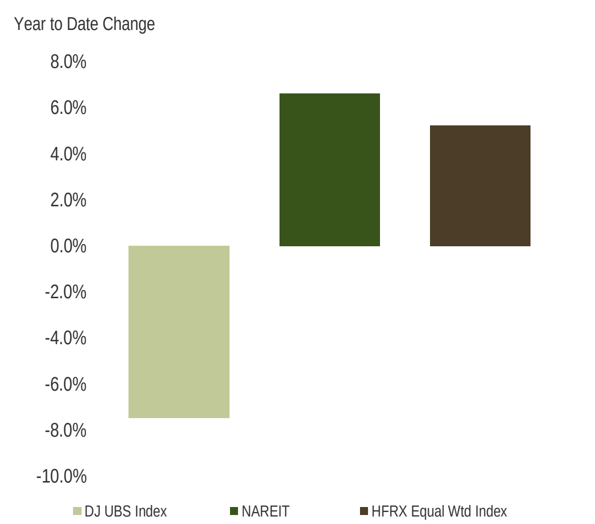
Industry analyst Preqin reports that hedge fund performance could finally be on track to match the returns of 2012, with year-to-date figures of 7.17% through the end of Q3, compared with 7.37% through the end of September 2012. Investor sentiment towards hedge fund performance has improved over the past 12 months, according to the data provider.

Issue	Previous Week	Current[1]	Change
Gold	1,269.08	1,314.44	3.57%
Crude Oil Futures	101.83	100.90	-0.91%
Copper	327.00	329.00	0.61%
Sugar	18.93	19.50	3.01%
HFRX Equal Wtd. Strat. Index	1,175.43	1,182.94	0.64%
HFRX Equity Hedge Index	1,114.88	1,133.44	1.66%
HFRX Equity Market Neutral	934.44	941.26	0.73%
HFRX Event Driven	1,535.31	1,548.70	0.87%
HFRX Merger Arbitrage	1,557.38	1,558.78	0.09%
Dow Jones UBS Commodity Index	127.78	128.69	0.71%
FTSE/NAREIT All REIT	159.67	166.26	4.13%

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.



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

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