MainStreet Advisors
Financial Market Update

October 25, 2013

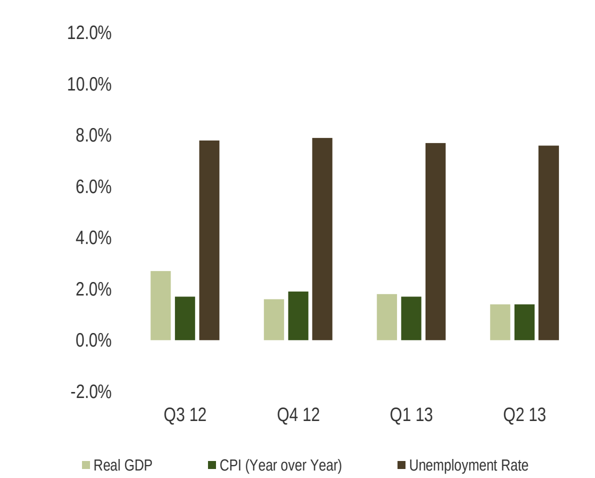
Economic Update

The holidays are upon us and the outlook for the holiday shopping season looks increasingly positive as the Rasmussen indicator of consumer confidence has increased over 10% since the government shutdown ended on October 17th. The decline in gasoline prices, which is a major tailwind for retail sales, is another indication that the holiday shopping season could be boosted as consumers have more discretionary money to spend in retail. Gallup polls suggest that Americans plan on spending more than they have in each of the past five years this holiday season. Despite the poll being taken during the government shutdown, the average response was up 2.1% from the figures quoted in last year's poll, suggesting accelerated holiday sales.

Employment was mixed this month as nonfarm payrolls came in below consensus at 148,000, but the unemployment rate did tick down to 7.2%. The latter figure is likely due to decreases in the worker pool rather than a genuine decline in the unemployment rate. Although the September number was weak, the August figures were revised up to 193,000 from the original 169,000. The government shutdown had affected weekly jobless claims during the past few weeks and is likely still affecting headline employment numbers as well. Claims did settle this week at 350,000, down from 362,000 and 373,000 in the prior two weeks, so normalization does slowly seem to be returning to the data.

New factory orders rose 3.7% in September, significantly overshooting the consensus estimate of 2.3%, but all of this gain can be attributed to transportation (specifically aircraft) orders as the index, excluding transportation, was flat. Taking into account auto production gains and high-tech equipment, the expectations for overall business investment in equipment is only slightly above flat for the third quarter. Weekly automotive production has climbed nearly 8% over the past quarter and this, among other production increases, has led to increased production in raw goods, such as steel (up 1.7% in the past three months). Another production positive: unfilled orders for core capital goods bumped up 0.6% to a new record high, suggesting optimism for further business investment in Q4.

Economic Indicators, Quarterly Change



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

Oct 21st	Existing Home Sales, September SAAR	5.29M
Oct 21st	EIA Petroleum Status Report, Wkly. Chg.	4.0M Barrels
Oct 22nd	ICSC-Goldman Same Store Sales, Wkly. Chg.	1.4%
Oct 22nd	Non-farm Payrolls, Sep. Monthly Chg.	148,000
Oct 22nd	Unemployment Rate, September	7.2%
Oct 22nd	Construction Spending, Aug. Monthly Chg.	0.6%
Oct 22nd	EIA Natural Gas Report, Wkly. Chg.	77 bcf
Oct 23rd	MBA Purchase Applications Index, Wkly. Chg.	-0.6%
Oct 23rd	Import Prices, Sep. Monthly Chg.	0.2%
Oct 23rd	Export Prices, Sep. Monthly Chg.	0.3%
Oct 24th	International Trade Balance Level, August	-38.8B
Oct 24th	Initial Jobless Claims (week ending 10/19)	350,000
Oct 24th	EIA Natural Gas Report, Wkly. Chg.	87 bcf
Oct 25th	Durable Goods New Orders, Sep. Monthly Chg.	3.7%
Oct 25th	Consumer Sentiment Index, October	73.2
Oct 25th	Wholesale Inventories, Aug. Monthly Chg.	0.5%

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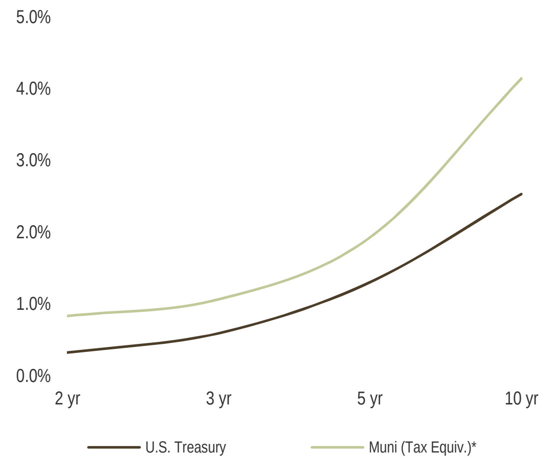
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

Stronger demand for safe-haven U.S. Treasuries drove the bond market higher amid speculation the economy is recovering too slowly for the Federal Reserve to begin reducing its bond purchase program soon. Looking forward, uncertainties in the market are apt to continue as the recent government shutdown likely reduced consumer and business spending this quarter, clouding the economic growth outlook further. Even as a last minute deal was reached last week to suspend the debt ceiling, budget negotiations will resume in early 2014, likely triggering another round of political brinkmanship. Given weakness evident in the latest employment report, many market participants expect the Fed to delay quantitative easing tapering until at least March. Because of this, the ultimate size of the Fed's asset holdings will grow by an estimated additional $500 billion. QE3 is now expected to increase these asset holdings from the current level of $3.5 trillion to $4.2 trillion, causing several Fed governors to express concerns about the ultimate size of the central bank's balance sheet. Although unlikely, at some point the Federal Reserve might need to curb its bond purchase program to reduce costs, even if labor market conditions have not improved substantially, a worst case scenario that could lead to a considerable adverse market reaction.

Yield Curves

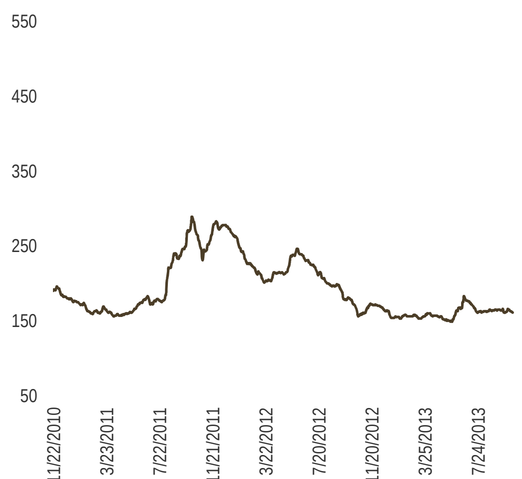


Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	10.18.13	10.25.13	Change
3 month T-Bill	0.04%	0.04%	0.00%
2-Year Treasury	0.33%	0.32%	-0.01%
5-Year Treasury	1.35%	1.30%	-0.05%
10-Year Treasury	2.60%	2.53%	-0.07%
30-Year Treasury	3.65%	3.60%	-0.05%

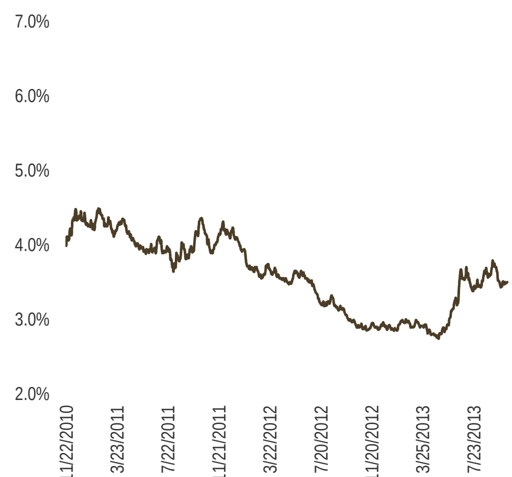
SEE IMPORTANT DISCLOSURES ON BACK PAGE. Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.

U.S. Investment Grade Corporate Bond Spreads (BBB-A), in bps



Source: Merrill Lynch

U.S. Investment Grade Corporate Bond Yields (BBB-A)



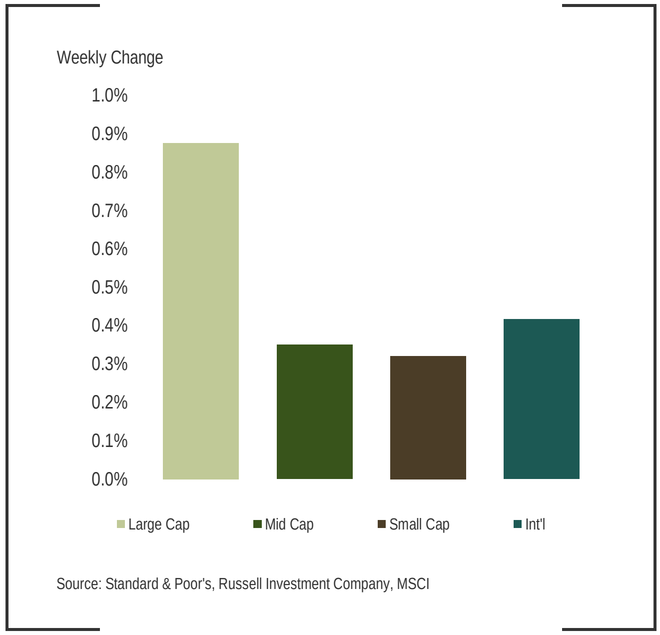
Source: Merrill Lynch

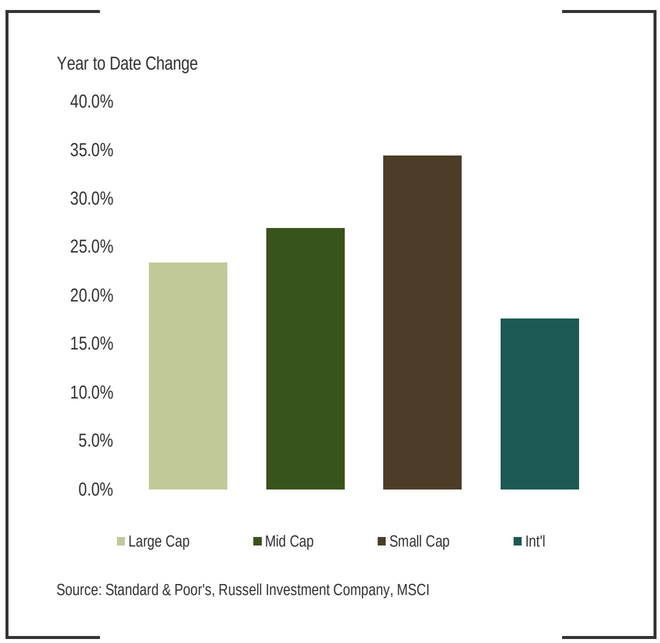
Stock Market Update

Most major equity markets finished higher compared to last week. The long awaited release of the September unemployment report boosted stocks on Tuesday as it raised expectations the Fed will continue its bond buying program for the foreseeable future. Markets were volatile mid-week as investors digested earnings news and mixed economic data. The Dow Jones Industrial Average edged up 1.1%, closing at 15570.28. The broader S&P 500 Index finished up 0.9%, to 1759.77, a record close. The NASDAQ Composite Index increased 0.7% for the week to finish at 3943.36.

International markets were mixed as European stocks were positive while Asia suffered losses. The European STOXX 600 Index ended up 0.5%. Germany's DAX index closed at record levels, despite the first decline in German business confidence in six months. The FTSE Index in the UK jumped 1.5% for the week, as the Office for National Statistics reported GDP grew 0.8% in the third quarter, up slightly from 0.7% growth in the previous three-month period; the strongest growth rate since the second quarter of 2010. In Asia, the Nikkei Index suffered its biggest percentage loss since early August on Friday, down 2.8% as the dollar fell below its 200-day average of 97.30 yen. Investors in China were focused on a sharp rise in money market rates as the Shanghai Composite index fell 2.8% since last Friday, despite positive economic data regarding strength in Chinese manufacturing.

According to Zacks Investment Research, total earnings for the 212 S&P 500 companies that have reported results as of Thursday morning are up 8.1% from the same period last year, as 68% beat earnings expectations with a median surprise of 2.5%. Total revenues for these companies have increased 3%, with 42% beating revenue estimates. Of note reporting this past week were General Electric, McDonald's, Johnson & Johnson and VF Corp. GE's third quarter sales were below expectations, but lower operating costs led to a 120 basis point improvement in industrial margins compared to the year-ago quarter. McDonald's better-than-expected margins and improved cost controls offset softer international revenues. Strength in recently launched drugs for diabetes, cancer, and heart disease helped boost Johnson & Johnson's gross margins by 240 basis





Issue	10.18.13	10.25.13	Change
Dow Jones	15,399.65	15,570.28	1.11%
S&P 500	1,744.50	1,759.77	0.88%
NASDAQ	3,914.28	3,943.36	0.74%
Russell 1000 Growth	812.23	821.09	1.09%
S&P MidCap 400	1290.59	1,295.10	0.35%
Russell 2000	1114.77	1,118.34	0.32%
MSCI EAFE	1,878.47	1,886.29	0.42%
MSCI Small Cap	201.47	202.17	0.35%

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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

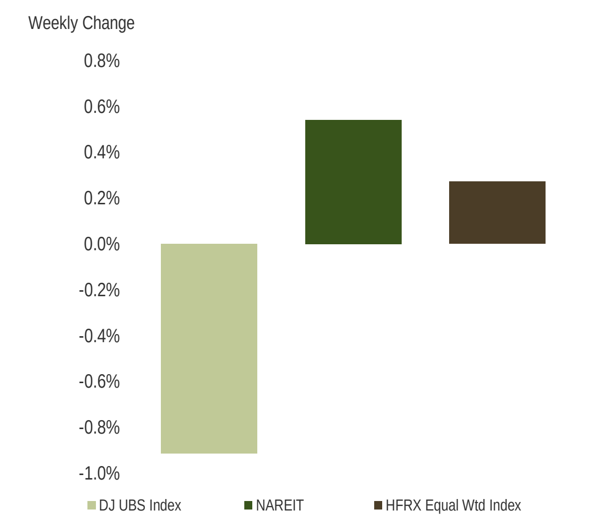
Gold hovered around one-month highs this week and is set for its second consecutive weekly gain on the notion that sluggish U.S. data could persuade the Federal Reserve to keep its stimulus intact well into next year. The precious metal fell to a near three-year low in June on the back of speculation that the Fed was set to curb its stimulus program, a key driver of higher gold prices. The two-week government shutdown earlier this month boosted expectations that the U.S. central bank would delay such a move until at least early next year, which helped drive the metal this week. Also, positive economic news out of China, the world's second-largest gold consumer, helped support prices of the metal.

Crude oil prices were slightly higher on Friday, taking a break from a $4-a-barrel slide this week on rising inventories and weak refinery demand. News of better-than-expected U.S. durable goods orders helped front-month crude move higher, but analysts caution that the near-term outlook remains weak. Government data this week showed the U.S. pumped crude at its fastest rate since 1989, while stockpiles rose during the U.S. fall refinery maintenance season to the highest level since June. Domestic inventories rose by 5.25 million barrels last week, compared with expectations of a 1.7-million-barrel rise. In the key Gulf Coast region, where refinery operations were slowed by maintenance and unplanned outages, higher inventories are now sufficient to cover 25.3 days of refiners' needs, a four-year high for this time of year. The U.S., the world's biggest oil consumer, will account for about 21% of global demand this year, almost double China's share, according to forecasts from the International Energy Agency. Saudi Arabia, the world's largest oil exporter, announced this week that it was beginning to reduce shipments in response to a possible surplus in supply.

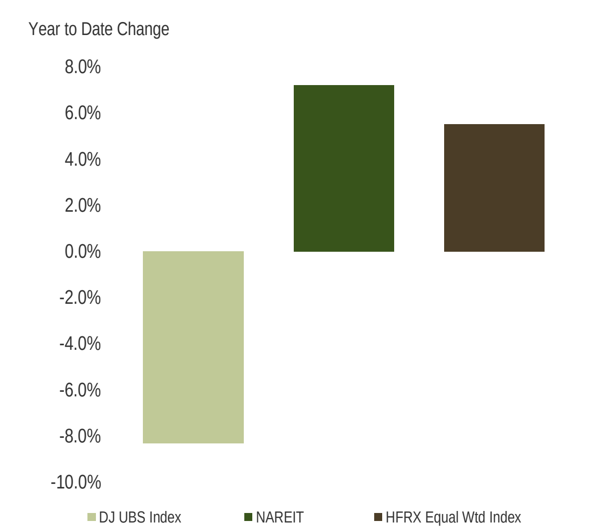
Hedge funds saw another strong month of inflows in September. According to the latest asset flows data from eVestment, investors added an estimated $16.95B in September, a strong showing following August's large inflows. Performance gains increased AUM by an additional $34.2B, or 1.27%, resulting in AUM increasing 1.9% last month, the industry's largest asset increase since February 2012. eVestment went on to note that in Q3, investors allocated approximately $42.2B, which was the largest quarterly allocation since Q1 2011 and second largest since the financial crisis

Issue	Previous Week	Current[1]	Change
Gold	1,314.44	1,352.54	2.90%
Crude Oil Futures	100.90	97.97	-2.90%
Copper	329.00	326.95	-0.62%
Sugar	19.50	19.03	-2.41%
HFRX Equal Wtd. Strat. Index	1,182.94	1,186.16	0.27%
HFRX Equity Hedge Index	1,133.44	1,140.43	0.62%
HFRX Equity Market Neutral	941.26	942.20	0.10%
HFRX Event Driven	1,548.70	1,553.68	0.32%
HFRX Merger Arbitrage	1,558.78	1,559.04	0.02%
Dow Jones UBS Commodity Index	128.69	127.51	-0.92%
FTSE/NAREIT All REIT	166.26	167.16	0.54%

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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