

MainStreet Advisors Financial Market Update

February 1, 2013
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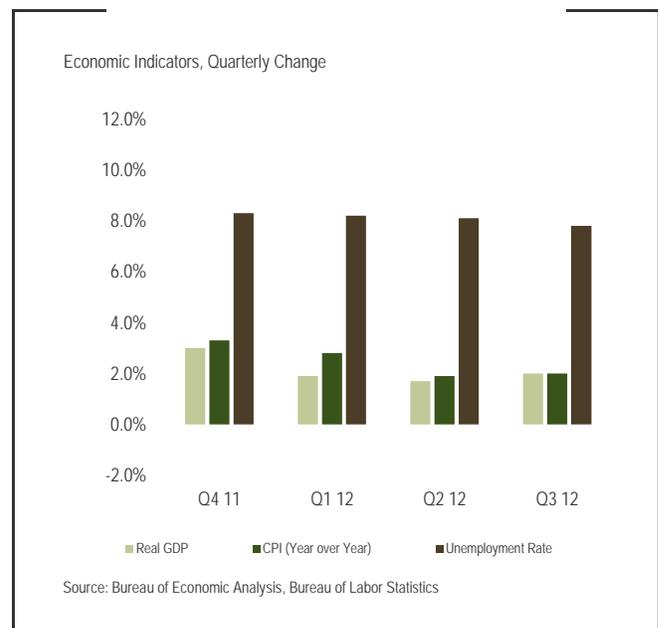
Economic Update

The first estimate for fourth quarter GDP came out this week and the headline number was not pretty, showing the U.S. economy contracted 0.1%. Digging into the report, though, we believe the number really is not as bad as it seems. The weakness was led by the government component which fell at a 6.6% annual pace, largely attributable to a sharp 22% drop in defense spending likely tied to uncertainty around sequestration cuts. The other big drag came from a \$40 billion slowdown in business inventory growth, which likely means businesses will need to produce more this quarter to meet demand. Meanwhile business investment, consumer spending and home construction were all quite healthy. So upon further review we feel this report should be viewed in a more positive light, and we do not believe it should not be seen as a harbinger to recession.

There was surprisingly strong growth seen in manufacturing for the month of January as the ISM's manufacturing index rose nearly three points to 53.1 – the largest increase in eight months. The new orders component rose 3.6 points, firmly in expansion territory, pointing to a positive outlook for the sector. Of concern was a further rise in the prices paid component to 56.5, increasing the likelihood of higher consumer inflation ahead. Still, we find the report is a good sign for global growth.

Job growth remained steady in January as the U.S. economy added 157,000 jobs. The number was below expectations, but massive upward revisions to December (41,000 higher) and November (86,000 higher) more than made up for the disappointment. Strength is still coming from the private sector which added 166,000 to the payrolls as the government cut its workforce by 9,000. There was a small increase in the number of employed people in the household survey, but a larger increase in the labor pool nudged the unemployment rate up a tenth to 7.9%.

The Conference Board's consumer confidence index fell 8.1 points to 58.6 in January. Despite averting the full weight of the fiscal cliff, expectations for future income were depressed as consumers saw the impact of the payroll tax cut expiration in their first paychecks of the year.



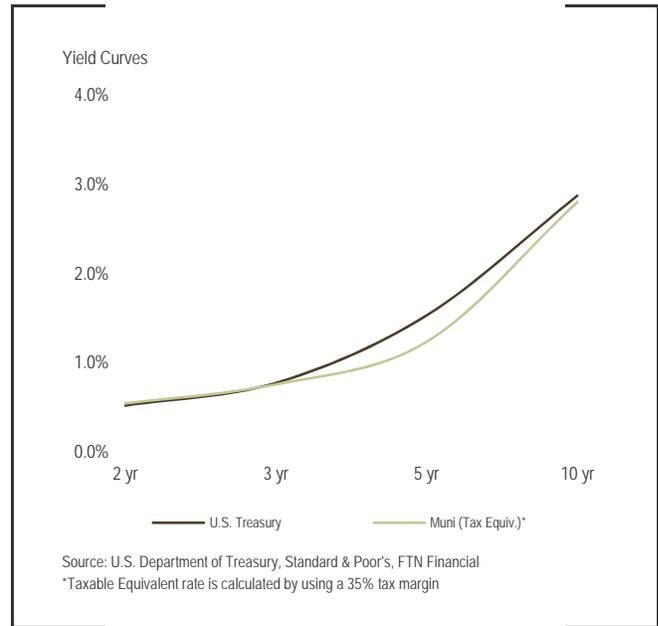
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|-----------------------|---|---------|
| Jan. 28 th | Durable Goods New Orders, Dec. Monthly Chg. | 4.6% |
| Jan. 28 th | Pending Home Sales, Dec. Monthly Chg. | -4.3% |
| Jan. 29 th | S&P/Case-Shiller 20-city Index, Nov. Monthly Chg. | 0.6% |
| Jan. 29 th | Consumer Confidence Index, January | 58.6 |
| Jan. 29 th | State Street Investor Confidence Index, January | 86.8 |
| Jan. 30 th | Real GDP, Q4 Quarterly Change SAAR | -0.1% |
| Jan. 30 th | GDP Price Index, Q4 Quarterly Change SAAR | 0.6% |
| Jan. 31 st | Initial Jobless Claims (week ending 1/26) | 368,000 |
| Jan. 31 st | Personal Income, December Monthly Chg. | 2.6% |
| Jan. 31 st | Consumer Spending, December Monthly Chg. | 0.2% |
| Jan. 31 st | Core PCE Price Index, December Monthly Chg. | 0.0% |
| Jan. 31 st | Employment Cost Index, Q4 Quarterly Change | 0.5% |
| Jan. 31 st | Chicago PMI Business Barometer Index, January | 55.6 |
| Feb. 1 st | Unemployment Rate, January | 7.9% |
| Feb. 1 st | Consumer Sentiment Index, January | 73.8 |
| Feb. 1 st | ISM Mfg. Index - Level, January | 53.1 |

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.

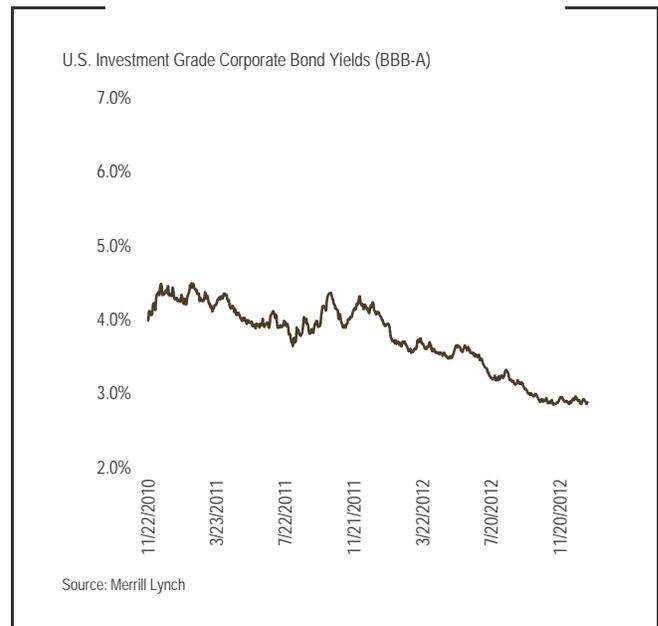
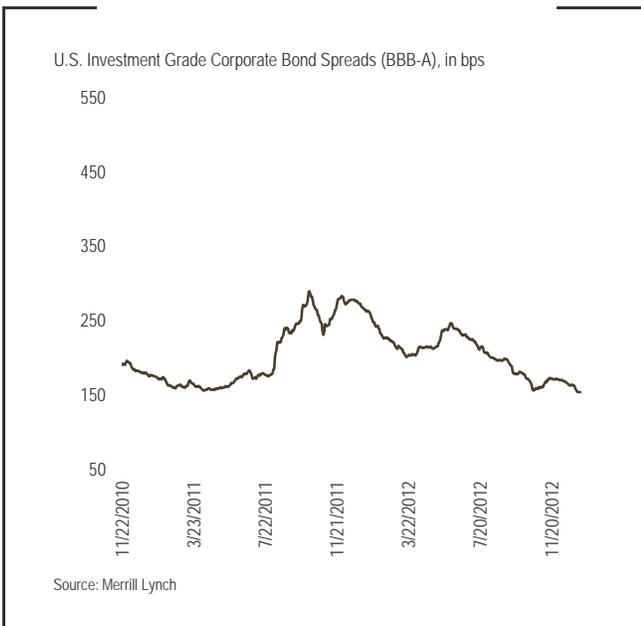
Bond Market Update

Pushing yields close to nine-month highs, U.S. Treasuries finished the week modestly lower as an FOMC statement and an increase in the unemployment rate eased concerns the Federal Reserve would start winding down its bond purchase program. Fed policy makers said growth, while slowed by "transitory factors", faces downside risks even after stresses in the global financial markets have eased. Fed officials added the economic expansion will pick up and unemployment will fall in response to "appropriate policy accommodation", which translates into ongoing low short-term rates and a continuation of the Fed's bond buying program. Separately, in a sign inflation concerns have intensified, the spread, or difference in interest rates, between 30-year bonds and similar maturity TIPS, a gauge of expectations for an increase in consumer prices, rose to its highest level in over three months and topped its ten-year average. Meanwhile, many strategists feel investment grade bonds may be vulnerable to a correction as prices approach all-time high levels. This sector of the bond market tends to sell-off when the interest rate cycle shows signs of turning higher, particularly when spreads over Treasuries have narrowed. Finally, although buyouts like the reported Dell sale will likely not become a wide-ranging issue, they do pose a threat for bondholders as they diminish the risk profile of the company, resulting in credit downgrades.



| Issue | 1.25.13 | 2.1.13 | Change |
|------------------|---------|--------|--------|
| 3 month T-Bill | 0.08% | 0.06% | -0.02% |
| 2-Year Treasury | 0.28% | 0.27% | -0.01% |
| 5-Year Treasury | 0.87% | 0.88% | 0.01% |
| 10-Year Treasury | 1.98% | 2.04% | 0.06% |
| 30-Year Treasury | 3.14% | 3.21% | 0.07% |

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



Stock Market Update

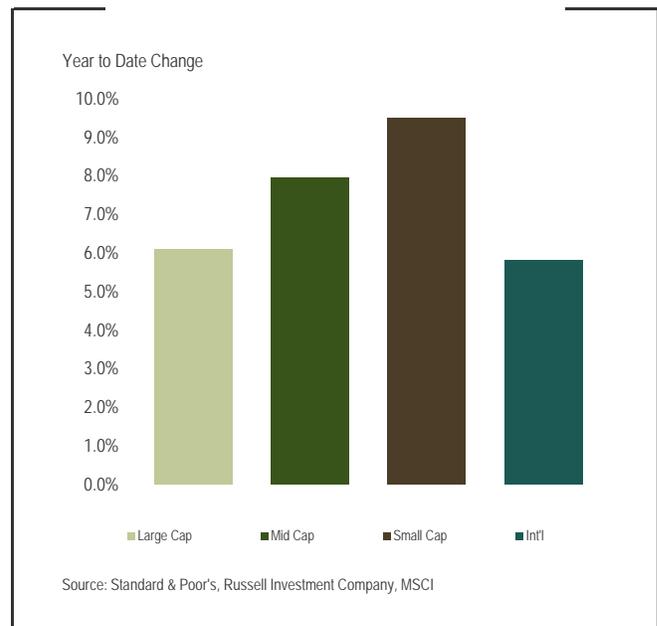
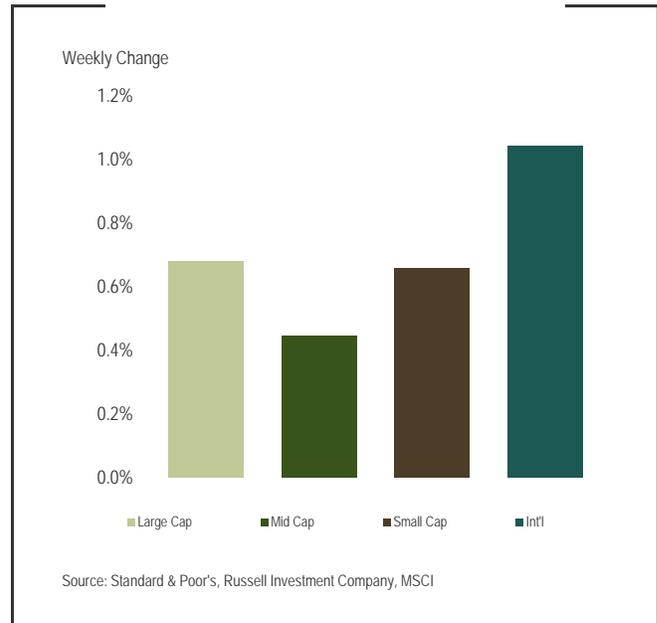
Most major domestic stock markets were up slightly this week, ending the first month of the New Year in positive territory on Thursday and then continuing to rally Friday on strong employment report figures and better than expected ISM data. The Dow Jones Industrial Average closed above 14,000 for the first time since 2007, increasing 149 points on Friday to close at 14009.79, up 0.8% for the week. The broader S&P 500 Index finished the week at 1513.17, higher by 0.7%. The NASDAQ Composite Index increased 0.9% since last Friday to close at 3179.10.

Asian markets were strong as the Nikkei Index hit a 33-month high on Wednesday, ending the month of January 7.2% ahead of the year-end close. Solid earnings reports from Japanese companies, better than expected improvement in retail sales and a decline in the yen to multi-year lows versus the dollar and the euro helped propel stocks higher this past week. European equities as measured by the STOXX Europe 600 Index were down slightly compared to a week ago, but investors in England bid the FTSE index up to its highest level since 2008. Mining stocks in England were strong on news that manufacturing in China continues to expand.

Fourth quarter 2012 earnings season continued this week with better than expected results out from Exxon Mobil, Boeing, Facebook and Zimmer. Exxon reported better than expected earnings due to stronger refining margins and lower costs even as total revenues decreased. On Monday Facebook reached its highest price level since July, only to fall back when the company announced higher spending initiatives for 2013, leading to several analyst downgrades. Boeing's results were strong but headline news regarding safety concerns about the 787 has weighed on the stock recently.

| Issue | 1.25.13 | 2.1.13 | Change |
|---------------------|-----------|-----------|--------|
| Dow Jones | 13,895.96 | 14,009.79 | 0.82% |
| S&P 500 | 1,502.96 | 1,513.17 | 0.68% |
| NASDAQ | 3,149.71 | 3,179.10 | 0.93% |
| Russell 1000 Growth | 688.76 | 693.07 | 0.63% |
| S&P MidCap 400 | 1096.7 | 1101.59 | 0.45% |
| Russell 2000 | 905.24 | 911.19 | 0.66% |
| MSCI EAFE | 1,679.88 | 1,697.38 | 1.04% |
| MSCI Small Cap | 1,072.26 | 1,069.01 | 1.09% |

SEE IMPORTANT DISCLOSURES ON BACK PAGE.
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 settled 0.54% higher this week thanks to mixed U.S. jobs data and weakness in the dollar, which helped support demand for the precious metal, but was limited to even greater gains due to better than expected figures on U.S. consumer sentiment and manufacturing activity. The metal rose in line with equities and commodities on Friday after U.S. nonfarm payroll data showed modest job growth in January. Bullion prices climbed even further this week after the Labor Department announced U.S. job gains in the last two months were larger than initially reported, suggesting the economy may be on track for a recovery despite a surprising contraction in output in Q4. The metal hit a bump in the road after St. Louis Fed President James Bullard predicted the U.S. economy may be on track for better performance this year, which could put the central bank in a position to slow down its massive bond buying program. The metal, which closed at \$1,667.60 an ounce, was able to offset last week's losses, but remains flat on the year.

After tracking the rise in global equity markets, crude oil gained 1.68% this week on the prospect of economic growth appearing optimistic thanks to upbeat macroeconomic data, which dispelled fears of any easing in demand for oil. However, the bombing of the U.S. Embassy in Turkey renewed geopolitical concerns of disruption in supply with the situations in Algeria and Egypt already causing worries. Crude settled at a four-month high earlier in the week as the dollar continued to weaken against other major currencies. Investors largely ignored an Energy Information Administration (EIA) report that showed crude stockpile in the U.S. increased more than expected. The EIA revealed U.S. crude oil inventories jumped 5.90 million barrels, while gasoline stocks shed 1.00 million barrels in the week ended January 25.

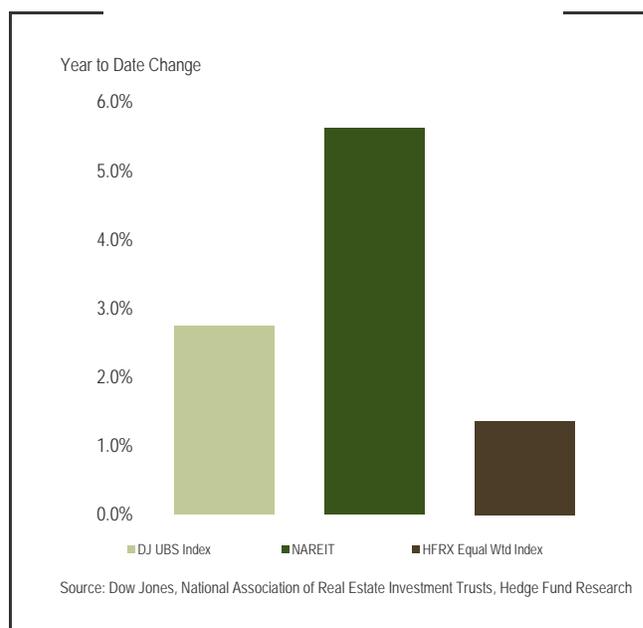
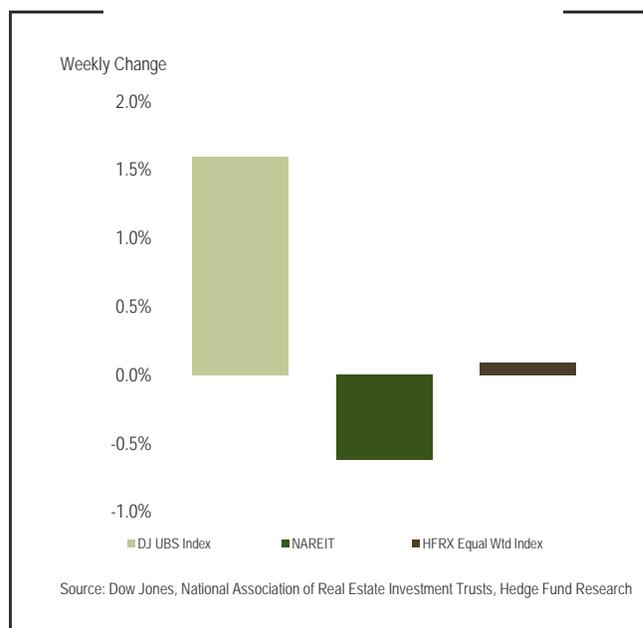
Hedge funds managers are turning bullish on commodities as prices keep rising, on top of the S&P 500 topping the 1,500 mark for the first time since the financial crisis. Investors boosted their positions in 18 U.S. futures and options by 11% in the week ended Jan. 22. This was the largest increase in net-long bets in six months, the Commodity Futures Trading Commission said, and comes at the end of seven straight weeks of gains for U.S. commodity prices.

| Issue | Previous Week | Current ¹ | Change |
|-------------------------------|---------------|----------------------|--------|
| Gold | 1,658.65 | 1,667.60 | 0.54% |
| Crude Oil Futures | 96.02 | 97.63 | 1.68% |
| Copper | 365.55 | 377.80 | 3.35% |
| Sugar | 18.38 | 18.89 | 2.77% |
| HFRX Equal Wtd. Strat. Index | 1,138.42 | 1,139.44 | 0.09% |
| HFRX Equity Hedge Index | 1,067.48 | 1,072.81 | 0.50% |
| HFRX Equity Market Neutral | 931.65 | 931.27 | -0.04% |
| HFRX Event Driven | 1,432.96 | 1,430.51 | -0.17% |
| HFRX Merger Arbitrage | 1,513.39 | 1,512.06 | -0.09% |
| Dow Jones UBS Commodity Index | 140.65 | 142.89 | 1.59% |
| FTSE/NAREIT All REIT | 165.72 | 164.69 | -0.62% |

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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