

MainStreet Advisors Financial Market Update

March 1, 2013
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Economic Update

The deadline for the sequester, \$85 billion in spending cuts, is midnight tonight and as of this writing there has yet to be a deal struck to avoid it. If a deal is not reached, we would not be surprised if we don't notice the effects right away, if at all. Those hurt most will be government employees, many of which will be receiving furlough notices soon if they haven't already. Also affected directly will be government contractors as agencies cut back on spending.

Eventually the average American might notice things like abbreviated hours at national parks and a few more delays at the airport, and it will be a headwind for economic growth as well. But ultimately cuts are necessary, in one form or another, to begin to slow the growth in our nation's debt, which we believe is far more important in the long-run.

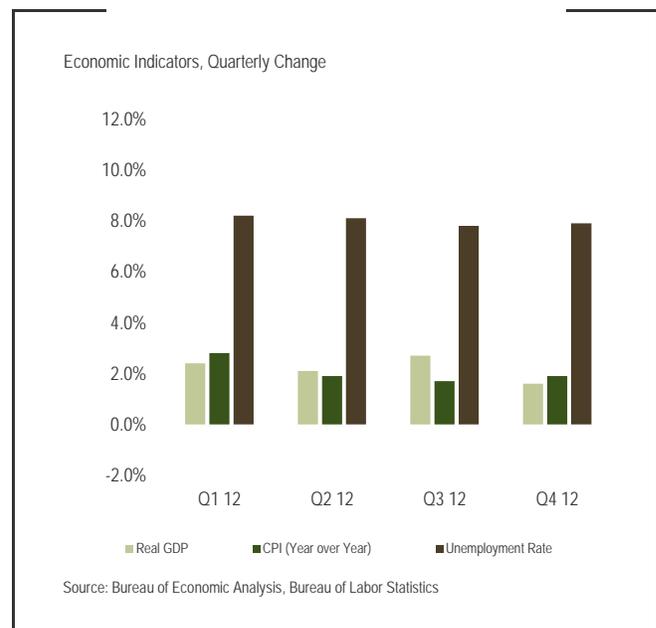
The payroll tax cut expiration affected take-home pay for Americans in January as personal income fell a dramatic 3.6%. The magnitude of the drop was higher than expected and was exaggerated by the unusually high income in December stemming from increased special dividend payouts to avoid 2013 tax hikes. The combination of one-time events resulted in the largest monthly drop in income in 20 years. So far consumers haven't cut spending to adjust, but instead have reduced their level of saving which fell from 6.4% of disposable income in December to 2.4% in January.

We are getting some very good news on the manufacturing front, as growth accelerated for that part of the economy. The ISM's manufacturing index rose 1.1 point to 54.2 in February, and the new orders component jumped 4.5 points to a strong 57.8 reading. There was exceptional strength in back orders as well, which rose 7.5 points to 55.0. Of concern was the faster rate of increase for prices paid, which rose 5.0 points to 61.5 and indicated inflation may be coming to consumers in the months ahead.

Real GDP growth for the fourth quarter was revised up 0.2%, just enough to nudge it into positive territory at 0.1%. As expected, a revision to net exports improved the number, but not as much as analysts had expected. While the number is disappointing, momentum looks to be improving modestly going forward.

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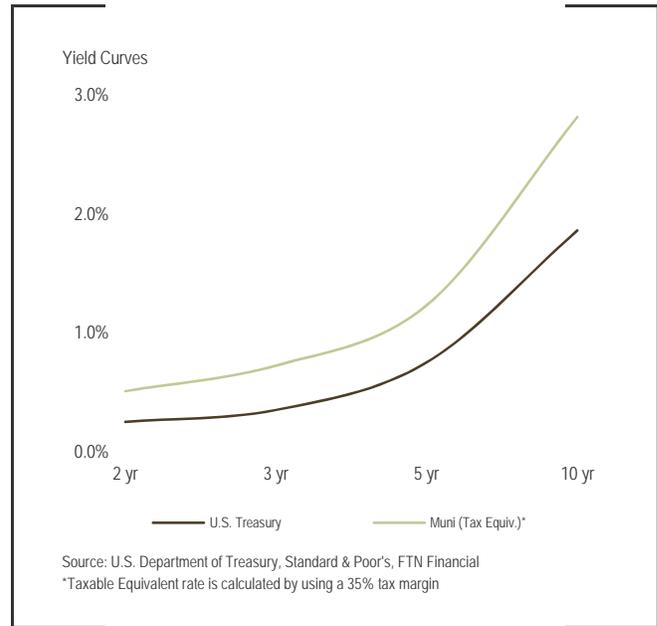
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.



Feb. 26 th	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.1%
Feb. 26 th	S&P/Case-Shiller 20-city Index, Dec. Monthly Chg.	0.9%
Feb. 26 th	New Home Sales, January	437,000
Feb. 26 th	Consumer Confidence Index, February	69.6
Feb. 26 th	State Street Investor Confidence Index, February	94.8
Feb. 27 th	Durable Goods New Orders, Jan. Monthly Chg.	-5.2%
Feb. 27 th	Pending Home Sales, Jan. Monthly Chg.	4.5%
Feb. 28 th	Real GDP, Q4 Quarterly Change SAAR	0.1%
Feb. 28 th	GDP Price Index, Q4 Quarterly Change SAAR	0.9%
Feb. 28 th	Initial Jobless Claims (week ending 2/23)	344,000
Feb. 28 th	Chicago PMI Business Barometer Index, February	56.8
Mar. 1 st	Personal Income, January Monthly Chg.	-3.6%
Mar. 1 st	Consumer Spending, January Monthly Chg.	0.2%
Mar. 1 st	Core PCE Price Index, January Monthly Chg.	0.1%
Mar. 1 st	Consumer Sentiment Index, February	77.6
Mar. 1 st	ISM Mfg. Index - Level, February	54.2

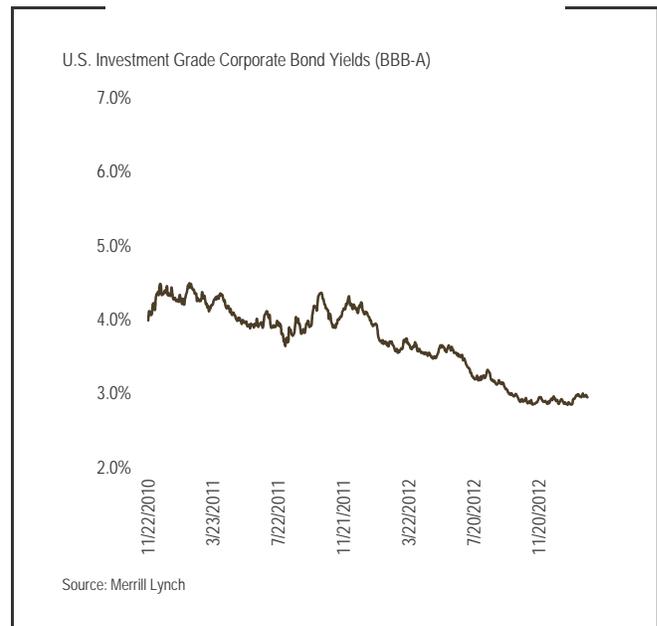
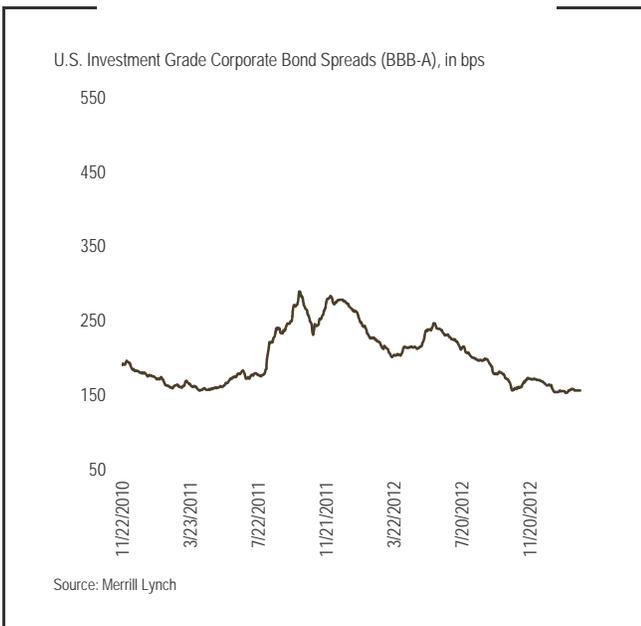
Bond Market Update

After a brief pullback earlier in the week, U.S. Treasuries finished higher on signs no last-minute deal will emerge to avoid large spending cuts. A continued political impasse over budget negotiations may hurt consumer spending and business investments, a reason that demand increased for the relative safety of U.S. government debt. At the same time, Fed Chairman Bernanke indicated in congressional testimony this week the central bank is prepared to continue buying bonds at its present pace, dismissing concerns that record-low interest rates will spark inflation or asset-price bubbles. However, should yields climb higher, some strategists feel investors may begin a rotation out of bond funds, particularly investment-grade corporates, later this year. These strategists feel the trigger for this rotation out of bond funds is now close, given total returns for this asset class are flat over the last four-and-a-half months compared to a gain of approximately 6% for stocks over the same period. Another leg higher in U.S. Treasury 10-year interest rates to 2.5% could incent market participants to transition out of high-grade funds due to resulting NAV losses. Such a modest increase in interest rates is clearly plausible since at 2.3%, yields could be high enough to cause a surge in what is known as mortgage convexity hedging and drive rates even higher. In this scenario, mortgage bonds are usually hedged by selling Treasury securities. As a result, interest rate disparities coupled with the duration of mortgage-backed securities is expected to have a snowball effect on bond rates.



Issue	2.22.13	3.1.13	Change
3 month T-Bill	0.13%	0.11%	-0.02%
2-Year Treasury	0.27%	0.25%	-0.02%
5-Year Treasury	0.84%	0.75%	-0.09%
10-Year Treasury	1.97%	1.86%	-0.11%
30-Year Treasury	3.15%	3.06%	-0.09%

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



Stock Market Update

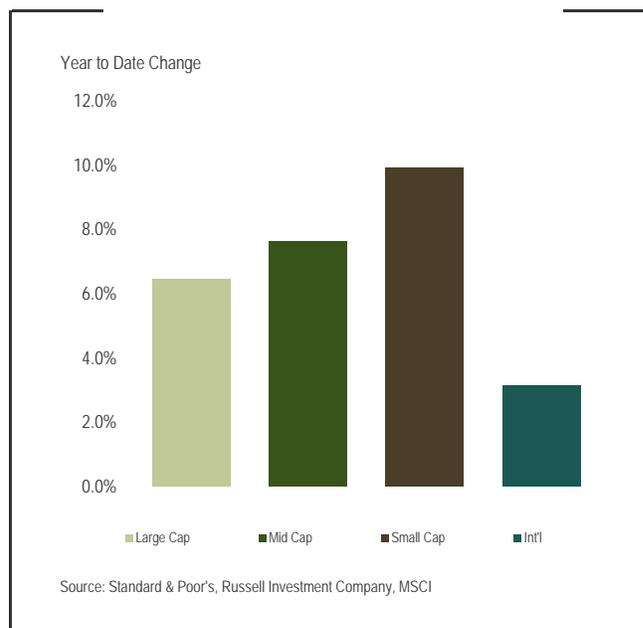
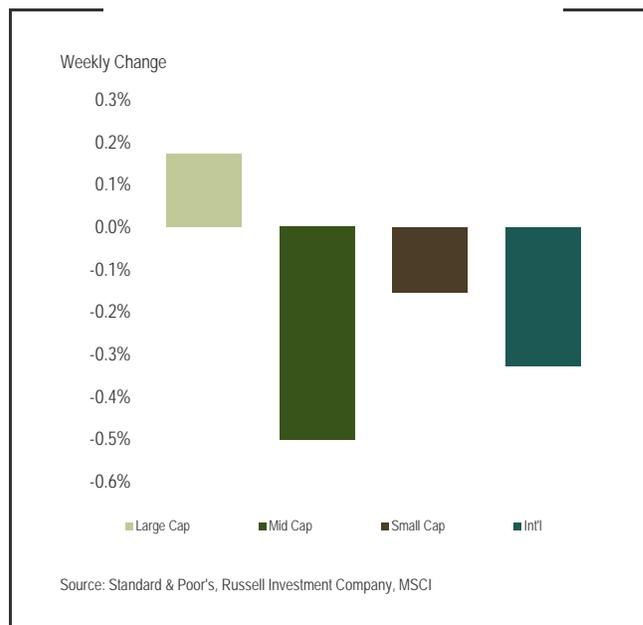
Major domestic stock markets were mixed this week following a 216 point drop in the Dow Jones Industrial average on Monday when investors became concerned about election results in Italy and looming spending cuts in Washington. Positive economic data, including a 4.5% increase in pending home sales and a jump in durable goods orders (ex-transportation), helped stocks rally Tuesday and Wednesday to erase Monday's losses. Friday the markets ended in positive territory despite the inability of congressional leaders to compromise on a plan to avoid automatic spending cuts. The Dow Jones Industrial Average closed at 14089.66, up 0.6%, only 75 points from its all-time high. Both the broader S&P 500 Index and the NASDAQ Composite Index finished basically flat for the week at 1518.20 and 3169.74, respectively. For the month of February ending Thursday, the Dow's 1.6% return was slightly ahead of the S&P 500 return of 1.4%. Both indices outpaced the NASDAQ's 0.8% increase.

European equities as measured by the STOXX Europe 600 were flat for the five-day trading period, but the Italian stock market index fell 3.4%. No party won a decisive victory in this week's election in Italy, leading to fears of increased political instability in the eurozone. Both China's Shanghai Composite Index and Japan's Nikkei Index were strong, each increasing 1.9% for the week.

Several major retailers announced earnings results this week. Lowe's posted revenue and earnings ahead of expectations buoyed by a stronger housing market and increased demand after Superstorm Sandy on the East Coast. Macy's quarterly results were also ahead of expectations while sales at JC Penney fell 32% as the company's turnaround efforts have not shown progress. Apple stock hit a 52-week low on Friday when a Credit Suisse analyst lowered his iPhone shipment expectations by 11% for 2013 due to increased competition in the smartphone arena.

Issue	2.22.13	3.1.13	Change
Dow Jones	14,000.57	14,089.66	0.64%
S&P 500	1,515.60	1,518.20	0.17%
NASDAQ	3,161.82	3,169.74	0.25%
Russell 1000 Growth	697.57	694.56	-0.43%
S&P MidCap 400	1103.7	1098.15	-0.50%
Russell 2000	916.15	914.73	-0.15%
MSCI EAFE	1,659.78	1,654.34	-0.33%
MSCI Small Cap	1,053.55	1,054.62	-0.10%

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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

Official data from China, the world's second-biggest oil consumer after the U.S., reported their February purchasing managers' index (PMI) at 50.1, slightly above the no-growth mark of 50, down from January. This report from China coupled with record eurozone unemployment pushed crude oil to its lowest levels of the year on Friday on concerns about global economic weakness. For the week, oil lost 2.54%, settling at \$90.96 a barrel. These near-term economic worries overshadowed indications of a fairly strong global market according to a report released this week by the federal Energy Information Administration (EIA). The EIA announced that global stocks have dropped 1.3 million barrels a day over the first two months of the year, compared with no changes in stocks in the same period a year ago. Global consumption of oil and other liquids is up 700,000 barrels a day over the same period last year, while output is down 600,000 barrels a day. The supply drop comes as output from the Organization of the Petroleum Exporting Countries (OPEC) is off 900,000 barrels a day from a year earlier, led by lower production from Saudi Arabia.

Gold also fell on Friday, posting its third straight weekly decline, as its reputation as a safe haven failed to attract investors. Bullion dropped as the dollar rose after U.S. economic data signaled a pick-up in economic growth. The precious metal remained weak as the U.S. government was set to begin across-the-board federal spending cuts, known as "sequestration". Many analysts don't see this event as a positive for the metal because it will be a gradual change and thus unlikely to generate a lot of turmoil.

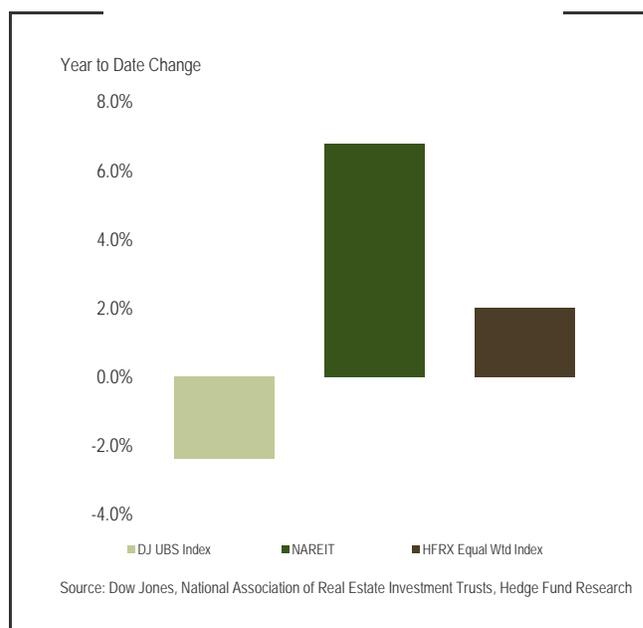
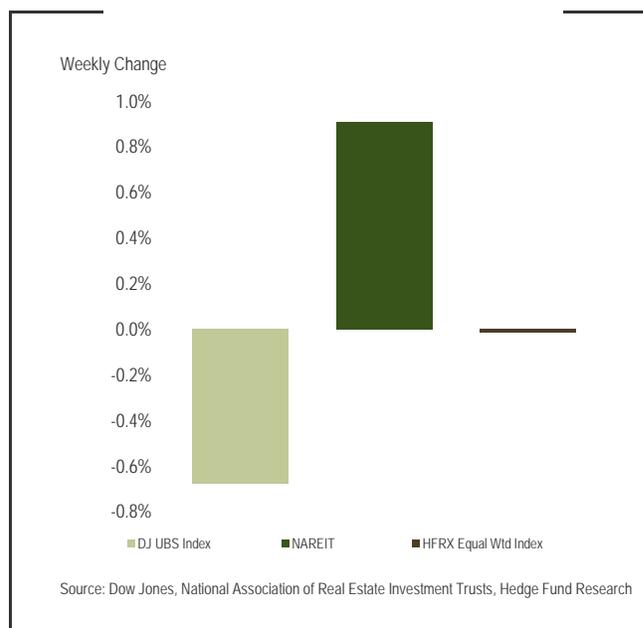
Hedge fund withdrawal request have nearly doubled since January, according to the SS&C GlobeOp Forward Redemption Indicator. The indicator, which measures forward redemption notices received by hedge funds administered by SS&C's GlobeOp platform, rose to 3.96% in February, compared to 2.04% in January. Last month was the worst February for redemptions since 2010, when the indicator was at 4.63%.

Issue	Previous Week	Current ¹	Change
Gold	1,579.40	1,575.95	-0.22%
Crude Oil Futures	93.33	90.96	-2.54%
Copper	355.55	351.30	-1.20%
Sugar	18.15	17.91	-1.32%
HFRX Equal Wtd. Strat. Index	1,146.92	1,146.75	-0.01%
HFRX Equity Hedge Index	1,088.63	1,087.33	-0.12%
HFRX Equity Market Neutral	941.41	941.33	-0.01%
HFRX Event Driven	1,436.00	1,438.18	0.15%
HFRX Merger Arbitrage	1,513.83	1,515.51	0.11%
Dow Jones UBS Commodity Index	136.69	135.77	-0.68%
FTSE/NAREIT All REIT	164.99	166.49	0.91%

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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