MainStreet Advisors Financial Market Update

April 5, 2013

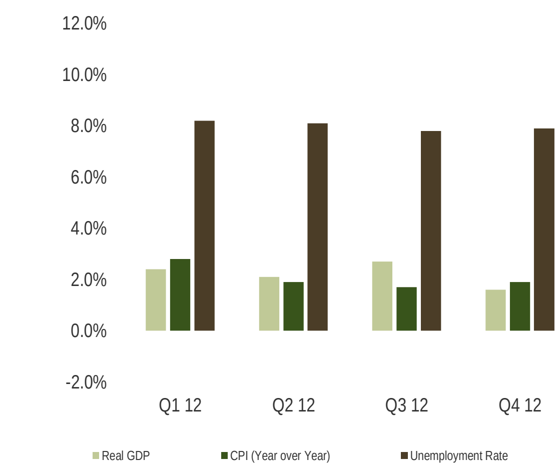
Economic Update

The March employment report released today disappointed, falling more than 100,000 short of expectations. Total payrolls rose a meager 88,000 during the month, but on a positive note February payrolls were revised up 32,000 to 268,000. Private sector growth was weighed down by the retail sector, which lost 24,000 jobs. Meanwhile governments shed 7,000 jobs during the month with the U.S. Postal Service cutting 12,000 from their ranks. Despite the weaker establishment survey, the household survey reported a one-tenth point drop in the unemployment rate to 7.6%. The improvement was solely based on a drop in the denominator as close to half a million discouraged workers left the labor force, bringing the participation rate down to 63.3% – its lowest level since May 1979. There is not much to like about this report, but payroll data can be volatile and is typically subject to massive revisions so this may just be a blip and not the beginning of a trend.

Growth in manufacturing slowed in March as the ISM manufacturing index declined a sizeable 2.9 points to 51.3. The new orders component fell 6.4 points to 51.4, but new export orders showed some improvement rising 2.5 points to 56.0. The survey also indicated hiring trends were positive with the employment component at its highest level since June. The opposite was the case in the non-manufacturing survey, which saw the employment component fall 3.9 points to 53.3. This dragged the headline index for the service side of the economy down to 54.4 – its lowest level since July. Both reports indicate the rate of growth is slowing a little, but neither in dramatic fashion.

The Bank of Japan announced a bold set of policies this week to fight the threat of deflation. The central bank has pledged to achieve newly installed Prime Minister Shinzo Abe's 2% inflation target at the "earliest possible time". The BoJ is taking a page out of Bernanke's playbook saying it will expand its balance sheet by purchasing longer-term debt and other more exotic securities. At an annual pace of 60-70 trillion yen the new purchases should double the monetary base over the next two years. By driving down the value of their currency the country hopes to boost exports, but in doing so they run the risk of sparking a currency war.

Economic Indicators, Quarterly Change



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

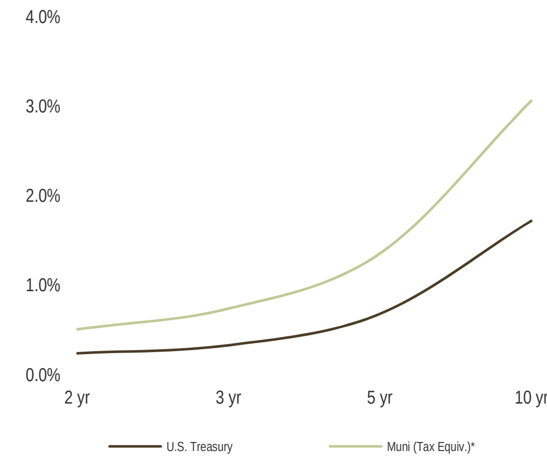
Apr. 1st	ISM Mfg. Index - Level, March	51.3
Apr. 1st	Construction Spending, Feb. Monthly Chg.	1.2%
Apr. 2nd	ICSC-Goldman Same Store Sales, Wkly. Chg.	4.7%
Apr. 2nd	Factory Orders, Feb. Monthly Chg.	3.0%
Apr. 3rd	MBA Purchase Applications Index, Wkly. Chg.	-4.0%
Apr. 3rd	ISM Non-Mfg. Index, March	54.4
Apr. 3rd	EIA Petroleum Status Report, Wkly. Chg.	2.7M Barrels
Apr. 4th	Initial Jobless Claims (week ending 3/30)	385,000
Apr. 4th	EIA Natural Gas Report, Wkly. Chg.	-94 bcf
Apr. 5th	Non-farm Payrolls, March Monthly Chg.	88,000
Apr. 5th	Unemployment Rate, March	7.6%
Apr. 5th	International Trade Balance Level, February	-43.0B
Apr. 5th	Consumer Credit, February Monthly Change	18.1B

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

Continuing a recent trend, U.S. Treasuries rallied sharply for the week, pushing the yield on the 10-year note to its lowest level in almost four months, as weaker-than-expected economic reports sparked concerns of slower growth. Because government debt moves in correlation with technical indicators over the short-term, many strategists feel yields could move lower after the ten-year yield traded below both its 100-day and 200-day moving averages. Meanwhile, the ratio between interest rates on municipal bonds and U.S. Treasury securities rose to its highest level since last July, making munis attractive from a valuation perspective. Since muni investors tend to sell tax-exempt securities or avoid buying them to help make April 15 tax payments, this fixed income sector tends to sell-off in March. This year investors pulled $513 million from muni mutual funds and ETFs for the four weeks ending March 27, according to Lipper U.S. fund flows data. Signaling a weak demand environment, the largest ETF tracking this $3.7 trillion market, iShares S&P National AMT-Free Muni Bond (MUB), has traded at a discount or a very small premium to NAV over the last four weeks. However, as the muni market moves out of the current weak technical period, we would expect performance and fund flows to stabilize.

Yield Curves

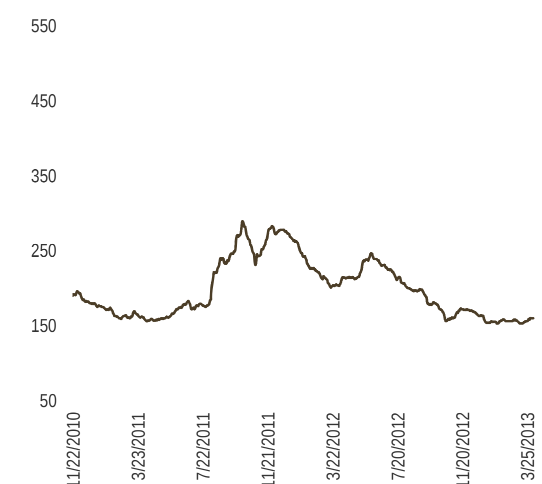


Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	3.29.13	4.5.13	Change
3 month T-Bill	0.07%	0.07%	0.00%
2-Year Treasury	0.25%	0.24%	-0.01%
5-Year Treasury	0.77%	0.68%	-0.09%
10-Year Treasury	1.87%	1.72%	-0.15%
30-Year Treasury	3.10%	2.87%	-0.23%

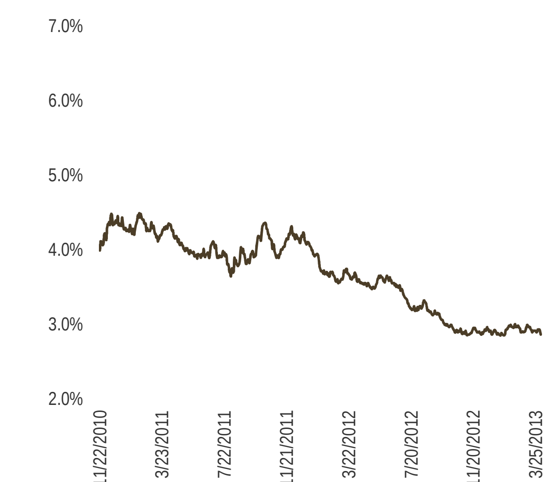
SEE IMPORTANT DISCLOSURES ON BACK PAGE. Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.

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

Major domestic stock markets declined from Friday's close mainly due to weaker than expected employment data. Wednesday's initial estimate from ADP on the March jobs report was below estimates; jobless claims jumped on Thursday; and the Friday's payroll report was the worst in nine months. The Dow Jones Industrial Average fell 165 points at the open on Friday, but slowly recovered throughout the day to finish off only 41 points lower, ending the week down 25 points to close at 14565.25. The broader S&P 500 Index fell 1.0% to 1553.28, while the NASDAQ Composite Index declined 1.9% over the five-day trading session to finish at 3203.86.

European equities as measured by the STOXX Europe 600 Index were also weak, down 2.3%, hampered by disappointing U.S. economic data as well as comments by the head of the European Central bank on Thursday. Mario Draghi stated at a news conference that the expected second-half recovery in the eurozone is "subject to downside risks". On Thursday the Bank of Japan unveiled an aggressive policy easing plan sparking a two-day rally for stocks in Tokyo. The Nikkei Stock Index posted a weekly gain of 3.5% and is now up 23.5% on a price basis year-to-date. Negatively impacting other Asian markets were escalating tensions on the Korean peninsula and reports of deaths from a new strain of bird flu in Hong Kong. South Korea's benchmark stock index posted its largest weekly decline (-3.9%) since May and the won slid to a seven-month low. The Hang Seng Index sank 2.6% for the week.

Investors anxiously await the start of first quarter earnings season, closely watching results as domestic stock markets reach new highs. According to FactSet, first quarter earnings overall are expected to drop by nearly 1%, below the initial estimate of 2.1% at the start of the quarter. Nine of the ten sectors have seen a decrease in expected earnings growth led by the Materials, Information Technology and Consumer Discretionary sectors. Analysts are expecting significant improvement in earnings growth in the second half of 2013: 10.1% for third quarter and 15.6% for fourth quarter over the same periods last year.

Issue	3.29.13	4.5.13	Change
Dow Jones	14,578.54	14,565.25	-0.09%
S&P 500	1,569.19	1,553.28	-1.01%
NASDAQ	3,267.52	3,203.86	-1.95%
Russell 1000 Growth	717.88	708.02	-1.37%
S&P MidCap 400	1153.68	1123.97	-2.58%
Russell 2000	951.54	923.28	-2.97%
MSCI EAFE	1,674.60	1,660.80	-0.82%
MSCI Small Cap	176.02	172.55	-1.97%

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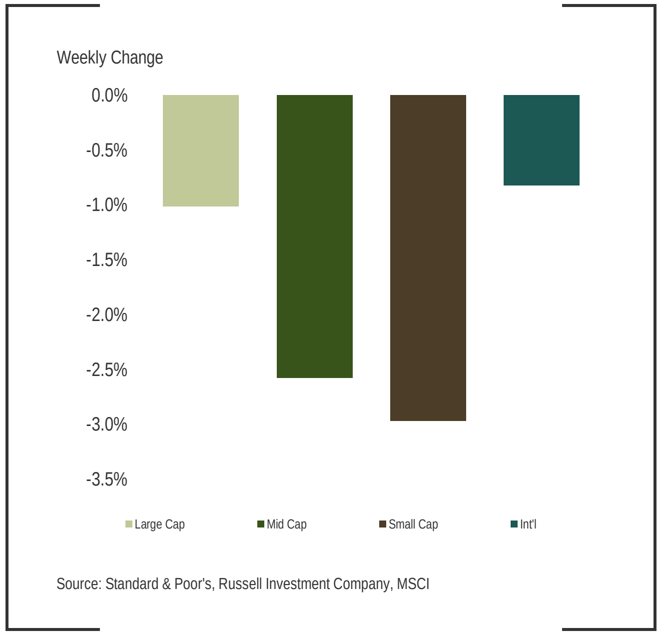
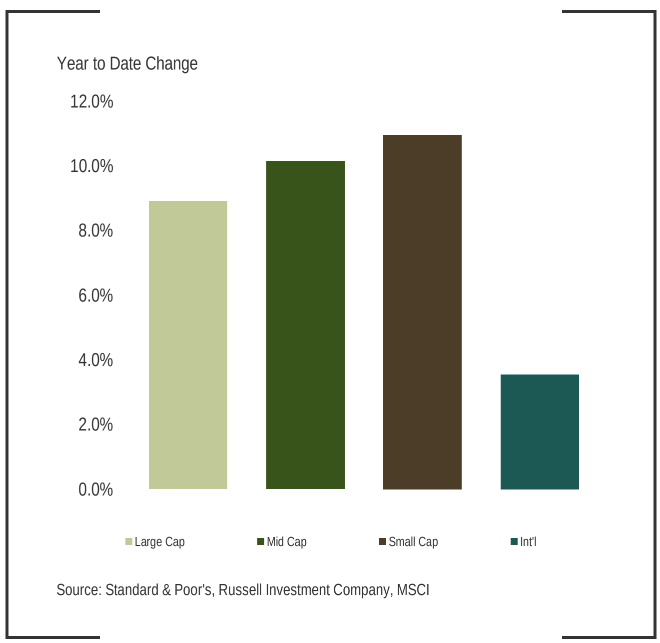
Prices reflect most recent data available at the time of publication
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Wolfe Trahan.



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



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

Alternative Investments Market Update

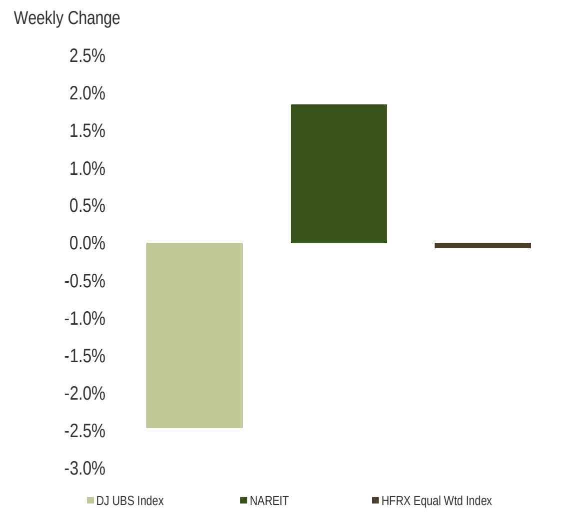
After gaining almost 3.50% last week, crude oil lost all of that and then some, falling 4.19% to settle at $93.01 a barrel at close on Friday. One of the causes was the announcement from the Commerce Department regarding the U.S. trade deficit narrowing in February, driven by a drop in crude oil imports and an increase in American goods and services exported. With exports rising more than imports, the seasonally adjusted trade deficit was $43 billion in February, down from a revised $44.5 billion the previous month. The deficit rose sharply in January because of increased crude oil and other petroleum-related products. However, the deficit took a sharp turn in February with crude oil imports dropping to their lowest level since 1996 as crude prices increased. The U.S. imported about 205 million barrels of crude oil, down nearly 56 million barrels from February. Also hurting crude was the Labor Department stating payrolls climbed by 88,000, the smallest gain in nine months and less than half the number of workers forecasted in March, raising concern economic growth will not be strong enough to support oil demand.

Gold also had a tough week, losing 1.02%, now down almost 8% on the year as heavy outflows from gold exchange-traded funds weighed on investors. Bullion holdings in major gold ETFs dropped to their lowest level since August 2012, with the holdings in SPDR Gold declining another 87,063 ounces. Unlike crude though, the precious metal rose over 1.5% on Friday after data showed the economy created fewer jobs than expected last month, marking the metal's biggest one-day gain since November. Analysts believe the late surge in gold from weak data shows the unlikelihood the Fed will alter its economic stimulus policy, or quantitative easing. The precious metal ended the week at $1,580.05 an ounce.

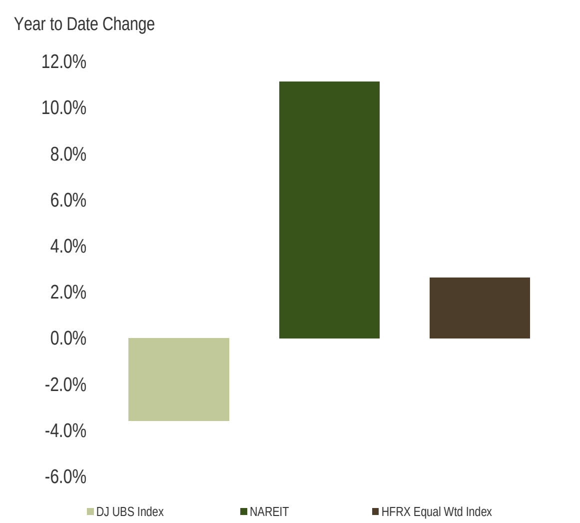
The FTSE NAREIT All REITs Index delivered a 9.11% total return in Q1, while the FTSE NAREIT All Equity REITs Index delivered a total return of 8.10%, compared to the S&P 500's return of 10.61%. According to REIT.com, almost all segments of the U.S. REIT market delivered positive returns in Q1, with many providing double-digit returns. The FTSE NAREIT All REITs Index is on pace for another strong month, gaining 1.85% through the first week of April.

Issue	Previous Week	Current[1]	Change
Gold	1,596.38	1,580.05	-1.02%
Crude Oil Futures	97.08	93.01	-4.19%
Copper	340.50	334.25	-1.84%
Sugar	17.66	17.65	-0.06%
HFRX Equal Wtd. Strat. Index	1,154.53	1,153.78	-0.06%
HFRX Equity Hedge Index	1,102.98	1,097.10	-0.53%
HFRX Equity Market Neutral	939.85	942.16	0.25%
HFRX Event Driven	1,459.21	1,451.33	-0.54%
HFRX Merger Arbitrage	1,518.56	1,534.18	1.03%
Dow Jones UBS Commodity Index	137.48	134.08	-2.47%
FTSE/NAREIT All REIT	170.16	173.31	1.85%

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



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