MainStreet Advisors
Financial Market Update

May 10, 2013

Economic Update

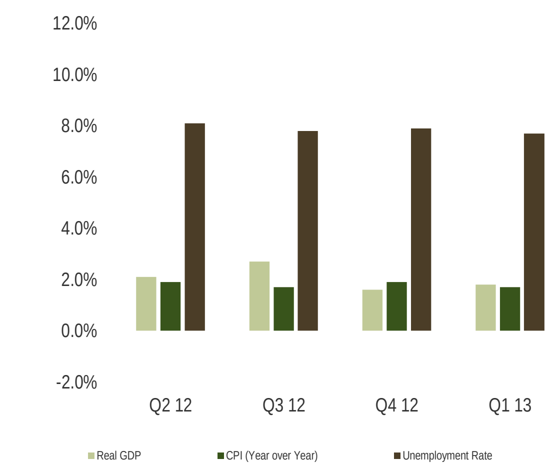
Jobless claims continued trending downward with a recovery low of only 323,000 Americans filing for first-time unemployment benefits in the week ended May 4. The four-week average also hit a new recovery low falling 6,250 to 336,750 – a solid improvement of roughly 20,000 over the month-ago period. Continuing claims are trending lower as well with the 4-week average at its own recovery low of 3.034 million. These numbers point to an improving job market, and if they continue it may point to a strong payroll report for May. Should the job market continue to improve, the likelihood of the Fed expanding quantitative easing will diminish given we are inching towards the 6.5% unemployment level discussed as a threshold to begin discussing rate hikes.

China's export and import growth unexpectedly accelerated in April. The 14.7% increase in exports reported by the General Administration of Customs in Beijing was led by a 57.2% jump in shipments to Hong Kong. This raised increasingly loud skepticism of the numbers being reported by China as they greatly exceed what Hong Kong is reporting it imported from China. In response China's currency regulator said it will increase scrutiny of cross-border capital flows and try to curb fake reports that may be masking the flow of speculative funds into the country. On the bright side, imports were up 16.8% which may ease concerns of a slowdown in domestic demand for the world's second largest economy.

Industrial production in Germany experienced a surprising increase of 1.2% from last month, beating estimates and silencing worries that Germany may be headed for a second quarter contraction. The amount of orders improved as well as activity in the construction industry, which should provide an additional boost in the coming months. Each subgroup of the industrial production number showed improvement, including a 2.1% rise in capital goods production. Demand is strong in the Euro region, and industrial production remains one bright point in the near-term economic picture for Germany.

Mexico did not experience the same positive growth that Germany did last month; industrial production there fell nearly 5%, triple the drop analysts had estimated. This release further solidifies expectations the central bank will cut rates sometime in the second half of 2013. Governor Agustin Carstens of the Banco de Mexico noted a weakness in Mexican production, primarily in exports, was attributable to a weak U.S. GDP, as the U.S. buys nearly 80% of Mexico's exports.

Economic Indicators, Quarterly Change



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

May 7th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-1.0%
May 7th	Consumer Credit, March Monthly Change	8.0B
May 8th	MBA Purchase Applications Index, Wkly. Chg.	7.0%
May 8th	EIA Petroleum Status Report, Wkly. Chg.	0.2M Barrels
May 9th	Initial Jobless Claims (week ending 5/4)	323,000
May 9th	Wholesale Inventories, March Monthly Chg.	0.4%
May 9th	EIA Natural Gas Report, Wkly. Chg.	88 bcf

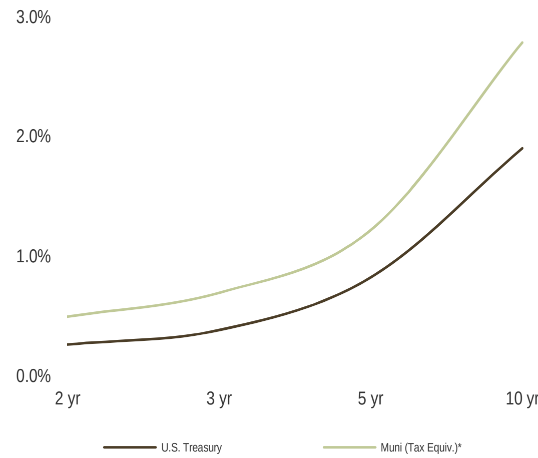
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

U.S. Treasuries extended their losing streak from last week, with yields on 10-year notes climbing to their highest levels in six weeks amid signs of a stronger U.S. economic outlook. A stronger U.S. dollar versus the yen also drove demand away from safe assets. A weaker yen increases the competitiveness of Japan's exports in global markets. Known as the yen carry trade, a low interest rate policy encourages investors to borrow yen cheaply to invest into riskier asset classes outside of Japan. At the same time, improving U.S. labor market reports could shift the Fed's stance on their bond-purchase program toward a possible cutback sometime during the second half of the year – a scenario that would likely send yields even higher.

Separately, we continue to believe municipal bonds represent one of the few attractive sectors in the fixed income markets today. Given traditionally high levels of calls and maturities during the summer months, strategists expect municipal bonds to remain strong as investor demand increases in the face of weaker expected supply. Although President Obama's proposed 2014 budget calling for limits to the value of municipal tax exemption may keep retail investors on the sidelines in the short-term, over the long-term we feel the prospect of taxation remains too remote to justify avoiding these securities. Largely attributable to current high taxable-equivalent yields for investors in higher tax brackets, we continue to recommend munis with an emphasis on a defensive structure in the form of above-market coupons. Our focus maturity range for yield curve positioning remains between five and seven years with a preference towards "A" rated GO and essential service revenue bonds.

Yield Curves

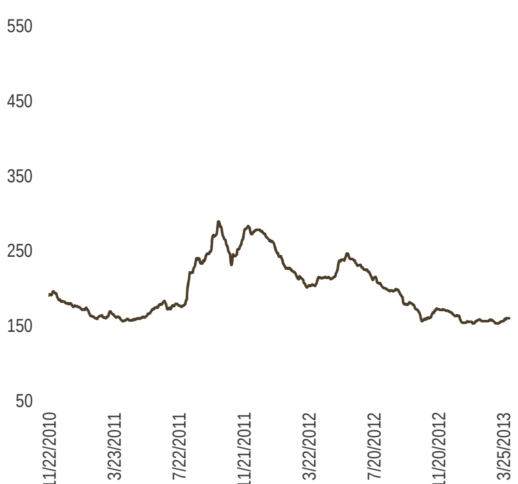


Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	5.3.13	5.10.13	Change
3 month T-Bill	0.05%	0.04%	-0.01%
2-Year Treasury	0.22%	0.26%	0.04%
5-Year Treasury	0.73%	0.82%	0.09%
10-Year Treasury	1.78%	1.90%	0.12%
30-Year Treasury	2.96%	3.10%	0.14%

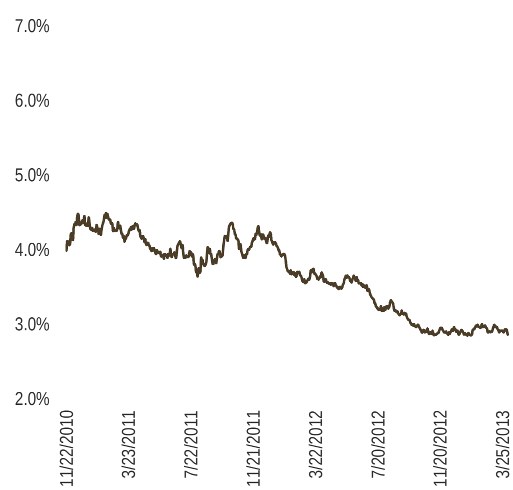
SEE IMPORTANT DISCLOSURES ON BACK PAGE. Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.

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



Source: Merrill Lynch

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



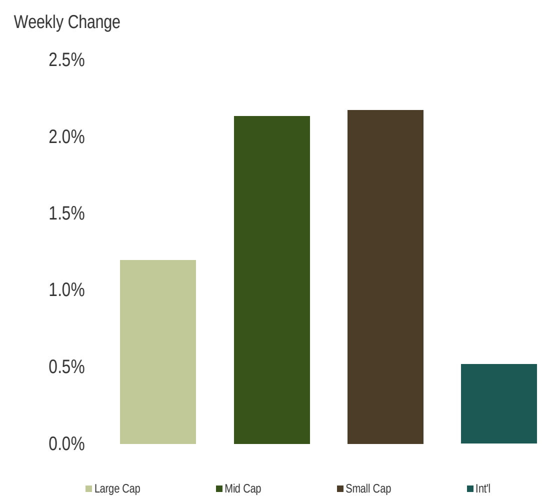
Source: Merrill Lynch

Stock Market Update

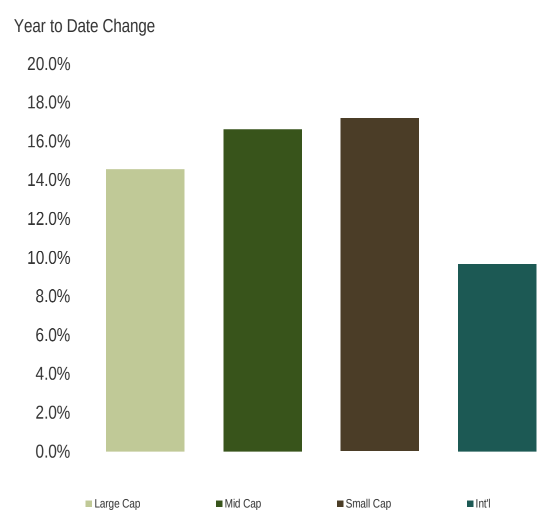
The stock market finished higher for a third consecutive week while topping its all time highs set the previous week. Key psychological levels were hit also with the Dow topping 15,000 and the S&P 500 Index reaching 1,600. During the last past week The Dow Jones Industrial Average closed at 15,118.49, finishing the week up 1.00%. The broader S&P 500 Index ended the week at 1,633.70, higher by 1.19% on the week. The NASDAQ Composite finished higher by 1.72% and closed the week out at 3,436.58.

It's not just technology firms creating new products in Silicon Valley. Shares of Tesla Motors (TLSA) were up 24% on Thursday when the company announced earnings after the close on Wednesday. The electric car company reported its first profit and raised its sales guidance for the rest of the year. A day later Consumer Reports magazine reported that the Model S car made by Tesla Motors is the best car ever. This sent shares up another 10% on Friday to close the week out up 40%.

Japan's Nikkei Index continued to surge and was up 3% on Friday marking the best week since 2009 and closing at its highest level in five years. The weaker yen is contributing to the earnings of the large Japanese exporters as well. Toyota Motor reported net income more than triple from the prior year and projected earnings to rise 42% in the year ahead. The monetary policy to fight deflation has resulted in a 40% rise in the stock market so far this year making it the top performing country.



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



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

Issue	5.3.13	5.10.13	Change
Dow Jones	14,973.96	15,118.49	0.97%
S&P 500	1,614.42	1,633.70	1.19%
NASDAQ	3,378.63	3,436.58	1.72%
Russell 1000 Growth	741.77	751.45	1.30%
S&P MidCap 400	1165.07	1,189.93	2.13%
Russell 2000	954.42	975.16	2.17%
MSCI EAFE	1,749.86	1,758.89	0.52%
MSCI Small Cap	181.12	182.58	0.81%

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

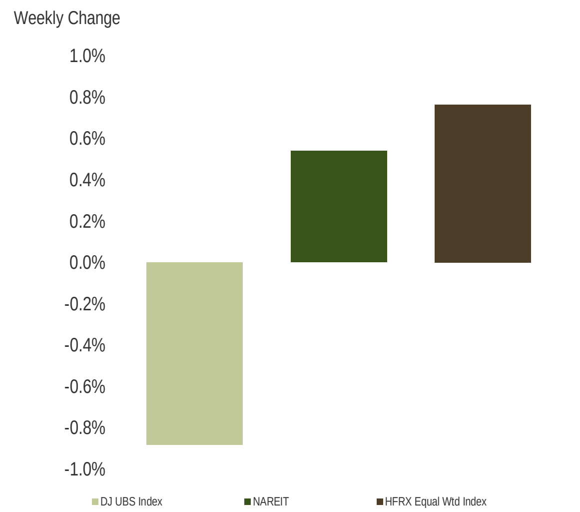
Gold fell nearly 1.5% on Friday as a sharp rise in the dollar against the Japanese yen triggered technical selling, sending the precious metal to a two-week low. Gold bullion posted a weekly drop of around 1.8% as continued outflows in gold-backed exchange-traded funds more than offset strong physical retail demand following the metal's historic sell-off in mid-April. The metal fell for a second consecutive day as the yen dropped to its lowest level against the U.S. dollar in more than four years on Friday. Also announced this week, the world's largest gold-backed ETF, the SPDR Gold Trust, reported its first daily inflow since March 19. SPDR Gold's holdings are down 167.1 tonnes so far in Q2, but analysts expect a potential surge in physical bullion demand from both China and India to support bullion prices.

Crude oil also fell on Friday with a stronger U.S. dollar on top of new indications of sluggish global fuel demand. In its monthly outlook, the Organization of the Petroleum Exporting Countries (OPEC) suggested global oil demand remains weak. OPEC kept its 2012 oil-demand outlook unchanged from last month when it predicted demand would increase by 800,000 barrels a day compared to last year. But the group said demand growth was weaker than expected in Q1 and warned that slowing growth in China and economic weakness in the eurozone are threatening to further slow the global economy. Crude gained 0.4% this week, settling at $95.86 a barrel.

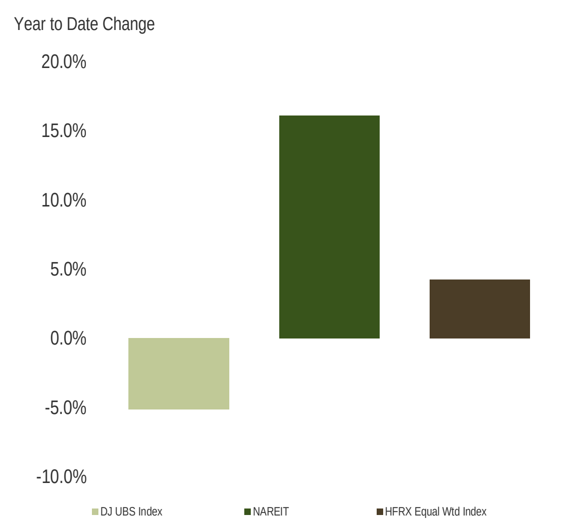
Hedge funds posted broad but modest gains last month as just two of the 22 strategies and sub-strategies tracked by the HFRI suite lost ground last month, according to Hedge Fund Research (HFR). However, data released this week shows that investors put a "meager" $817 million into hedge funds in March, compared to the February inflows of $11.4 billion. Also, Asian hedge funds are nearing a major milestone, thanks to renewed interest in Japan. According to HFR, the Asian industry's assets under management rose 7.6% in Q1 to hit almost $95 billion, putting it on track to top the U.S. $100 billion threshold for the first time in six years and to break its record level, $111.4 billion, reached in 2007. This region bottomed out in 2008 at $71.4 billion with the turnaround now credited to Japanese hedge funds, which have seen soaring interest and returns.

Issue	Previous Week	Current[1]	Change
Gold	1,470.00	1,443.54	-1.80%
Crude Oil Futures	95.48	95.86	0.40%
Copper	330.80	337.20	1.93%
Sugar	17.53	17.43	-0.57%
HFRX Equal Wtd. Strat. Index	1,163.14	1,172.02	0.76%
HFRX Equity Hedge Index	1,105.14	1,121.25	1.46%
HFRX Equity Market Neutral	940.99	941.35	0.04%
HFRX Event Driven	1,467.66	1,490.21	1.54%
HFRX Merger Arbitrage	1,534.29	1,536.07	0.12%
Dow Jones UBS Commodity Index	133.12	131.94	-0.88%
FTSE/NAREIT All REIT	180.07	181.04	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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