

MainStreet Advisors Financial Market Update

June 14, 2013
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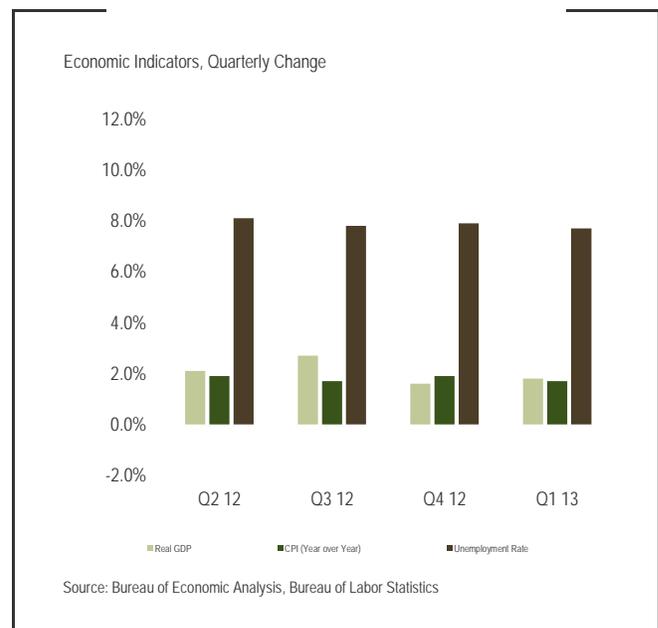
Economic Update

The number of Americans filing for first-time unemployment benefits fell 12,000 to 334,000 in the week ended June 8, coming in 16,000 below consensus estimates. The four-week average fell 7,250 to 345,250 but is still trending about 5,000 higher than a month ago. Meanwhile continuing claims continue to trend lower with the 4-week average falling 13,000 to a new recovery low of 2.967 million. Overall the labor market is steadily improving which is a source of optimism for the economy.

Retail sales jumped 0.6% in May thanks in part to a 1.9% increase in spending at car dealerships. Even without the automobile component retail sales were up 0.3%. On a year-over-year basis sales are up 4.3%. The consumer has so far proved to be resilient in the face of tax increases which is a positive sign considering the consumer segment makes up about 70% of our economy.

The manufacturing sector still looks soft based on industrial production data for May. Overall production was flat for the month after falling 0.4% in April. Capacity utilization also fell one-tenth to 77.6% in the month.

Inflation at the producer level heated up a bit in May on higher food and energy prices, but the core rate remained benign. Headline PPI was up 0.5% as energy rose 1.3% and food rebounded 0.6%, while the core rate edged up only 0.1%. CPI will be reported on Tuesday which could have an impact on the Fed's statement on Wednesday. The market is looking for more clarification from the FOMC on when they plan to begin tapering their quantitative easing program.



Jun 11 th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-2.7%
Jun 11 th	Wholesale Inventories, Apr. Monthly Chg.	0.2%
Jun 12 th	MBA Purchase Applications Index, Wkly. Chg.	5.0%
Jun 12 th	EIA Petroleum Status Report, Wkly. Chg.	2.5M Barrels
Jun 13 th	Initial Jobless Claims (week ending 6/8)	334,000
Jun 13 th	Retail Sales, May Monthly Chg.	0.6%
Jun 13 th	Import Prices, May Monthly Chg.	-0.6%
Jun 13 th	Export Prices, May Monthly Chg.	-0.5%
Jun 13 th	Business Inventories, April Monthly Chg.	0.3%
Jun 13 th	EIA Natural Gas Report, Wkly. Chg.	95 bcf
Jun 14 th	Producer Price Index, May Monthly Chg.	0.5%
Jun 14 th	Industrial Production, May Monthly Chg.	0.0%
Jun 14 th	Consumer Sentiment Index, June	82.7

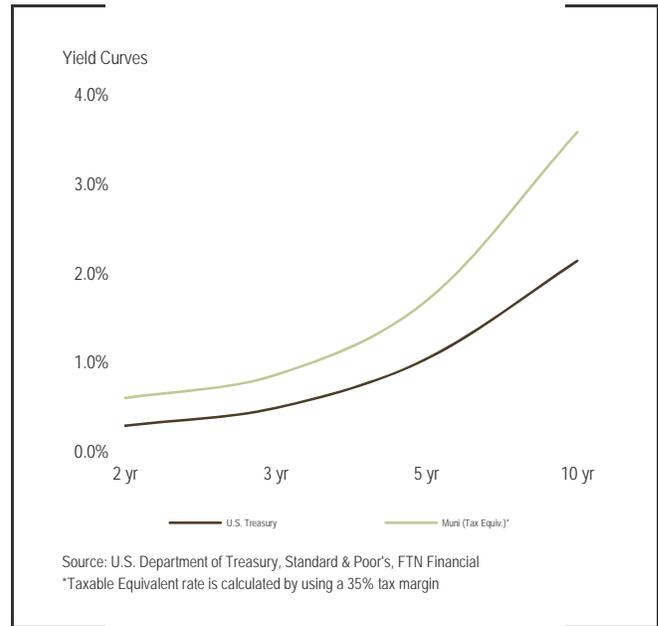
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Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the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

Bond Market Update

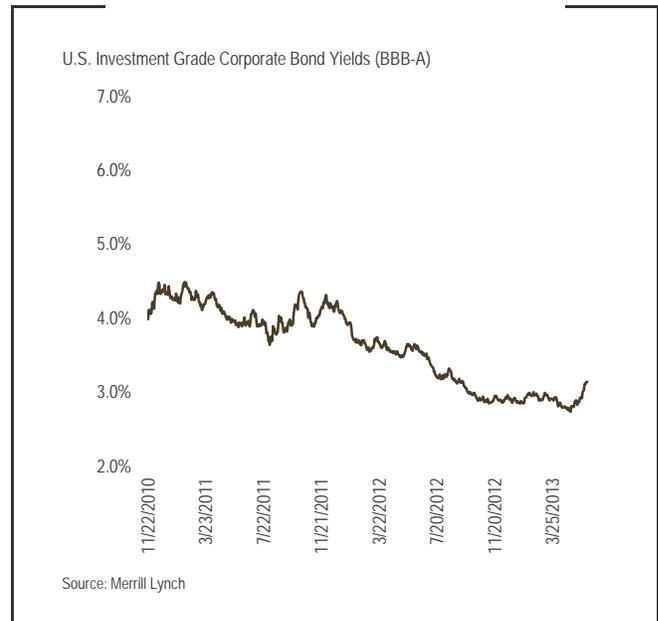
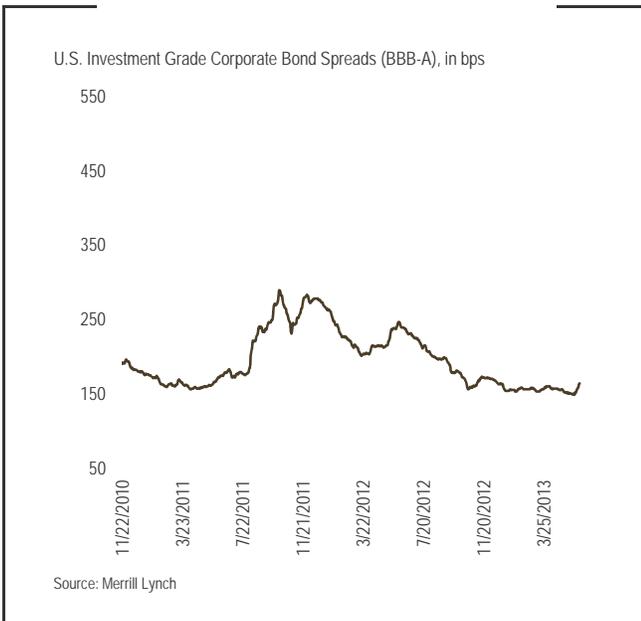
U.S. Treasury yields ended the week lower, showing small weekly gains for the first time in recent weeks. Bond prices move inversely to yields; as prices increased, yields decline. The benchmark 10-year yield has seen robust growth since the beginning of May when it bottomed at 1.63%. Since then, it increased over 30%. Nonetheless, the 10-year treasury yield still remains within an established trading range of 1.50 to 2.30%. The rise in the 10-year yield is pushing the cost of mortgage financing higher as this rate is used to price long-term mortgage rates, leading to the recent drop in the refinancing activity.

A lower expectation for future inflation is decreasing investor demand for inflation protection. Real yield on a 10-year Treasury has moved above zero for the first time in 18 months. It seems the market expectation for the Fed to soon trim its monthly bond buying program is the reason behind the selloff in Treasury Inflation-Protected Securities (TIPS). To many investors, a potential tapering in QE is an indication the U.S. economy is on path toward a sustainable recovery. It appears a correction in the TIPS market was long overdue. For a long time this market appeared overvalued as implied by persistently negative yields. The 10-year TIPS yield reached a record low of -0.90% last December, and just as recently as April it was -0.75%. For the U.S. Treasury, rising nominal and real yields means higher financing cost on new bond issues.



Issue	6.7.13	6.14.13	Change
3 month T-Bill	0.04%	0.05%	0.01%
2-Year Treasury	0.32%	0.29%	-0.03%
5-Year Treasury	1.10%	1.04%	-0.06%
10-Year Treasury	2.17%	2.14%	-0.03%
30-Year Treasury	3.33%	3.28%	-0.05%

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

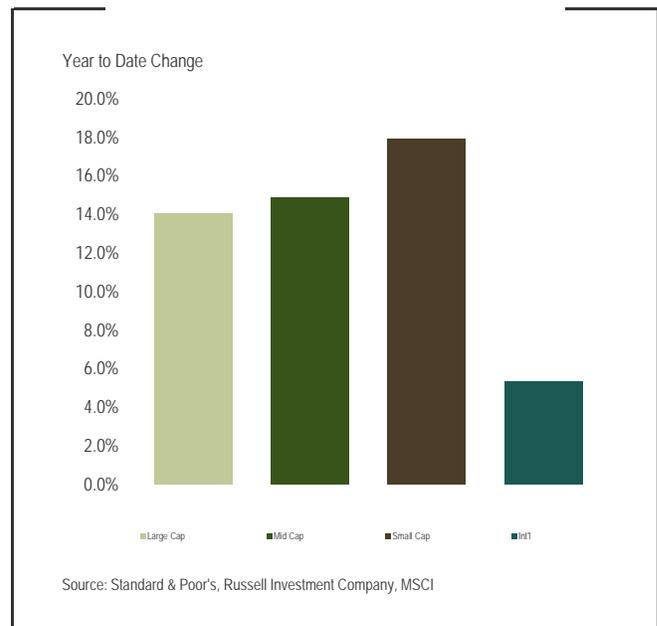
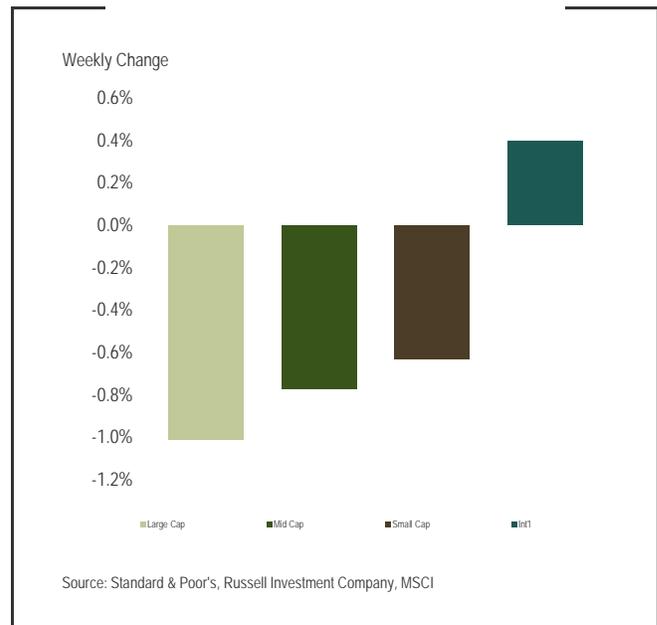


Stock Market Update

Following a more than 200 point rally in the Dow Jones Industrial Average last Friday, domestic stocks were volatile this week on mixed economic data, a positive revision in S&P's U.S. credit rating outlook, a large selloff in Japanese stocks, and anxiety regarding "quantitative easing" policy direction statements that might be used at next week's Fed meeting. Following three straight daily losses for the Dow, stocks rebounded Thursday. The S&P 500 Index recorded its best day in five months, up nearly 24 points or 1.5%. Stocks declined again on Friday after the IMF lowered its forecast for U.S. growth in 2014 and industrial production reports came in weaker than expected. For the week the Dow Jones Industrial Average declined 1.2%, closing at 15070.18. The broader S&P 500 Index ended 1% lower at 1626.73, while the NASDAQ Composite Index fell 1.3% since last Friday to finish at 3423.56.

International stocks were also down this past week. The STOXX Europe 600 Index declined 1.2% posting its fourth straight weekly loss. A report issued on Friday showed the number of people employed in the eurozone reached its lowest level in the last seven years. In addition, but not surprisingly, equity index provider MSCI moved Greece from its developed market index to its emerging market index.

Japan's Nikkei Index had another tumultuous week, closing down 840 points on Thursday to its lowest level in two months. The yen, having weakened considerably since November, has rebounded in the last few weeks leading to increased stock and bond market volatility. Investors in Japanese equities have become concerned about whether or not now is the time to take profits after a nearly 80% rise in the Nikkei between November and mid-May. On Thursday, the yen traded around 94.00 to the American dollar, its strongest level since early April. Japanese stocks rebounded nicely on Friday, up 2%, but volatility is expected to continue going forward.



Issue	6.7.13	6.14.13	Change
Dow Jones	15,248.12	15,070.18	-1.17%
S&P 500	1,643.38	1,626.73	-1.01%
NASDAQ	3,469.22	3,423.56	-1.32%
Russell 1000 Growth	748.66	740.81	-1.05%
S&P MidCap 400	1181.26	1,172.13	-0.77%
Russell 2000	987.62	981.38	-0.63%
MSCI EAFE	1,682.78	1,689.43	0.40%
MSCI Small Cap	172.69	174.23	0.89%

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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

Crude oil futures accelerated toward a four-month high on Friday as the U.S. government's decision to play an active role arming rebels in Syria raised concerns about tension in the oil-rich region. Analysts believe this could prompt the involvement of other regional powers that are key oil suppliers as well. Although Syria is not a major oil producer, its proximity to significant oil exporters such as Iran, Iraq and Saudi Arabia weighs on investors' minds. For the week, crude gained 1.71%, settling at \$97.79 per barrel. Lifted by data showing a larger-than-expected rise in wholesale prices after a report indicated the Federal Reserve would try to calm fears over tapering its monetary stimulus program, gold settled higher this week as well.

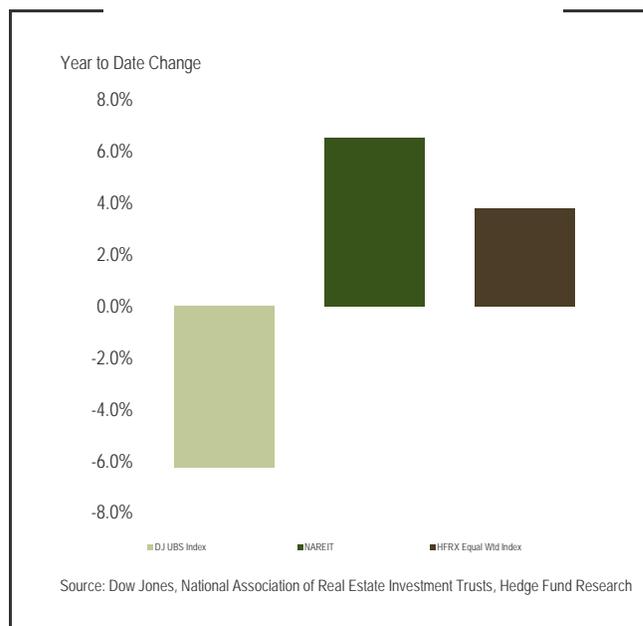
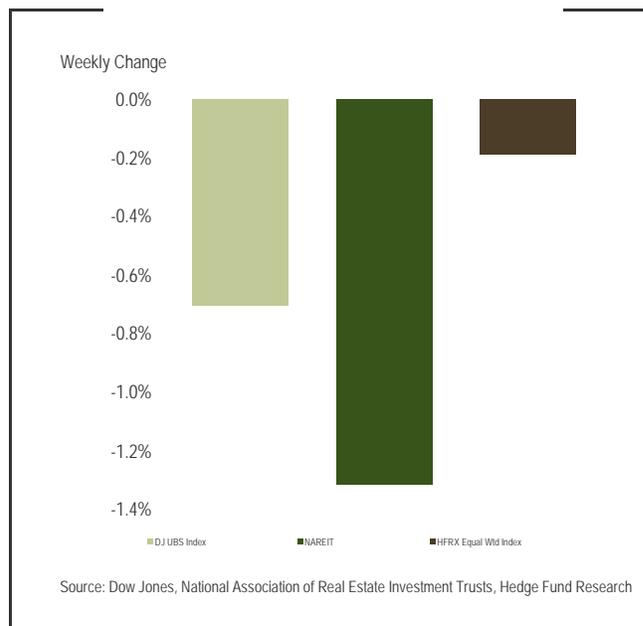
The number of new hedge fund launches increased for the fourth consecutive quarter in Q1, according to the latest Hedge Fund Research (HFR) Market Microstructure Industry Report. Hedge fund launches in Q1 totaled 297 funds, the third highest quarterly launch total since the beginning of 2008, narrowly trailing only Q1 of last year, 304, and Q1 of 2011, 298. Equity Hedge strategies led Q1 hedge fund launches with 132 as investors and fund managers were encouraged by strong gains in both U.S. and Japanese equities. Macro hedge fund launches totaled 93, while Relative Value Arbitrage saw just 26 new funds launched in the period, following more than 200 such launches in calendar year 2012. Also announced, hedge fund liquidations declined to 196 in Q1 from 211 and 238 in each of the prior two quarters, respectively. HFR noted that the average management and incentive fees declined for the quarter, with the average management fee falling 1 bps to 1.55%, while average incentive fees declined 15 bps to 18.39%, their fourth consecutive quarterly decline. In related news, it was announced this week hedge funds are cutting market exposures across all strategies. According to a report from the Hedge Fund Monitor in Bank of America Merrill Lynch Global Research, Market Neutral, Equity Long/Short and Macros all reduced market exposure with Market Neutral and Long/Short Equity cutting exposures below historical averages. Hedge fund cash holdings and net exposures are back to Q2 2007 pre-financial crisis levels.

Issue	Previous Week	Current ¹	Change
Gold	1,379.10	1,390.50	0.83%
Crude Oil Futures	96.15	97.79	1.71%
Copper	326.75	319.75	-2.14%
Sugar	16.43	17.09	4.02%
HFRX Equal Wtd. Strat. Index	1,169.20	1,167.02	-0.19%
HFRX Equity Hedge Index	1,106.96	1,096.69	-0.93%
HFRX Equity Market Neutral	946.39	944.09	-0.24%
HFRX Event Driven	1,492.31	1,488.89	-0.23%
HFRX Merger Arbitrage	1,537.59	1,537.29	-0.02%
Dow Jones UBS Commodity Index	131.30	130.37	-0.70%
FTSE/NAREIT All REIT	168.34	166.13	-1.31%

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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