

MainStreet Advisors Financial Market Update

June 28, 2013
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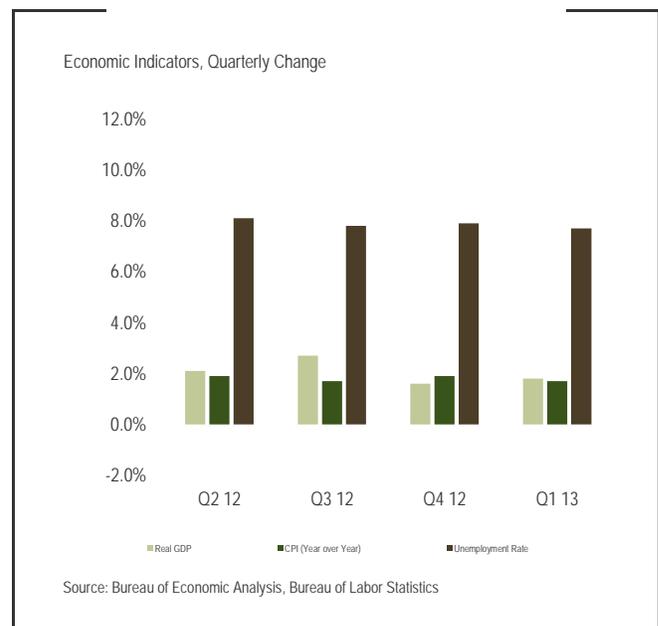
Economic Update

Consumer confidence was up for the third straight month jumping nearly 7 points in June to hit a recovery best of 81.4. Consumers' assessment of the present situation is also at a recovery high, and expectations for the future were up nearly 9 points reflecting rising confidence about the job market. Stable gas prices and a rising housing market are also having a positive impact on the confidence.

Home prices are surging as the lack of supply has fostered a sense of urgency amongst some buyers. The Case-Shiller 20-city index rose 1.7% in April following a 1.9% rise in March, bringing the year-over-year increase up to 12.1%. New home sales were up 2.1% from an upwardly revised April figure to a 476,000 annual pace in May. Builders are picking up the pace to try and meet demand, with inventory edging up 4,000 to 161,000 units – a 4.1 month supply.

Real GDP growth for the first quarter got a significant and unexpected downward revision. The third estimate was six-tenths below the prior and consensus figures coming in at 1.8%. The downgrade was primarily a reflection of lower personal consumption expenditures than originally thought. Expectations are for second quarter GDP to be moderately positive as well, with growth picking up in the second half of the year.

New factory orders for durable goods pointed to strength in Manufacturing in May, climbing 3.6% after a matching rise the previous month. Much of this was tied to strong aircraft sales which helped the transportation component surge 10.2%, but stripping this out orders still rose 0.7%. Strength was mostly broad-based, indicating that manufacturing may be gaining some momentum.



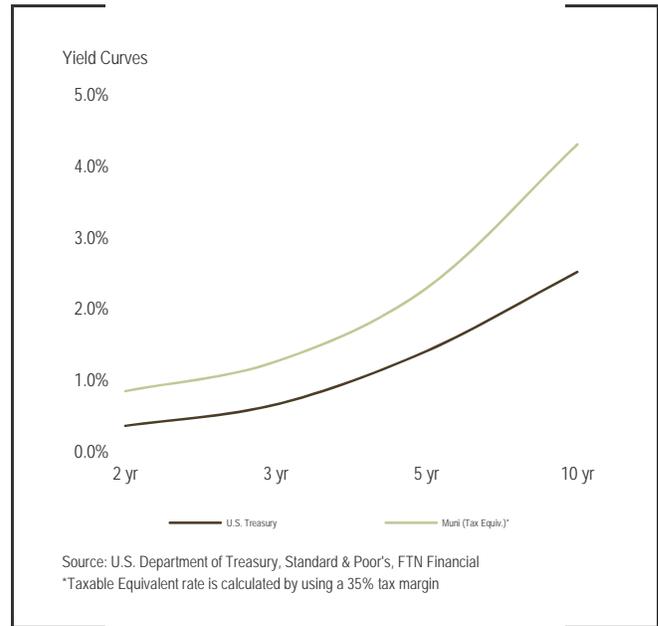
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|----------------------|---|---------|
| Jun 25 th | ICSC-Goldman Same Store Sales, Wkly. Chg. | 1.1% |
| Jun 25 th | Durable Goods New Orders, May Monthly Chg. | 3.6% |
| Jun 25 th | S&P/Case-Shiller 20-city Index, Apr. Monthly Chg. | 1.7% |
| Jun 25 th | New Home Sales, May | 476,000 |
| Jun 25 th | Consumer Confidence Index, June | 81.4 |
| Jun 25 th | State Street Investor Confidence Index, June | 106.8 |
| Jun 26 th | Real GDP, Q1 Quarterly Change SAAR | 1.8% |
| Jun 26 th | GDP Price Index, Q1 Quarterly Change SAAR | 1.2% |
| Jun 27 th | Initial Jobless Claims (week ending 6/22) | 346,000 |
| Jun 27 th | Personal Income, May Monthly Chg. | 0.5% |
| Jun 27 th | Consumer Spending, May Monthly Chg. | 0.3% |
| Jun 27 th | Core PCE Price Index, May Monthly Chg. | 0.1% |
| Jun 27 th | Pending Home Sales, May Monthly Chg. | 6.7% |
| Jun 28 th | Chicago PMI Business Barometer Index, June | 51.6 |
| Jun 28 th | Consumer Sentiment Index, June | 84.1 |

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.

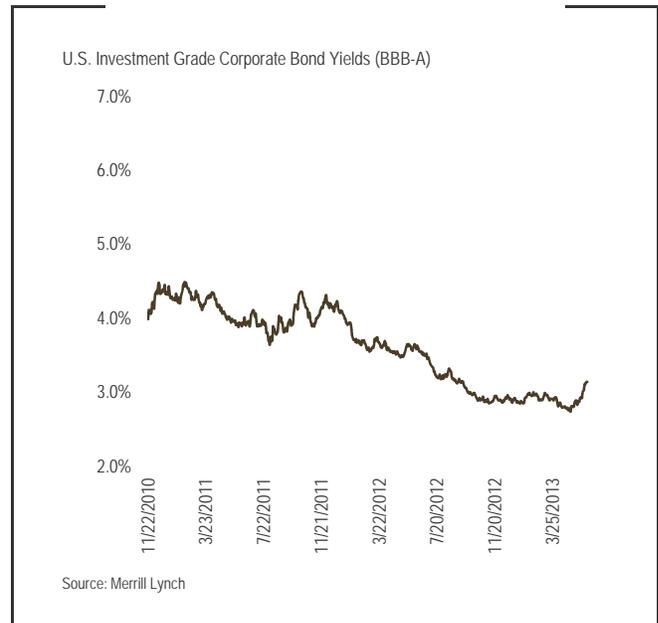
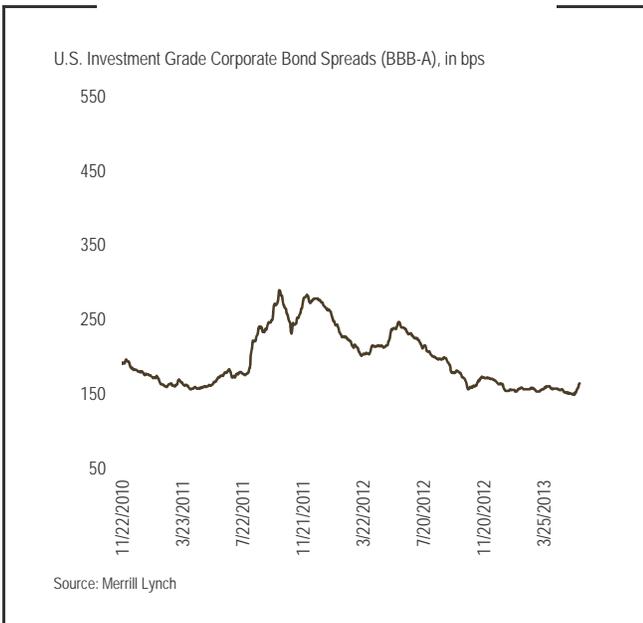
Bond Market Update

Largely attributable to concerns regarding a tapering in the Fed's bond purchase program and an unexpected increase in short-term interest rates in China, the uninterrupted year-long rally in the bond market came to an abrupt end as technicals (supply versus demand) overwhelmed the markets. The yield on the 10-year Treasury note rose as high as 2.64%, up from 2.16% on May 31 and this year's low of 1.63% reached on May 2. This sell-off has led to a total return of -2.55% for the Barclays U.S. Aggregate Index, the worst first half of a year since 1994. At the same time, the municipal bond market posted its worst monthly loss since 2008, with investors pulling well over \$5 billion from municipal bond mutual funds in the past three weeks, the largest level of outflows since February 2011. More susceptible to bond fund outflows than other fixed income asset classes, this sector underperformed the broad market index by a considerable margin. In a sign of the magnitude of losses, the \$3.4 billion iShares S&P National AMT-Free muni ETF fell by almost 4% for the month. However, some strategists now feel munis represent an attractive opportunity given the combination of higher yields and empirical research indicating virtually all large sell-offs lead to strong rallies, with AA yields declining by 0.55% on average over the succeeding two to three months. The largest sell-off occurred in 2008, post the Lehman Brothers failure, with yields increasing by 1.38%. Because muni yields have recently increased by nearly 1.00% over the past two months and the current market environment remains far stronger than the precarious state 2008, strategists feel downside risk is limited in this sector of the market.



| Issue | 6.21.13 | 6.28.13 | Change |
|------------------|---------|---------|--------|
| 3 month T-Bill | 0.05% | 0.04% | -0.01% |
| 2-Year Treasury | 0.38% | 0.36% | -0.02% |
| 5-Year Treasury | 1.42% | 1.41% | -0.01% |
| 10-Year Treasury | 2.52% | 2.52% | 0.00% |
| 30-Year Treasury | 3.56% | 3.52% | -0.04% |

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



Stock Market Update

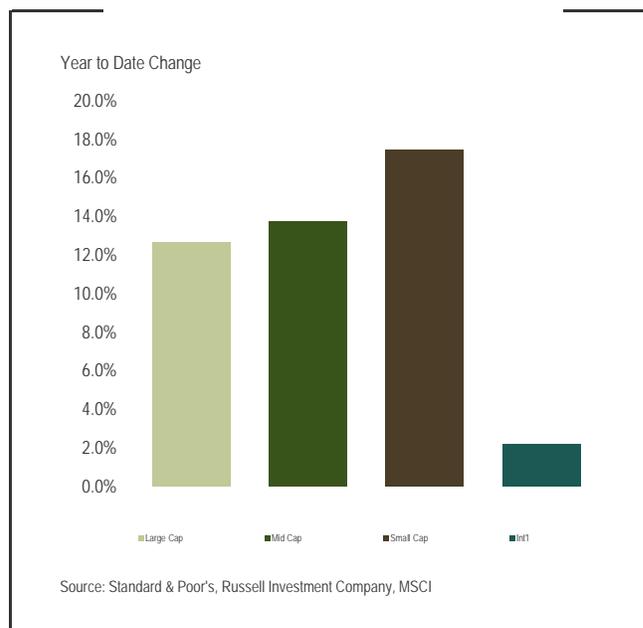
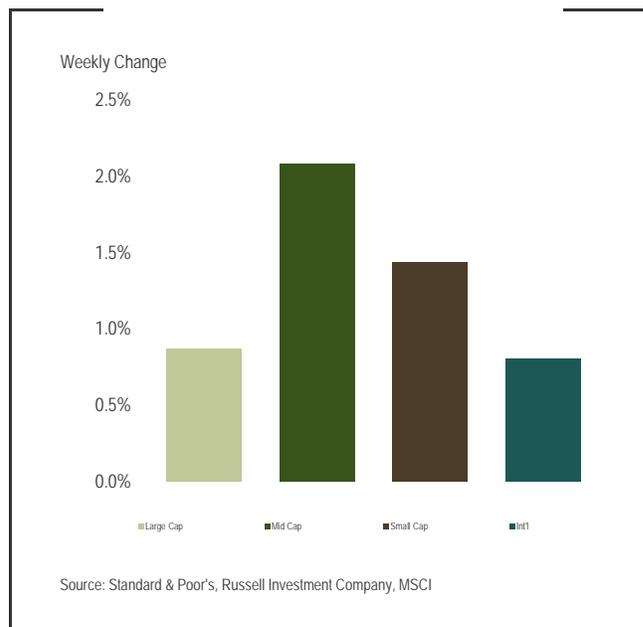
Domestic stocks rebounded after two straight weeks of declines with economic data showing increases in durable goods orders, new home sales and consumer confidence. Comments from Federal Reserve officials that monetary policy depends on the economic outlook appeared to ease investor fears about rising interest rates. For this past week the Dow Jones Industrial Average increased 0.7%, closing at 14909.60. The broader S&P 500 Index ended 0.9% higher at 1606.28, while the NASDAQ Composite Index rose 1.4% since last Friday to finish at 3403.25. Volatility continued to reign as the Dow experienced 15 triple-digit moves in June, finishing 1.4% lower for the first monthly decline in 2013. The S&P 500 and the NASDAQ both declined about 1.5% on a price only basis in June.

Strong economic data out of Japan this week helped the Nikkei bounce back 3.4% after declining nearly 20% from its high on May 22. European stocks were also strong as the STOXX Europe 600 Index increased 1.2% for the five-day trading session after falling to its lowest level in 2013 late last week. Chinese stocks were exceptionally volatile, falling nearly 6% on Tuesday intraday on heightened fears of volatile money market rates, only to close the trading session basically flat. For the week the Shanghai Composite Index fell 4.5%.

Companies that reported quarterly earnings this week include Walgreens, Nike and General Mills. Walgreen's continues to struggle to regain customers after Express Scripts mishaps and the integration of the Alliance Boots acquisition. Nike reported strength in the Americas segment as well as relative improvements in Europe and Asia despite economic weakness. While General Mill's earnings were in line with its recent pre-announcement, the forecast for 2014 was less than expected as the company cited higher raw materials costs and a slowing economic recovery.

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|---------------------|-----------|-----------|--------|
| Dow Jones | 14,799.40 | 14,909.60 | 0.74% |
| S&P 500 | 1,592.43 | 1,606.28 | 0.87% |
| NASDAQ | 3,357.25 | 3,403.25 | 1.37% |
| Russell 1000 Growth | 723.03 | 729.59 | 0.91% |
| S&P MidCap 400 | 1137.19 | 1,160.82 | 2.08% |
| Russell 2000 | 963.68 | 977.48 | 1.43% |
| MSCI EAFE | 1,625.85 | 1,638.94 | 0.81% |
| MSCI Small Cap | 169.13 | 169.80 | 0.40% |

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 surged more than 2% on Friday on end-of-quarter short-covering, but bullion still posted its largest quarterly loss in nearly 45 years due to selling amid fears the Fed could wind down its stimulus program. The precious metal's 2.3% rally on Friday was impressive because it was during a session that had little macroeconomic news and no dramatic movements in other commodities and financial markets. Despite these end of week gains, bullion is still 23% lower for Q2, its biggest decline since 1968, according to Reuters. The precious metal ended the week and Q2 at \$1,232 an ounce. Crude oil, on the other hand, bounced back to post modest gains this week. Analysts point to the Fed officials' comment that sought to calm investor worries combined with U.S. economic data and the weaker dollar as factors driving crude's rally. The Fed's bond-purchases program has so far boosted economic growth in the U.S., the world's largest consumer of oil. Traders had been worried that tapering of these stimulus efforts too early could hurt oil demand. The hottest commodity of late, surprisingly, has been hog futures. Live hog prices have surged 18% year-to-date and about 40% since bottoming out in late March. China's Shuanghui International's pending \$4.7 billion deal to take over Smithfield Foods helped to elevate hog futures. Though some in Congress said they had regulatory issues, hog prices have risen after the May 29 announcement of the deal.

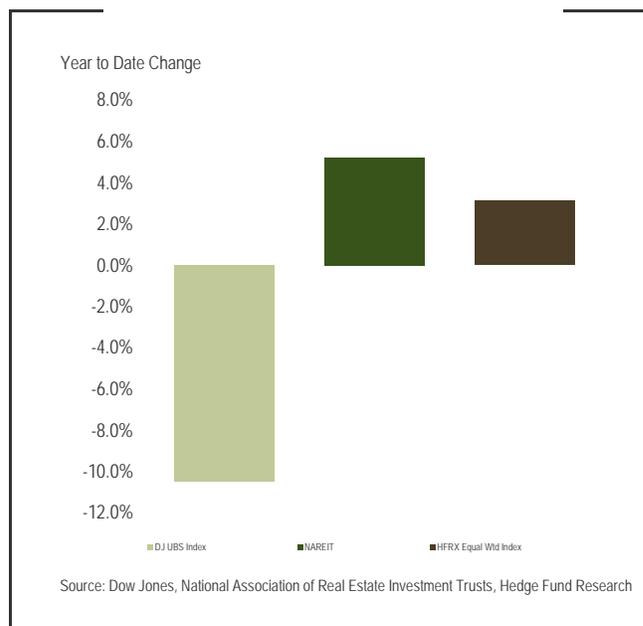
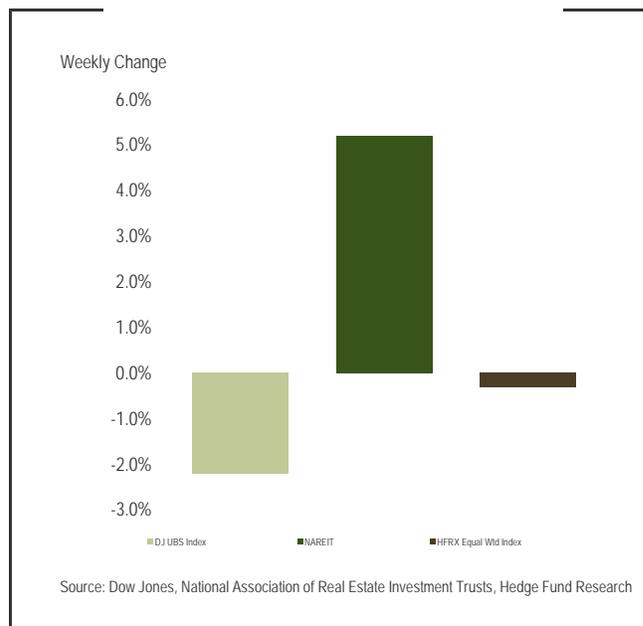
According to a survey from Morningstar and Barron's, liquid alternatives, or hedged mutual funds, are becoming the dominant vehicle for advisors and institutions looking to access hedged strategies. Alternative mutual funds saw inflows of \$19.7 billion in 2012, while Morningstar estimates that among funds in its database \$7.6 billion flowed out of single-strategy hedge funds. According to survey data, 61% of institutions said they used a hedge fund for long/short equities in 2010, while only 26% said they used hedge funds for long/short exposure this year. 45% of institutions said they managed long/short exposure through a hedged mutual fund, up from 38% in 2010. The survey went on to suggest that advisors see the value of hedged strategies, even if they are using mutual funds for exposure, as more than 20% of institutions said they expect alternative investments to make up more than 40% of holdings over the next five years.

| Issue | Previous Week | Current ¹ | Change |
|-------------------------------|---------------|----------------------|--------|
| Gold | 1,293.15 | 1,232.00 | -4.73% |
| Crude Oil Futures | 93.83 | 96.53 | 2.88% |
| Copper | 310.70 | 305.80 | -1.58% |
| Sugar | 16.93 | 16.92 | -0.06% |
| HFRX Equal Wtd. Strat. Index | 1,162.86 | 1,159.27 | -0.31% |
| HFRX Equity Hedge Index | 1,091.96 | 1,087.97 | -0.37% |
| HFRX Equity Market Neutral | 939.19 | 939.26 | 0.01% |
| HFRX Event Driven | 1,483.94 | 1,479.11 | -0.33% |
| HFRX Merger Arbitrage | 1,533.74 | 1,532.37 | -0.09% |
| Dow Jones UBS Commodity Index | 127.28 | 124.47 | -2.21% |
| FTSE/NAREIT All REIT | 155.98 | 164.08 | 5.19% |

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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