# MainStreet Advisors
# Financial Market Update

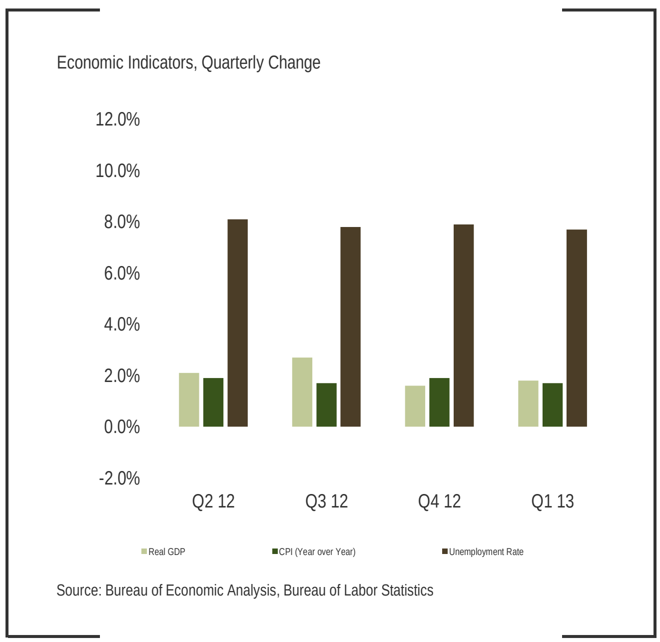
July 12, 2013


## Economic Update

The FOMC minutes released this week reinforced the main points of the Fed's message that they will likely begin tapering QE in September if and only if the economy remains on a firm trajectory and that rate hikes are still a long way off. Fed Chairman Ben Bernanke gave a speech following the release of the minutes that repeated essentially the same message he gave three weeks ago, the only difference being the market reacted very positively this time. Essentially QE will slow down if the economy is doing well, and if the economy is doing well that's a good thing for risky assets. If the economy isn't doing so hot QE will continue and risky assets will be supported that way. It's the so-called "Bernanke put" and markets are finally getting it.

Inflation heated up at the producer level in June, topping consensus estimates by 0.3%. PPI jumped 0.8% during the month following a half-percent rise in May. The increase was largely driven by energy prices which rose 2.9% with gasoline prices surging 7.2%. Excluding food and energy the core rate firmed 0.2% with a 0.8% increase in passenger cars being a major contributor. Year-over-year PPI is now running at 2.5%, up from 1.8% the previous month. Inflation is still relatively tame, but the recent increases will give hawks at the Fed ammo to continue arguing in favor of tapering QE.

Initial claims spiked in the holiday-shortened 4th of July week. The number of Americans filing for first-time unemployment benefits rose 16,000 to 360,000 coming in at the high end of estimates. In addition to the holiday special factor, claims are difficult to adjust for in July because of seasonal events like vehicle plant shutdowns. This makes the report hard to read and it would not be surprising to see this reverse in the coming weeks.




| | | |
|---|---|---|
| Jul 8th | Consumer Credit, May Monthly Change | 19.6B |
| Jul 9th | ICSC-Goldman Same Store Sales, Wkly. Chg. | 3.0% |
| Jul 10th | MBA Purchase Applications Index, Wkly. Chg. | -4.0% |
| Jul 10th | Wholesale Inventories, May Monthly Chg. | -0.5% |
| Jul 10th | EIA Petroleum Status Report, Wkly. Chg. | -9.9M Barrels |
| Jul 11th | Initial Jobless Claims (week ending 7/6) | 360,000 |
| Jul 11th | Import Prices, June Monthly Chg. | -0.2% |
| Jul 11th | Export Prices, June Monthly Chg. | -0.1% |
| Jul 11th | EIA Natural Gas Report, Wkly. Chg. | 82 bcf |
| Jul 12th | Producer Price Index, June Monthly Chg. | 0.8% |
| Jul 12th | Consumer Sentiment Index, July | 83.9 |

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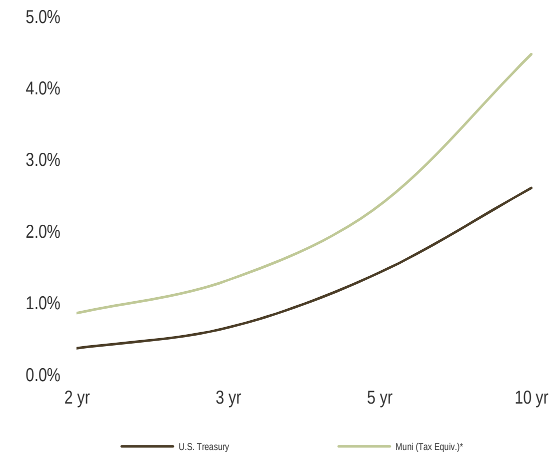
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

## Bond Market Update

Largely attributable to comments from Fed Chairman Bernanke reassuring investors the central bank is not in a rush to taper its bond-buying program, U.S. Treasuries gained for the week. Uncertainties remain however, as Federal Reserve Bank of Philadelphia president, Charles Plosser, said they should start reducing purchases by the end of September, with a goal of ending the program by the end of the year.  Despite mixed messages, most market participants expect the Fed to announce its plans to taper, some time during the fourth quarter.  Meanwhile, adding to anxieties, investors must now determine whether individual bonds or bond funds perform better in a rising rate environment.  The advantage of an individual bond is that as its maturity shortens over time, its price becomes less sensitive to changes in yields, and, barring default, the bond will mature at par. The advantage of a fund when yields rise is that rebalancing over time enables the proceeds to be reinvested in higher yielding securities. Most strategists feel the benefits of the individual bond usually outweigh those of a fund, particularly for a passively managed platform targeting a particular maturity range. However, investors also ought to consider other factors. Another consideration includes the steepness of the yield curve; the more positively sloped the curve, the bigger the yield pickup will be from extending maturities with rebalancing, suggesting funds will outperform in this environment. Finally, an active manager might be able to position their portfolios for a rise in yields.  Still, under most circumstances, strategists like individual securities for intermediate and long-term holdings in a stronger rate setting, and funds or ETFs for short duration holdings.

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 | 7.5.13 | 7.12.13 | Change |
|---|---|---|---|
| 3 month T-Bill | 0.04% | 0.04% | 0.00% |
| 2-Year Treasury | 0.40% | 0.37% | -0.03% |
| 5-Year Treasury | 1.60% | 1.43% | -0.17% |
| 10-Year Treasury | 2.73% | 2.61% | -0.12% |
| 30-Year Treasury | 3.68% | 3.64% | -0.04% |

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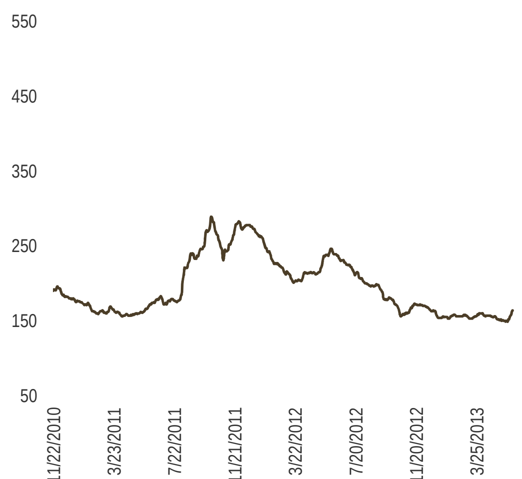
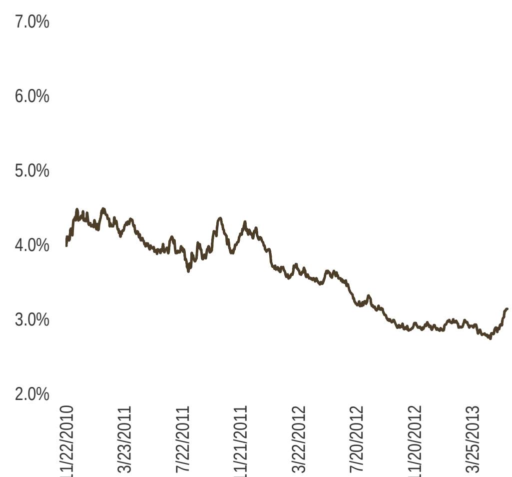
U.S. Investment Grade Corporate Bond Spreads (BBB-A), in bps




Source: Merrill Lynch

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




Source: Merrill Lynch

## Stock Market Update

The stock market rallied to new highs this week on encouraging comments out of the Federal Reserve. This week also marked the beginning of earnings for the quarter as Alcoa kicked off earnings on Tuesday. During the past week The Dow Jones Industrial Average closed at 15,464.30, finishing the week up 2.17%. The broader S&P 500 Index ended the week at 1,680.19, higher by 2.96% on the week. The NASDAQ Composite finished higher by 3.47% and closed the week out at 3,600.08.

Developed international stock finished the week higher rising for five straight days this week. The encouraging comments out of the Federal Reserve continued to support the markets. The comments were also supportive for the emerging markets which rose nearly 5% on Thursday, marking the largest one-day rise over the past 19 months. China alone rose over 5% on speculation Beijing may take action to stabilize the economic growth.

JPMorgan Chase (JPM) announced earnings prior to the open on Friday. The earnings in the second quarter surged up 32% from a year ago to $6.1 billion. A year ago the bank generated a profit of $4.6 billion, however, the profits were affected by the trading loss that occurred last year out of London. Jamie Dimon has come under much scrutiny for holding the positions of both CEO and Chairman and recently survived a vote on May 21st that would have called on him to give up his dual role with the bank. For the year, shares of JPM are up over 26% and closed Friday at $54.97/share.

Wells Fargo (WFC) also announced earnings that beat expectations and that stock opened higher on the news. WFC is also beating the broader index to start the year and is up over 25% year-to-date closing Friday at $42.63/share.

| Issue | 7.5.13 | 7.12.13 | Change |
|---|---|---|---|
| Dow Jones | 15,136.00 | 15,464.30 | 2.17% |
| S&P 500 | 1,632.00 | 1,680.19 | 2.95% |
| NASDAQ | 3,479.00 | 3,600.08 | 3.48% |
| Russell 1000 Growth | 742.25 | 766.34 | 3.25% |
| S&P MidCap 400 | 1186 | 1,221.24 | 2.97% |
| Russell 2000 | 1002 | 1,036.52 | 3.45% |
| MSCI EAFE | 1,665.87 | 1,711.14 | 2.72% |
| MSCI Small Cap | 173.31 | 178.59 | 3.05% |

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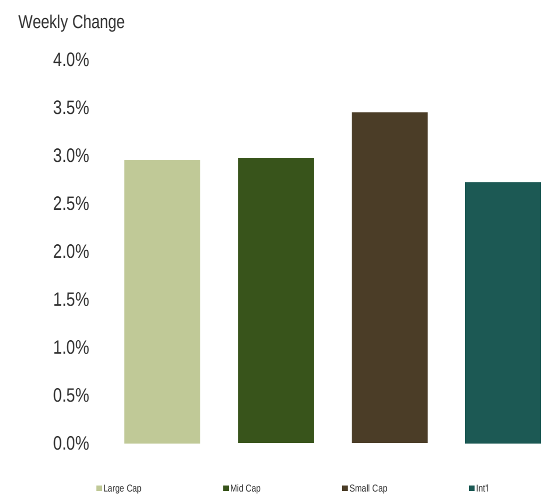
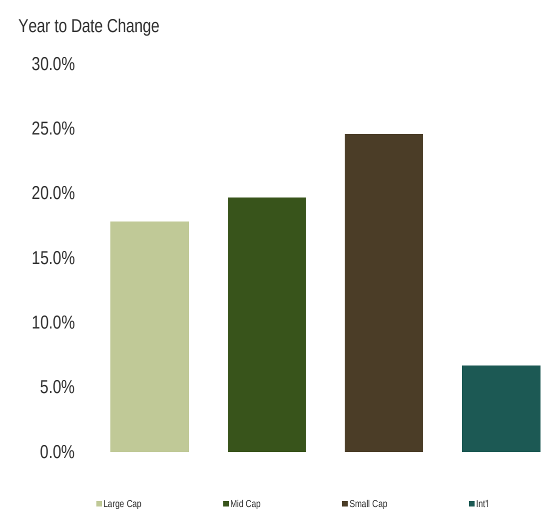
Prices reflect most recent data available at the time of publication
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Wolfe Trahan.




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




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

## Alternative Investments Market Update

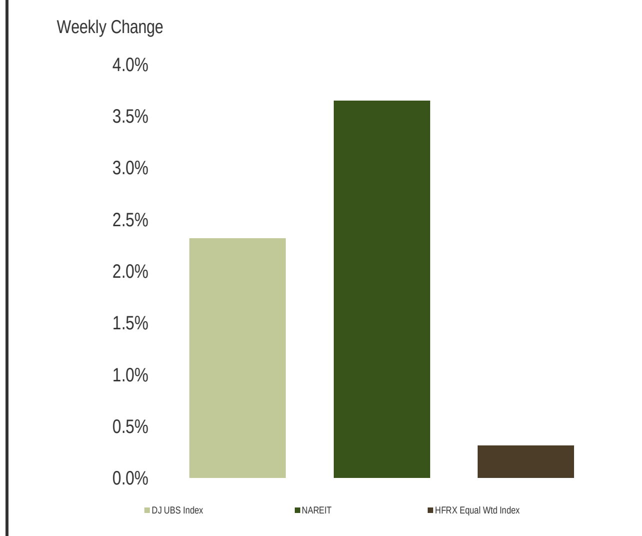
Crude oil hit a third straight weekly increase, its longest run of gains since May, and is forecasted to rise next week as well in a Bloomberg News survey amid speculation U.S. stimulus measures would continue. U.S. crude stockpiles shrank, a government report showed earlier this week, while Federal Reserve Chairman Ben Bernanke called for maintaining bond purchases to revive the economy. Crude inventories fell by 9.87 million barrels last week, the Energy Department announced. It was also announced this week that oil production in non-OPEC countries will increase at the fastest pace in two decades next year, according to the International Energy Agency (IEA). Supplies from outside the Organization of Petroleum Exporting Countries (OPEC) will increase by 1.3 million barrels a day in 2014 amid booming output in North America, reducing the need for shipments from the producer group. According to the EIA, global oil consumption will expand by 1.2 million barrels a day in 2014, up from a forecasted 930,000 this year.

Gold scored its biggest weekly gain in nearly two years on the easing fears of an early end to U.S. monetary stimulus. This marks the precious metal's first weekly gain in four weeks and the biggest percentage climb since the week ended October 28, 2011, according to FactSet data. This weeks gains for the metal came as the dollar dropped sharply earlier in the week following Bernanke's comments regarding the Feds plans on quantitative easing. The metal has tumbled around 24% this year on worries that the Fed would start winding down its bond-buying program.

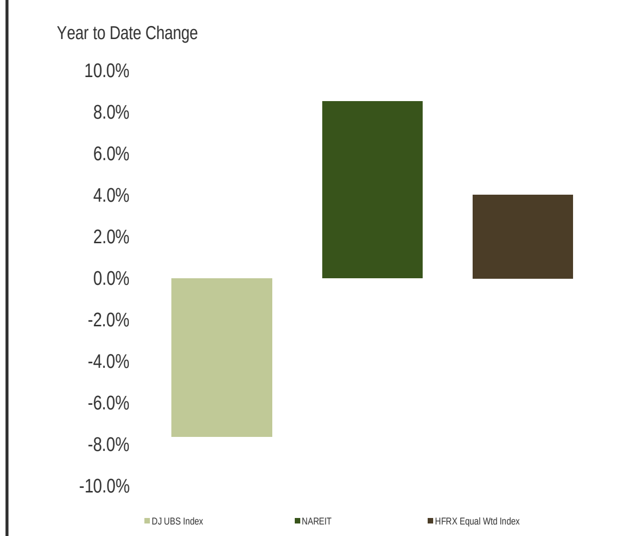
Having underperformed the S&P 500 in first half of 2013 and performing slightly higher than the broader real estate investment trust (REIT) market, office REITs domestically are still trying to gain ground that was lost in the recession. According to the FTSE NARIET U.S. Real Estate Index Series, through the end of June, office REITs had total returns of 6.71%, higher than the 6.49% gain for all equity REITs but lower than the 12.5% return from the S&P 500. With the national unemployment rate at 7.6% at the end of June, the small gains in job growth has not translated into office demand. Analysts are optimistic that with the recovering economy, albeit slow, could allow office REITs to raise rents during the remainder of the year.

| Issue | Previous Week | Current[1] | Change |
|---|---|---|---|
| Gold | 1,217.01 | 1,284.33 | 5.53% |
| Crude Oil Futures | 103.09 | 106.02 | 2.84% |
| Copper | 306.50 | 315.40 | 2.90% |
| Sugar | 16.26 | 16.06 | -1.23% |
| HFRX Equal Wtd. Strat. Index | 1,165.70 | 1,169.35 | 0.31% |
| HFRX Equity Hedge Index | 1,104.47 | 1,112.03 | 0.68% |
| HFRX Equity Market Neutral | 938.78 | 937.54 | -0.13% |
| HFRX Event Driven | 1,493.36 | 1,505.20 | 0.79% |
| HFRX Merger Arbitrage | 1,536.04 | 1,539.45 | 0.22% |
| Dow Jones UBS Commodity Index | 125.54 | 128.45 | 2.32% |
| FTSE/NAREIT All REIT | 163.27 | 169.23 | 3.65% |

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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