

MainStreet Advisors Financial Market Update

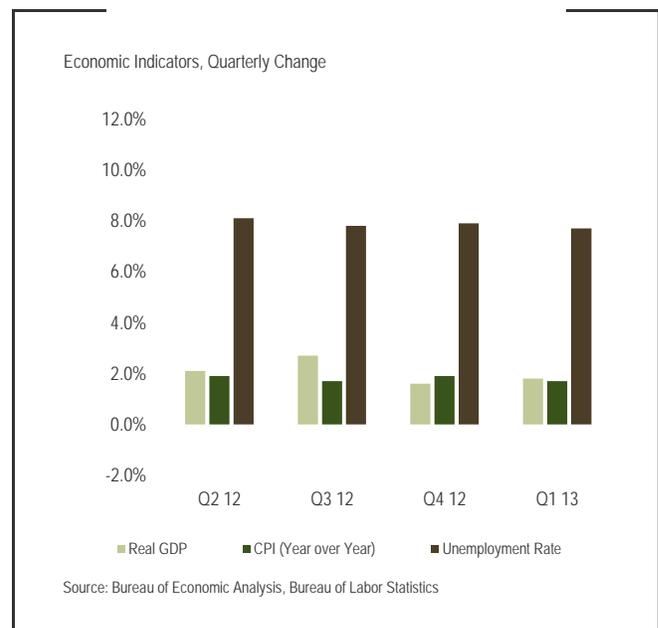
July 26, 2013
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Economic Update

The Eurozone manufacturing PMI has been trending higher over the past year and finally broke into expansion territory in July for the first time in 18 months. This suggests that real GDP is improving in the struggling region. In contrast, the Chinese manufacturing PMI has hooked down and declined to 48.7% this month. Differences in monetary policy, with the ECB keeping rates low while rates in China remain elevated, help to explain this decoupling. Additionally, the Chinese government showed its commitment to curbing wasteful government spending this week by putting a five-year ban on the construction of new office buildings for state-owned companies and Communist Party agencies. Slower growth in China puts downward pressure on commodity prices, which is a benefit to manufacturers in both the U.S. and Europe.

The recent spike in mortgage rates resulted in a slowdown of sales for existing homes in June to an annual rate of 5.08 million, well below estimates of a 5.27 million rate and 1.2% below the previous month. Despite the slowdown median prices continued to rise up 5.5% to \$214,000. More sellers are coming to market with the supply up 0.2 months to 5.2, and they are staying on the market for a shorter period of time – 37 days in June vs. 41 in May. Meanwhile, new home sales came in better than expected climbing 16,000 to an annual pace of 497,000 – a new recovery high. The jump in sales may be attributed to buyers rushing to make a purchase in the face of rising mortgage rates. Supply in the new home market is extremely tight with only 3.9 months of inventory at the current sales rate. Here prices cooled a bit, though, with the median new home going for 5.0% less in June than the previous month.

The number of Americans filing for first-time unemployment benefits rose 7,000 to 343,000 for the week ended July 20. As we mentioned earlier this month, initial claims data in July tends to be distorted as automakers shut down their plants for retooling and schools close for the summer. It's interesting to note, however, that this week's number, the 4-week average, and the 13-week average are all right at about the 345,000 mark indicating a flat trend with no discernible improvement or deterioration.



Jul 22 nd	Existing Home Sales, June SAAR	5.08M
Jul 23 rd	ICSC-Goldman Same Store Sales, Wkly. Chg.	1.4%
Jul 24 th	MBA Purchase Applications Index, Wkly. Chg.	-1.2%
Jul 24 th	New Home Sales, June	497,000
Jul 24 th	EIA Petroleum Status Report, Wkly. Chg.	-2.8M Barrels
Jul 25 th	Durable Goods New Orders, June Monthly Chg.	4.2%
Jul 25 th	Initial Jobless Claims (week ending 7/20)	343,000
Jul 25 th	EIA Natural Gas Report, Wkly. Chg.	41 bcf
Jul 26 th	Consumer Sentiment Index, July	85.1

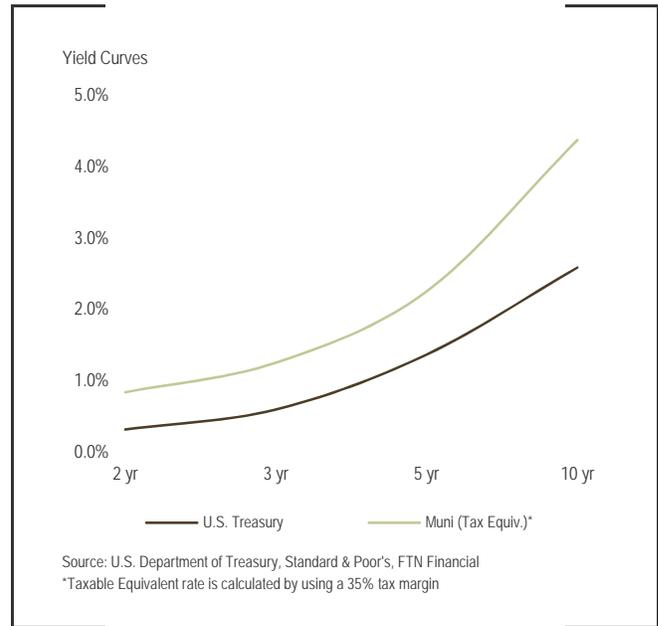
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Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the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

Bond Market Update

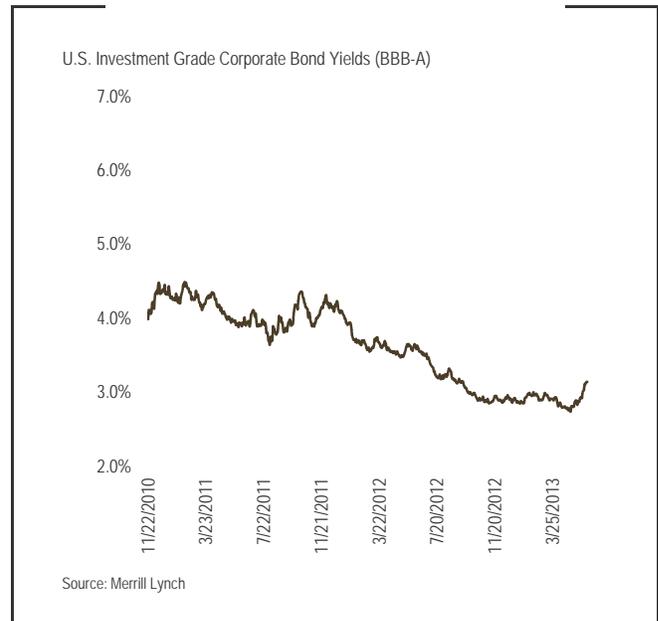
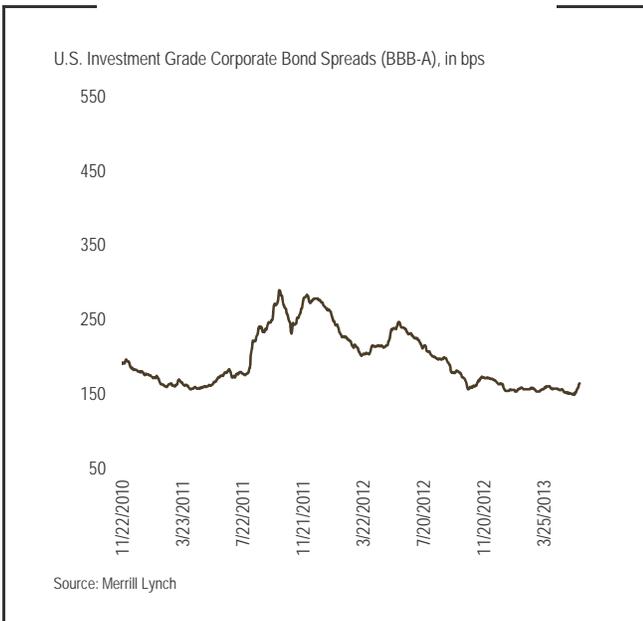
Taxable bond prices softened this week after a two week rally brought yields on 10-year Treasuries down to 2.5%. Yields jumped over the 2.6% threshold before closing the week slightly lower as investors digested \$99 billion in new Treasury issuances this week. The rise in yields was also attributable to investor positioning ahead of potential headline risk from the Federal Reserve comments and important economic data due to be released next week. Investors also reversed course on corporate credit as benchmark credit default swaps ticked up 5 basis points, marking the first rise in 5 weeks. This comes on the heels of an impressive month long rally which had substantially narrowed investment grade paper spreads from the May/June sell-off.

The municipal markets remained jittery as the City of Detroit's bankruptcy filing last week continues to rattle investors. Investor concerns are primarily focused on Detroit's treatment of general obligation (GO) bonds as unsecured debt in the bankruptcy filing. This bond treatment could set a precedent for other municipalities going forward, which is a concern. Investors had long viewed GO bonds as the safest tranche of municipal issuance as the bonds are backed by the municipality's ability to levy taxes. The result has been continued outflows from municipal bond funds and stubbornly wide spreads relative to earlier this year.



Issue	7.19.13	7.26.13	Change
3 month T-Bill	0.03%	0.03%	0.00%
2-Year Treasury	0.32%	0.31%	-0.01%
5-Year Treasury	1.31%	1.36%	0.05%
10-Year Treasury	2.50%	2.58%	0.08%
30-Year Treasury	3.56%	3.61%	0.05%

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Stock Market Update

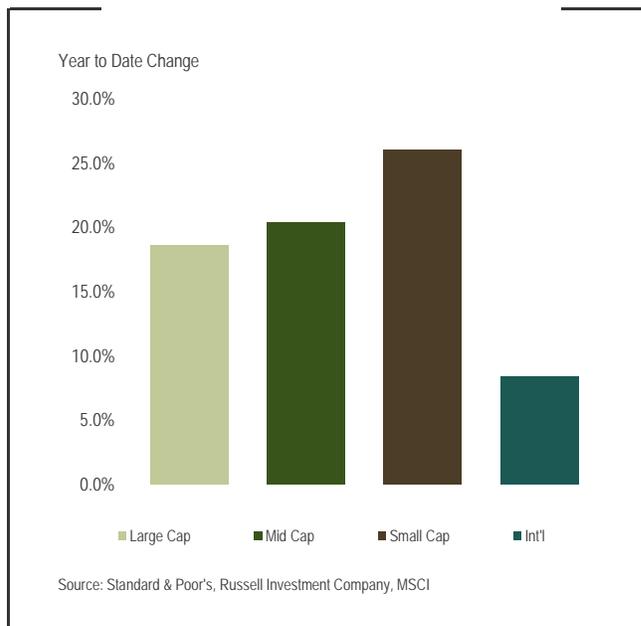
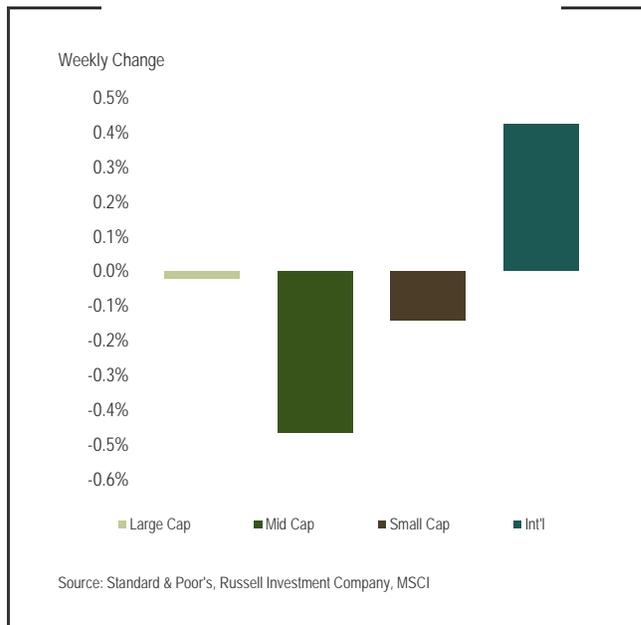
Domestic stocks were mostly flat this past week as interest rates climbed and earnings reports were muted. Despite consumer sentiment reaching its highest level in six years, all three major indices were down on Friday for most of the day, but closed in positive territory. The Dow Jones Industrial Average closed at 15558.83, up 13 points, for its fifth consecutive weekly gain. The broader S&P 500 Index ended flat at 1691.65, while the NASDAQ Composite Index rose 0.7% since last Friday to finish at 3613.16.

Japanese stocks declined after five straight weekly gains, falling over 3% alone on Friday as the U.S dollar fell under the 99 yen level. Stocks in China were flat for the week after rallying 2% on Wednesday when the government announced it would take actions to ensure economic growth does not fall below 7%. European equities as measured by the STOXX Europe 600 Index were also flat for the five-day trading session, closing near the highest level since late May. Preliminary PMI releases from Germany, France and the euro-zone were all slightly better than anticipated.

According to Bloomberg, with about 50% of S&P 500 firms reporting quarterly results, 73% have beaten earnings estimates and 57% have surpassed revenue expectations, slightly above average. Companies of note this week were Apple, General Electric, and Chinese search engine company Baidu. Apple's iPhone shipments were higher than expected with especially strong growth in emerging markets. GE's revenues were below estimates, but margins were strong and the company repurchased \$10B in shares since January 1st. Baidu reported progress in mobile monetization, 58,000 new advertising clients, and a 33% increase in its active customer base.

Issue	7.19.13	7.26.13	Change
Dow Jones	15,543.00	15,558.83	0.10%
S&P 500	1,692.00	1,691.65	-0.02%
NASDAQ	3,588.00	3,613.16	0.70%
Russell 1000 Growth	765.89	768.55	0.35%
S&P MidCap 400	1234	1,228.27	-0.46%
Russell 2000	1050	1,048.51	-0.14%
MSCI EAFE	1,731.43	1,738.76	0.42%
MSCI Small Cap	180.47	181.51	0.58%

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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

Gold eased back on Friday, but stayed on pace for its third straight weekly gain, as wariness over the U.S. Federal Reserve's message at next week's monetary policy meeting pushed the dollar down. The dollar slipped broadly against a basket of major currencies, keeping the floor under bullion, after a Wall Street Journal report suggested the central bank would not be raising rates any time soon. The precious metal has gained more than 8% in the past three weeks after the Fed assured financial markets it would start phasing out its bond buying program when it was sure the U.S. economy was strong enough to stand on its own. Physical demand in China has been crucial in supporting gold prices this year, despite the outflows in ETFs. Data from the Shanghai Gold Exchange shows that physical deliveries have totaled 1,198.4 tons so far this year. The exchange delivered 1,140 tons in all of 2012, and according to the World Gold Council, China could overtake India this year as the world's biggest bullion consumer.

Crude oil dropped this week after a modest decline in domestic oil inventories gave traders an opportunity to book profits. Oil inventories in the U.S. fell by 2.8 million barrels to 364.2 million barrels for the week ended July 19, according to data from the U.S. Energy Information Administration (EIA). Even though the decline was larger than analysts' expectations, compared with the three sharp drops in previous weeks, this wasn't that sizable. Gasoline stockpiles also fell by 1.4 million barrels compared to expectations of an increase of 900,000 barrels. Distillate stocks, which include diesel and heating oil, fell by 1.2 million barrels. Analysts had expected an increase of 1.6 million barrels.

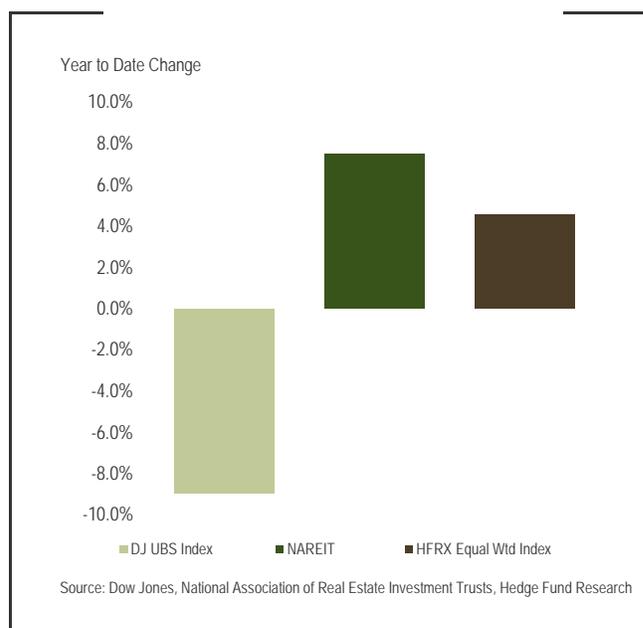
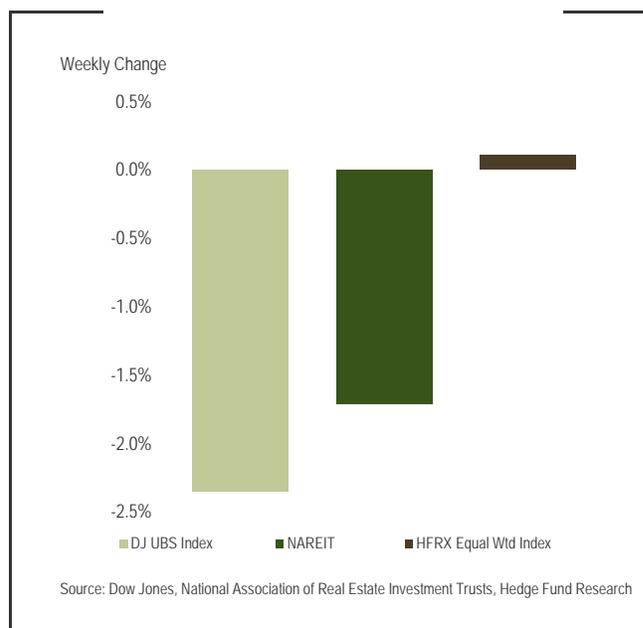
The talk of the week has been Steve Cohen's hedge fund, SAC Capital Advisors, pleading not guilty in regards to being indicated on insider-trading charges. U.S. prosecutors charged the \$14 billion hedge fund with presiding over a "culture where employees flouted the law and were encouraged to tap their personal networks for inside information about publicly traded companies." SAC's illegal practices ran roughly from 1999 to 2010, according to the indictment. SAC and various affiliates were charged with four criminal counts of securities fraud and one count of wire fraud.

Issue	Previous Week	Current ¹	Change
Gold	1,295.47	1,330.51	2.70%
Crude Oil Futures	108.34	104.62	-3.43%
Copper	314.45	310.70	-1.19%
Sugar	16.29	16.47	1.10%
HFRX Equal Wtd. Strat. Index	1,174.21	1,175.44	0.10%
HFRX Equity Hedge Index	1,120.77	1,123.69	0.26%
HFRX Equity Market Neutral	940.81	944.97	0.44%
HFRX Event Driven	1,511.31	1,514.06	0.18%
HFRX Merger Arbitrage	1,540.95	1,542.48	0.10%
Dow Jones UBS Commodity Index	129.66	126.62	-2.35%
FTSE/NAREIT All REIT	170.52	167.60	-1.71%

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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