MainStreet Advisors Financial Market Update

September 6, 2013

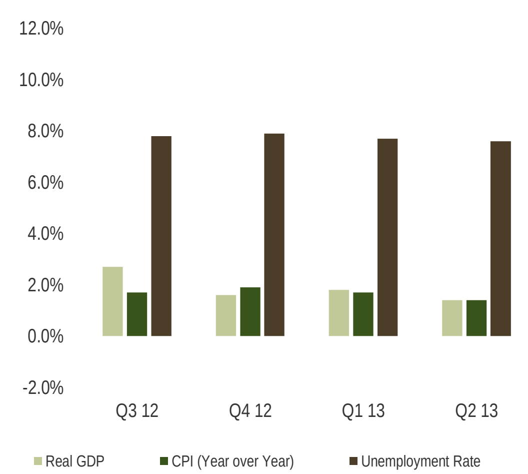
Economic Update

Manufacturing expanded at a faster rate in August, defying expectations for deceleration. The ISM's index rose three-tenths of a point to 55.7, with the new orders component surging almost five points to 63.2. It's interesting to note the inventories component is at a 4-year low and the spread between inventories and new orders is at a 4-year high. This suggests manufacturing activity should remain elevated, however rising oil and material costs are a risk to growth. On the larger service side of the economy ISM reported the greatest level of strength since the peak of the last recovery. The non-manufacturing index rose 2.6 points to 58.6 for the month, beating all expectations. The new orders component and employment components both showed strength, indicating economic activity and the labor market are likely to pick up steam.

Rising tensions in the Middle East and the looming debt-ceiling debate are likely to weigh on consumer confidence, but so far it has not had a negative impact on automobile sales. Motor vehicle sales were up a solid 1.9% in August to an annual pace of 16.1 million, the highest rate in six years. Very low interest rates for auto loans are helping overall vehicle sales, and the Manufacturing and Energy Renaissances are specifically supporting truck sales.

Initial jobless claims broke out to the downside during the month of August, with the four-week average hitting a new recovery low of 328,500 for the week ended August 31. Despite this the August employment report was somewhat disappointing. Payrolls increased only 169,000 coming up a little short of expectations. Gains in the private sector were soft at only 152,000 and July's number was revised down 34,000, but the strong employment components in the PMIs suggest this should accelerate. Federal payrolls were flat while state & local governments added 17,000 jobs. The unemployment rate ticked down to 7.3%, but it was attributed to a large reduction in the labor force. This will probably be the most influential piece of data the Fed will look to in deciding whether or not to taper on September 18, meaning the odds of it happening this month have gone down. Other data has been strong so it is not completely off the table, but any tapering announced would likely be small.

Economic Indicators, Quarterly Change



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

Sep 3rd	ISM Mfg. Index - Level, August	55.7
Sep 3rd	Construction Spending, July Monthly Chg.	0.6%
Sep 4th	MBA Purchase Applications Index, Wkly. Chg.	1.3%
Sep 4th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-0.6%
Sep 4th	International Trade Balance Level, July	-39.1B
Sep 5th	Initial Jobless Claims (week ending 8/31)	323,000
Sep 5th	Factory Orders, July Monthly Chg.	-2.4%
Sep 5th	ISM Non-Mfg. Index, August	58.6
Sep 5th	EIA Natural Gas Report, Wkly. Chg.	58 bcf
Sep 5th	EIA Petroleum Status Report, Wkly. Chg.	-1.8M Barrels
Sep 6th	Non-farm Payrolls, Aug. Monthly Chg.	169,000
Sep 6th	Unemployment Rate, August	7.3%

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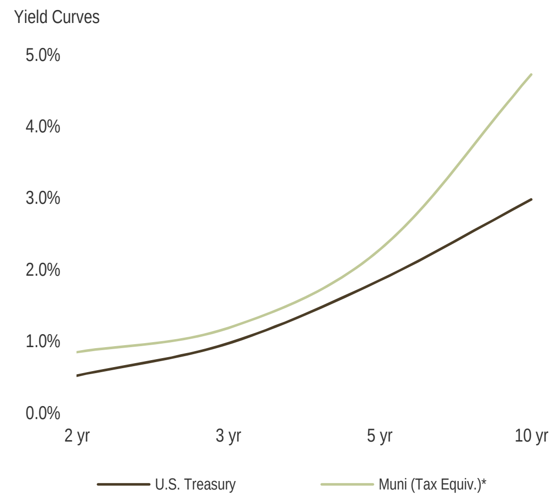
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

Despite a rally on Friday led by a weaker-than-expected jobs report, investor demand for safe-haven U.S. Treasuries waned for the week, driving the bond market lower. Yields on the 10-year note breached 3.00% for the first time in two years before the report, but closed near 2.90%. Year to date, U.S. government debt has lost 4.3%, which would be the largest annual decline since 1978, according to Merrill Lynch index data. Meanwhile, the European Central Bank and the Bank of England have maintained low interest rates even amid budding signs of economic recovery. ECB president Mario Draghi played down recent signs of a strengthening eurozone economy, suggesting the central bank's easy money policies will remain in place. "These shoots (of recovery) are still very, very green," Draghi said. The ECB will keep its key short-term interest rates unchanged at the record low level of 0.5%. Separately, the Bank of England held its benchmark rate at 0.5%, while also leaving its bond-buying program unchanged at £375 billion ($585 billion). BOE governor Mark Carney pledged not to raise short-term interest rates until unemployment in the U.K. drops to 7%, a threshold bank officials feel will not be reached until 2016. The eurozone exited a lengthy recession earlier this year with annualized growth of 1.1%. At the same time, business surveys suggest similar expansion this quarter, with economies like Italy and Spain showing signs of stabilizing from downturns led by high unemployment. Looking ahead, strategists feel government debt yields should remain relatively stable given stronger economic growth along with the ECB's pledge to continue its program to purchase government debt of "at-risk" countries.



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

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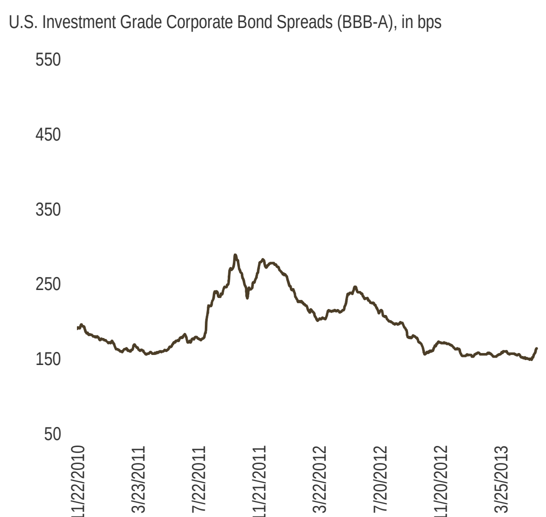
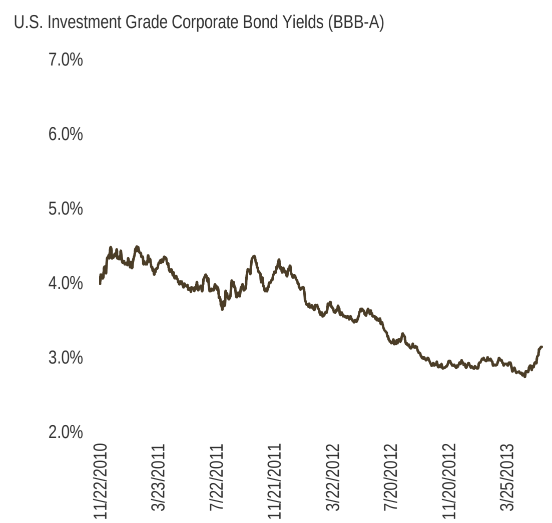
Issue	8.30.13	9.6.13	Change
3 month T-Bill	0.03%	0.02%	-0.01%
2-Year Treasury	0.39%	0.52%	0.13%
5-Year Treasury	1.62%	1.85%	0.23%
10-Year Treasury	2.78%	2.98%	0.20%
30-Year Treasury	3.70%	3.88%	0.18%

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



Source: Merrill Lynch



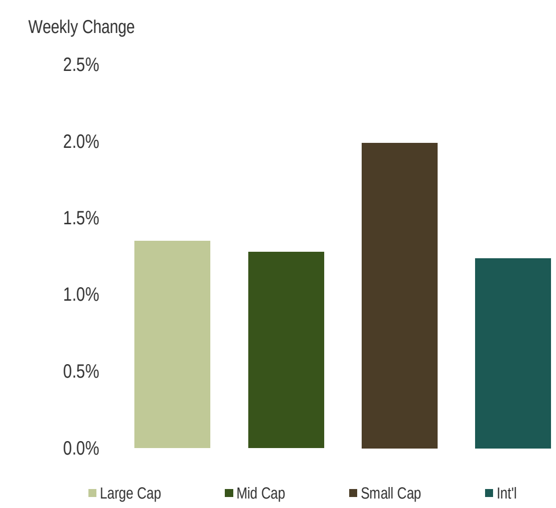
Source: Merrill Lynch

Stock Market Update

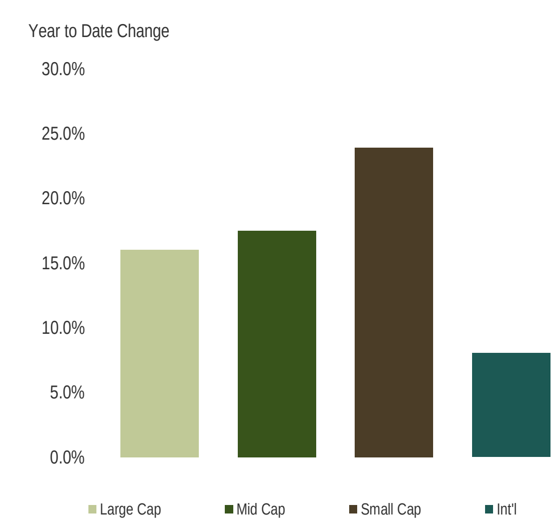
Markets were stronger across the globe to start off the month of September on a positive note. Strong economic data offset uncertainty regarding the U.S. response to the chemical weapons attack in Syria. The lower than expected payrolls report on Friday fueled a stock rally with investors anticipating that the Fed may possibly delay the end of its bond buying program beyond September, but volatility set in when Russian President Putin stated he would aid Syria if the U.S. strikes. For the holiday-shortened week, the Dow Jones Industrial Average increased 1.2% after four straight weeks of declines, closing at 14992.50. The broader S&P 500 Index ended 1.4% higher at 1655.16, while the NASDAQ Composite Index was up 2.0% for the week to finish at 3660.01.

Stocks were strong in Asia this week helped by positive economic news from China. Chinese data released last weekend showed the Purchasing Managers' Index for August rose to 51.0 from 50.3 in July. For the week, the Shanghai Composite index was up 2.0%. The Nikkei index increased 3.5%, its strongest weekly gain in two months. Japanese automaker stocks were strong, boosted by double digit increases in U.S. sales. Economic news from Europe was generally positive this week as well. PMI measures showed improvement for Germany to its highest level since July 2011. Even Italy and Spain reported strength in manufacturing to levels not seen since April 2011. For the five-day trading session, European equities as measured by the Stoxx Index were up 1.5%.

In company news, Verizon confirmed its plans to purchase the remaining share of its joint venture with Vodafone. Microsoft announced on Tuesday it had agreed to buy most of Nokia's devices and services business in an all cash deal valued at $7.2 billion. The company hopes to shore up its presence in the smartphone market where it currently has less than 4% market share. Apple scheduled a media event in Cupertino for September 10th, where the company will most likely reveal its latest version of the iPhone. Analysts predict a less expensive version will also be introduced for lower-end markets. Apple stock has rebounded 25% from its late-June low.



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



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

Issue	8.30.13	9.6.13	Change
Dow Jones	14,810.31	14,923.00	0.76%
S&P 500	1,632.97	1,655.00	1.35%
NASDAQ	3,589.87	3,660.00	1.95%
Russell 1000 Growth	752.05	765.04	1.73%
S&P MidCap 400	1183.87	1,199.00	1.28%
Russell 2000	1010.89	1,031.00	1.99%
MSCI EAFE	1,711.89	1,733.05	1.24%
MSCI Small Cap	180.91	183.86	1.63%

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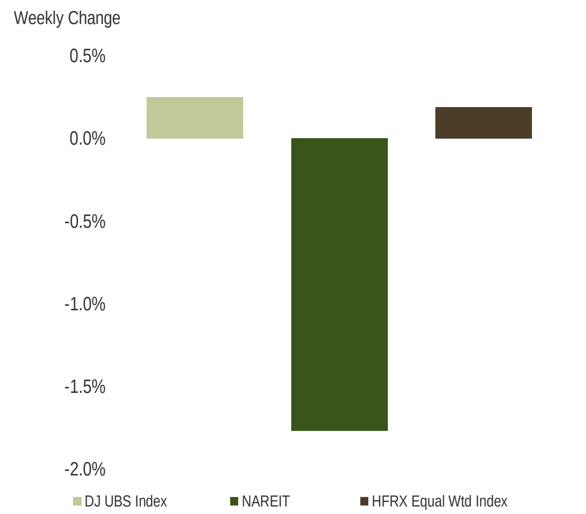
Prices reflect most recent data available at the time of publication
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Wolfe Trahan.

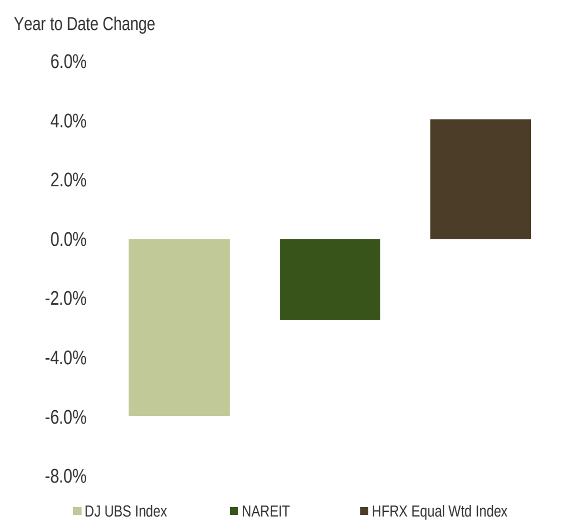
Alternative Investments Market Update

Crude oil prices gained this week amid the rising tension in the Middle East and signs of declining U.S. oil inventories. Traders noted that the market shook off a softer-than-expected U.S. jobs report and bought up contracts to protect against a price spike over potential developments in White House efforts to gain support for a strike on Syria. Crude prices have climbed this week on the uncertainty regarding how the U.S. would respond to claims of the use of chemical weapons by the Syrian government in their ongoing civil war. Also helping the rise in crude were inventories falling more than expected last month, according to the Energy Information Administration (EIA). In a report released this week, U.S. crude oil inventories fell to a seasonally adjusted annual rate of 1.8 million barrels to 360.2 million barrels for the week ending August 30, down from 2.9 million barrels in the preceding month. Analysts had expected U.S. crude inventories to fall only 1.2 million barrels last month. The stockpile decline was the eighth in the past 10 weeks and comes as U.S. refiners have boosted their crude consumption amid strikes that have halted production in Libya. While Libya's oil production has fallen by more than 80%, U.S. refiners last week processed 15.9 million barrels a day, the highest such figure for the last week of August in seven years.

Gold rebounded from a two-week low as weak U.S. payrolls revived prospects for an extension of economic stimulus by the Federal Reserve, stoking demand for the precious metal as a store of value. The metal was unable to escape the red though, posting its second consecutive week of losses. The metal has been pressured for much of this year as traders bet an improving U.S. economy would lead the Fed to curb its bond purchases. The Fed's easing programs had drawn buyers to the precious metal in recent years as investors sought shelter from the inflation that could follow increased liquidity. As of this week though, gold is down roughly 18% so far this year.



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

Issue	Previous Week	Current[1]	Change
Gold	1,395.11	1,388.40	-0.48%
Crude Oil Futures	107.67	110.40	2.54%
Copper	323.55	325.85	0.71%
Sugar	16.34	16.79	2.75%
HFRX Equal Wtd. Strat. Index	1,167.49	1,169.67	0.19%
HFRX Equity Hedge Index	1,101.02	1,111.48	0.95%
HFRX Equity Market Neutral	932.39	932.77	0.04%
HFRX Event Driven	1,504.73	1,510.96	0.41%
HFRX Merger Arbitrage	1,543.35	1,545.52	0.14%
Dow Jones UBS Commodity Index	130.44	130.77	0.25%
FTSE/NAREIT All REIT	154.41	151.68	-1.77%

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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