MainStreet Advisors Financial Market Update

September 13, 2013
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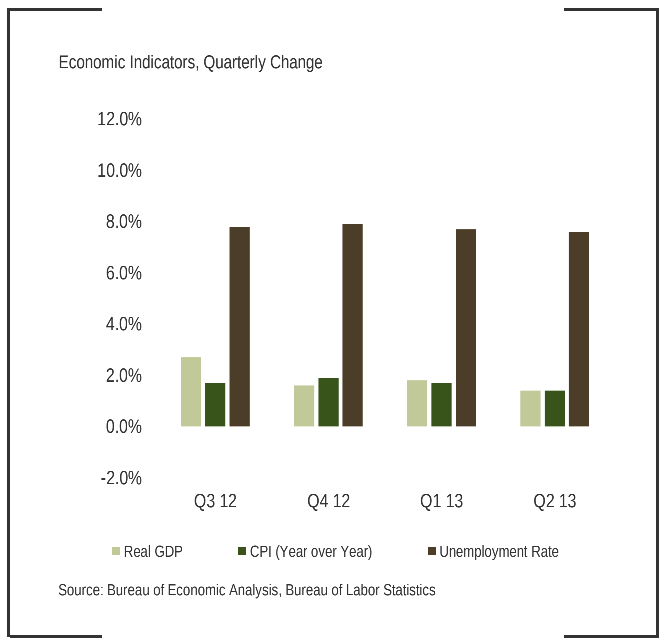
Economic Update

The number of Americans filing for first-time unemployment benefits fell a staggering 31,000 to 292,000 for the week ended September 7. It was the first reading below 300,000 since May 2007 and the lowest reading since April 2006. It's not quite time to pop the champagne, though; the Department of Labor reported an administrative issue surrounding the upgrade of computer systems in two states caused fewer claims to be reported and said "the decrease in filings probably didn't signal a change in labor-market conditions." Still, initial claims have been improving and a number of other employment indicators including PMI employment indices and the NFIB's small business employment index are also pointing to improvement in the labor market.

Retails sales on the whole for August were somewhat disappointing, climbing only 0.2% for the month and falling short of expectations. Automobile sales did very well jumping 0.9% during the month, but stripping this out retail sales were basically flat. Spending on home furnishings and electronics & appliances was good, but garden equipment, apparel, and sporting goods were all weak. This divergence paints a picture of a "picky" consumer that is being selective about what they spend their money on. However, recent improvements in consumer confidence and a decline in gasoline futures over the past couple weeks might help boost sales in September.

The foreclosure crisis in the U.S. appears to be drawing to a close. The number of new foreclosure filings fell to an eight-year low in August, according to RealtyTrac. Daren Blomquist, vice president at RealtyTrac said "the foreclosure floodwaters have receded in most parts of the country, although lenders and communities continue to clean up the damage left behind." In another positive sign for the housing market Corelogic reported that 2.5 million fewer people were underwater on their mortgages at the end of June relative to the previous quarter. 14.5% of mortgage borrowers still owe more than their house is worth, but this is down from a high of 26% at the height of the crisis.



Sep 9th	Consumer Credit, July Monthly Change	10.4B
Sep 10th	ICSC-Goldman Same Store Sales, Wkly. Chg.	1.5%
Sep 11th	MBA Purchase Applications Index, Wkly. Chg.	-13.5%
Sep 11th	EIA Petroleum Status Report, Wkly. Chg.	-0.2M Barrels
Sep 12th	Initial Jobless Claims (week ending 9/7)	292,000
Sep 12th	Import Prices, August Monthly Chg.	0.0%
Sep 12th	Export Prices, August Monthly Chg.	-0.5%
Sep 12th	EIA Natural Gas Report, Wkly. Chg.	65 bcf
Sep 13th	Producer Price Index, August Monthly Chg.	0.3%
Sep 13th	Retail Sales, August Monthly Chg.	0.2%
Sep 13th	Consumer Sentiment Index, September	76.8
Sep 13th	Business Inventories, July Monthly Chg.	0.4%

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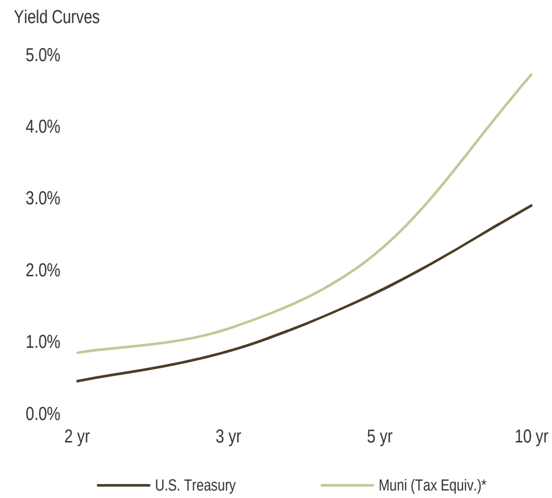
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

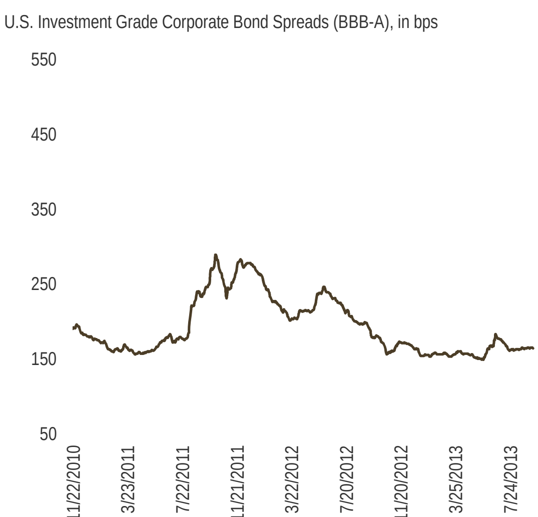
Despite weaker than expected economic reports, U.S. Treasuries finished the week mostly unchanged. The bond market has showed some signs of stabilization as some investors believe the rise in yields over the last two months is overdone, arguing a further rise could hamper economic growth. Meanwhile, municipal bonds continue to sell-off more severely than the rest of the market on credit concerns raised by a bankruptcy in Detroit. This, along with significant withdrawals from mutual funds and ETFs, has led to the highest yield levels since 2011. Because individual investors own approximately 70% of the muni market and tend to overreact to market news, they can inflate the market's gains and losses. As such, these individual investors have sold $20 billion from muni funds this year, including $9.5 billion since the Detroit bankruptcy. Separately, borrowing costs for Puerto Rico have risen to the highest levels in more than four years, as concerns over the financial health of this U.S. territory escalate. Puerto Rico's finances are considered weaker than those of any state because of its budget deficit, high per capita debt load and unfunded pension obligations of more than $30 billion. This backdrop has made investors less willing to hold the commonwealth's debt despite the attractive tax advantage of also being state tax-exempt. Looking ahead, strategists expect higher volatility in the muni market as investors focus on attractive valuations along with considerable mutual fund and ETF outflows.



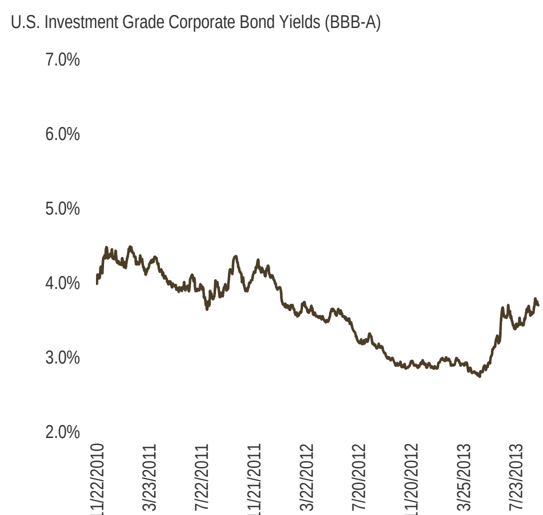
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	9.6.13	9.13.13	Change
3 month T-Bill	0.02%	0.01%	-0.01%
2-Year Treasury	0.52%	0.45%	-0.07%
5-Year Treasury	1.85%	1.71%	-0.14%
10-Year Treasury	2.98%	2.90%	-0.08%
30-Year Treasury	3.88%	3.84%	-0.04%

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



Source: Merrill Lynch



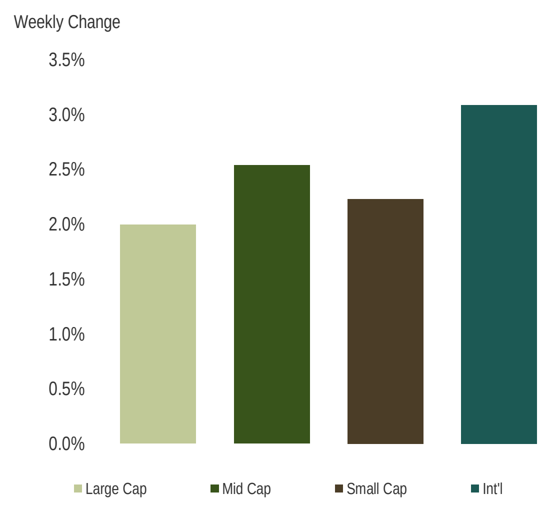
Source: Merrill Lynch

Stock Market Update

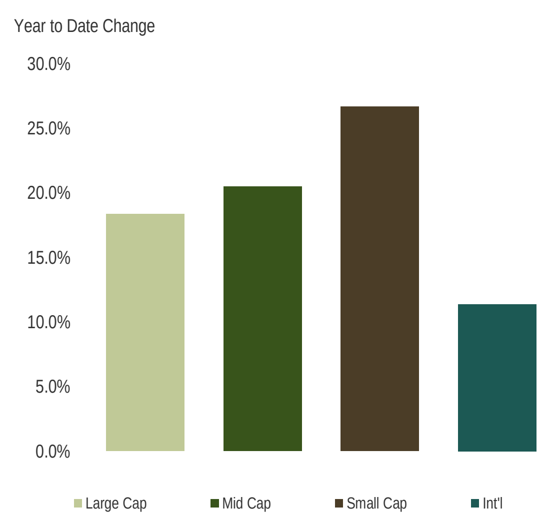
Markets continued their third quarter rally on positive economic data here and abroad, as well as encouraging diplomatic talks that will likely eliminate the need for a U.S. military attack on Syria. For the week, the Dow Jones Industrial Average increased 3.0%, closing at 15376.06, its best weekly gain since January. The broader S&P 500 Index finished the week at 1687.99, higher by 2.0%. The technology-heavy NASDAQ Composite Index rose only 1.7% for the week to finish at 3722.18, as Apple's performance weighed on IT stocks.

The rebound in international, especially emerging markets stocks, continued this week. Positive economic news from China included a report indicating value-added industrial output rose 10.4% in August from a year earlier, accelerating from a 9.7% on-year increase in July. August retail sales accelerated by 13.4% compared to last year, up from 13.2% growth in July. China also reported exports rose 7.2%, well ahead of expectations for a 6% increase. In addition, Chinese inflation remained subdued, up only 2.6%. In Japan, the Nikkei index surged 3.9%, following a 3.5% increase last week, helped by Tokyo's successful bid to host the 2020 Olympic Games as well as news GDP growth reached 3.8% in the second quarter. This was significantly higher than initial reports of 2.6% growth. European stocks were not as strong, with the Stoxx Index up only 1.8%, but still rising to a five-year high.

Apple released their new iPhone this week to mixed reviews, with some analysts disappointed the "cheaper" version of the iPhone will not be "cheap enough" to expand the market. The stock fell back below the $500 mark to close the week down 6%. In other stock news, S&P Dow Jones announced the first "three for three" change to the index since April 8, 2004. Alcoa, Bank of America and Hewlett Packard will be replaced by Nike, Goldman Sachs and Visa. The changes will be effective later this month and were prompted by the low stock price of the three companies to be removed as well as the index committee's wish to diversify the sector and industry group representation of the index.



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



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

Issue	9.6.13	9.13.13	Change
Dow Jones	14,923.00	15,376.06	3.04%
S&P 500	1,655.00	1,687.99	1.99%
NASDAQ	3,660.00	3,722.18	1.70%
Russell 1000 Growth	765.04	781.57	2.16%
S&P MidCap 400	1199	1,229.40	2.54%
Russell 2000	1031	1,053.98	2.23%
MSCI EAFE	1,733.05	1,786.50	3.08%
MSCI Small Cap	183.86	190.69	3.71%

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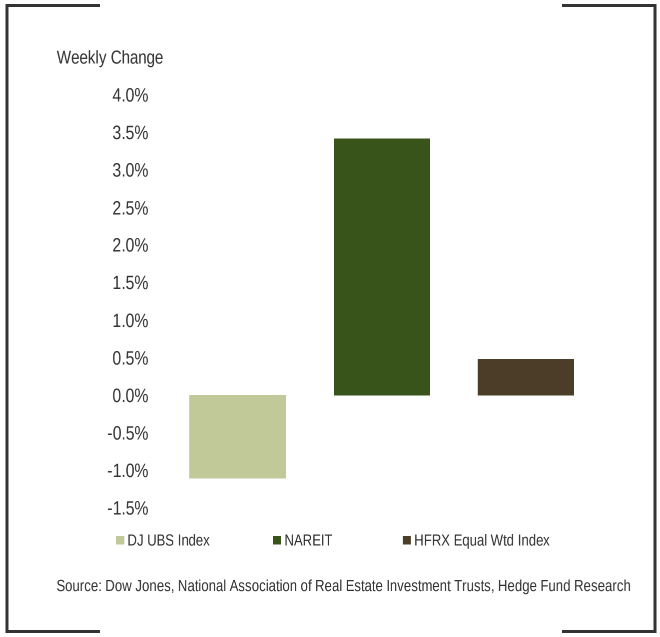
Prices reflect most recent data available at the time of publication
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Wolfe Trahan.

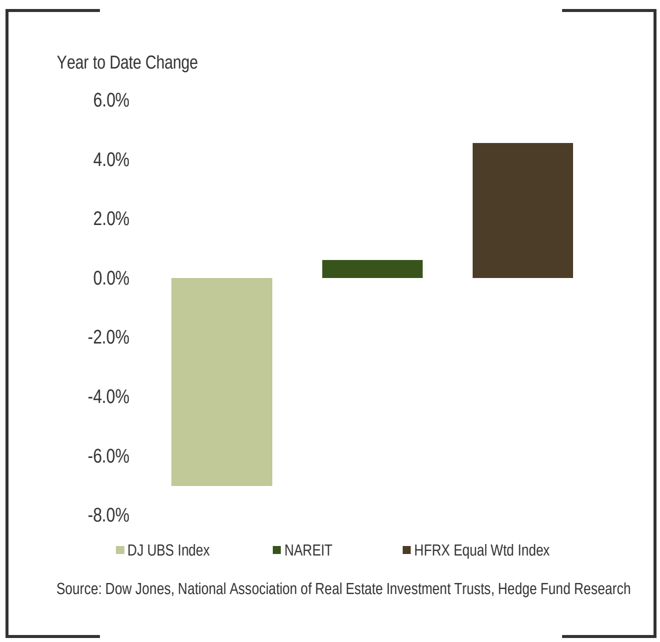
Alternative Investments Market Update

Gold and silver fell, heading for their biggest weekly drop since June, on speculation that the Federal Reserve would cut fiscal stimulus next week, while talks started on a plan for Syria to surrender its chemical weapons. The Fed will decide to cut monthly purchases of Treasuries to $35 billion from $45 billion and keep mortgage-bond buying at $40 billion at its meeting starting September 17, according to Bloomberg. Also, the perceived decreasing odds of U.S. military action against the Syrian regime continue to pressure gold as a safe-haven investment. The precious metal reached a three-month high on August 28th on concern that the U.S. would initially attack Syria. As of this week, gold has fallen 21% year-to-date as investors lost faith in the metal as a store of value amid a U.S. equity rally and low inflation. Gold rose 70% from December 2008 to June 2011 as the Fed pumped more than $2 trillion into the financial system by purchasing debt.

Crude oil also declined this week as disappointing U.S. retail sales and consumer sentiment data dampened the outlook for energy demand. Crude prices were already under pressure by the expected easing of any kind of attack on Syria in the near term. Investors also digested projections that global oil demand would rise by 1.2% next year. Reports released this week from both the EIA and OPEC showed a sizeable production climb from non-OPEC oil producers, including the U.S.

Hedge fund launches and liquidations both declined modestly in Q2, as U.S. regulators eased restrictions on the marketing of hedge funds. According to the latest report from Hedge Fund Research (HFR) a total of 288 new hedge funds launched in Q2 this year, a slight decline from the 297 launched in Q1, but represented a year-over-year increase from the 245 funds launched in Q2 of last year. Hedge fund liquidations in Q2 were also in line with the prior quarter as 190 funds closed, a slight decline from Q1, which saw 196 liquidations. The current number of active hedge funds, including fund of hedge funds, rose to a 5-year high of 10,009, approaching the record number of 10,233 established in 2Q 2008. The report also noted the industry-wide average decline of hedge fund management and incentive fees.





Issue	Previous Week	Current[1]	Change
Gold	1,388.40	1,323.73	-4.66%
Crude Oil Futures	110.40	108.53	-1.69%
Copper	325.85	322.50	-1.03%
Sugar	16.79	17.68	5.30%
HFRX Equal Wtd. Strat. Index	1,169.67	1,175.31	0.48%
HFRX Equity Hedge Index	1,111.48	1,117.12	0.51%
HFRX Equity Market Neutral	932.77	933.27	0.05%
HFRX Event Driven	1,510.96	1,524.60	0.90%
HFRX Merger Arbitrage	1,545.52	1,549.35	0.25%
Dow Jones UBS Commodity Index	130.77	129.32	-1.11%
FTSE/NAREIT All REIT	151.68	156.87	3.42%

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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