MainStreet Advisors
Financial Market Update

September 27, 2013

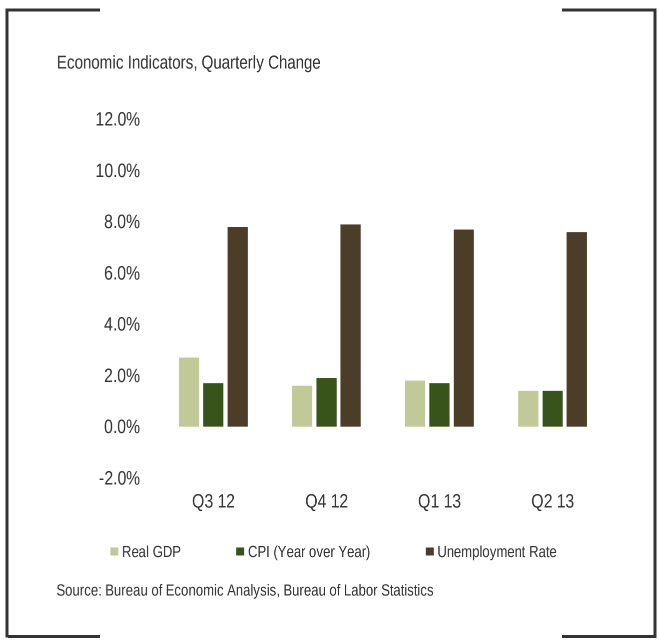
Economic Update

Consumer confidence declined 2.1 points to 79.7 in September as a decrease in the expectations component pulled the number down. In contrast, the present situation component was up 2.3 to 73.2, revealing some strength underneath the headline. The growing contentiousness of the debt ceiling debate is a headwind, but gas price declines are supportive of consumer confidence. Meanwhile Europe is seeing stronger confidence surveys in Germany and France, and Italian confidence hit a two-year high.

Initial unemployment claims data has stabilized and there are no special factors clouding the report for the week ended September 21. Claims fell 5,000 to 305,000 sending a clear message that layoffs are definitely down and the rate of that decline has accelerated. The four-week average continued to breakout to the downside hitting a new recovery low of 308,000 – more than 20,000 less than a month ago. This should provide additional support to consumer confidence in the near term.

New home sales jumped 7.9% in August to 421,000 but still came up a little short of expectations. The rise was largely attributable to a decline in mortgage rates, which have fallen 38 basis points from their recent highs. New homes have been coming to market with inventory up 6,000, but supply still fell to 5 months from 5.2 due to the increase in the rate of sales. Home price appreciation is slowing according to the Case-Shiller 20-city index which rose 0.6% in July, compared with 0.9% in June and 1.7 and 1.9% the two months before that. Pending sales for existing homes fell 1.6% in August pointing to slower demand, but lower mortgage rates should help to extend the housing recovery.

The new governor of the Reserve Bank of India, Raghuram Rajan, provided an encore to last week's rate hike by announcing this week that the Bank's primary inflation gauge will change from the Wholesale Price Index (WPI) to the Consumer Price Index (CPI). This is an important change because policy rates are currently 7.5% which indicates real interest rates are positive relative to WPI (currently 6.1%) but negative relative to CPI (10.8%). This suggests further rate increases are likely out of India.



Sep 24th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-1.0%
Sep 24th	S&P/Case-Shiller 20-city Index, July Monthly Chg.	1.8%
Sep 24th	Consumer Confidence Index, September	79.7
Sep 24th	State Street Investor Confidence Index, September	101.4
Sep 25th	MBA Purchase Applications Index, Wkly. Chg.	5.5%
Sep 25th	Durable Goods New Orders, Aug. Monthly Chg.	0.1%
Sep 25th	New Home Sales, August	421,000
Sep 25th	EIA Petroleum Status Report, Wkly. Chg.	2.6M Barrels
Sep 26th	Real GDP, Q2 Quarterly Change SAAR	2.5%
Sep 26th	GDP Price Index, Q2 Quarterly Change SAAR	0.6%
Sep 26th	Initial Jobless Claims (week ending 9/21)	305,000
Sep 26th	Pending Home Sales, Aug. Monthly Chg.	-1.6%
Sep 27th	Personal Income, August Monthly Chg.	0.4%
Sep 27th	Consumer Spending, August Monthly Chg.	0.3%
Sep 27th	Core PCE Price Index, August Monthly Chg.	0.2%
Sep 27th	Consumer Sentiment Index, September	77.5

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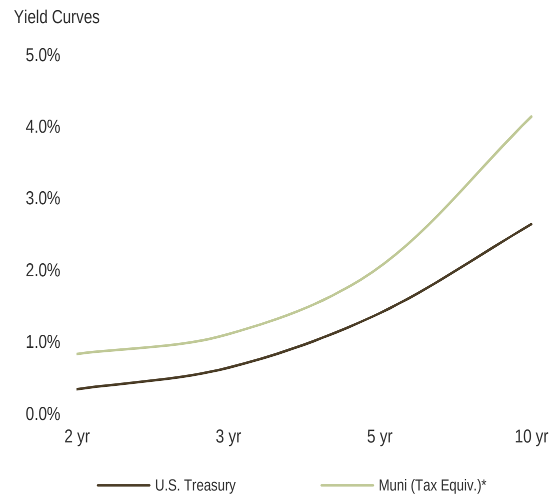
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

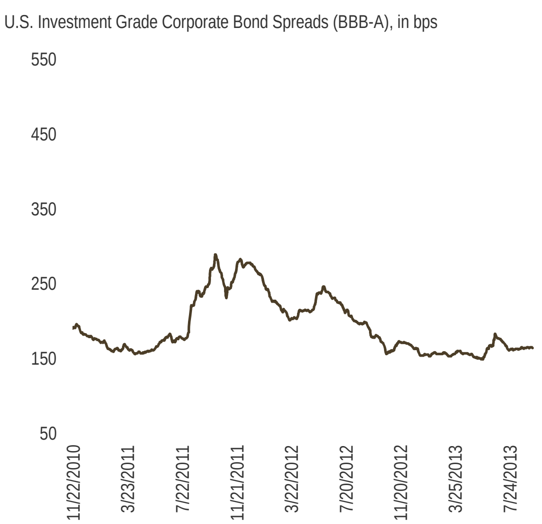
For the third straight week, U.S. Treasuries finished higher as demand for safe haven assets increased amid speculation a political standoff over the U.S. budget will lead to a government shutdown. In a sign investors remain cautious about the current market environment, the yield on the 10-year Treasury note has dropped close to 0.40% from the 3.01% level reached on September 6. Looking ahead, many strategists feel demand for Treasuries will likely remain robust until Congress resolves to raise the debt ceiling, ending concerns of any risk of a government default. Meanwhile, municipal bond market volatility remains high as rating agencies have started to revise their evaluation methodologies again. Three years ago Moody's and Fitch Ratings "recalibrated" tens of thousands of municipal bond ratings, arguing a uniform rating scale based on the probability of default would more directly map to other asset classes, specifically corporate bonds. Standard & Poor's, while not formally recalibrating its ratings scale, also implemented several rating criteria methodology changes. Recently, it appears the ratings agencies are once again refining their rating methodologies, now with increasing occurrences of downgrades. In general, there have been no fundamental changes in the risk profile of the affected bonds, but rather a revision in the rating agencies approach to assessing credit strength. Unfortunately, investors may perceive these downgrades as a new trend of overall weakness in municipal bond fundamentals. Although this has the potential to continue to contribute to lower valuations and reduced liquidity in the short-term, we are optimistic municipal bonds can recover from currently oversold conditions.



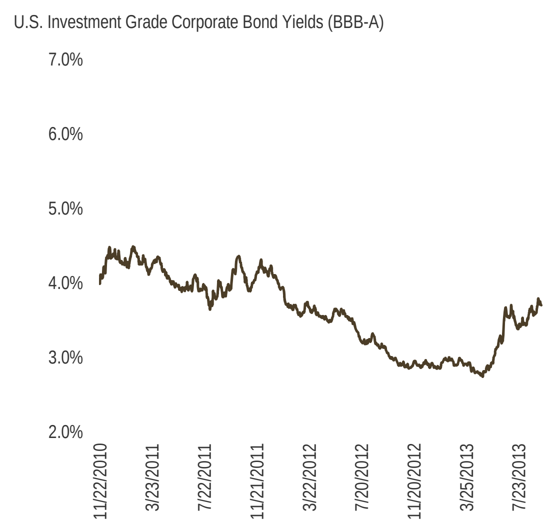
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	9.20.13	9.27.13	Change
3 month T-Bill	0.01%	0.02%	0.01%
2-Year Treasury	0.34%	0.34%	0.00%
5-Year Treasury	1.50%	1.40%	-0.10%
10-Year Treasury	2.75%	2.64%	-0.11%
30-Year Treasury	3.77%	3.68%	-0.09%

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



Source: Merrill Lynch



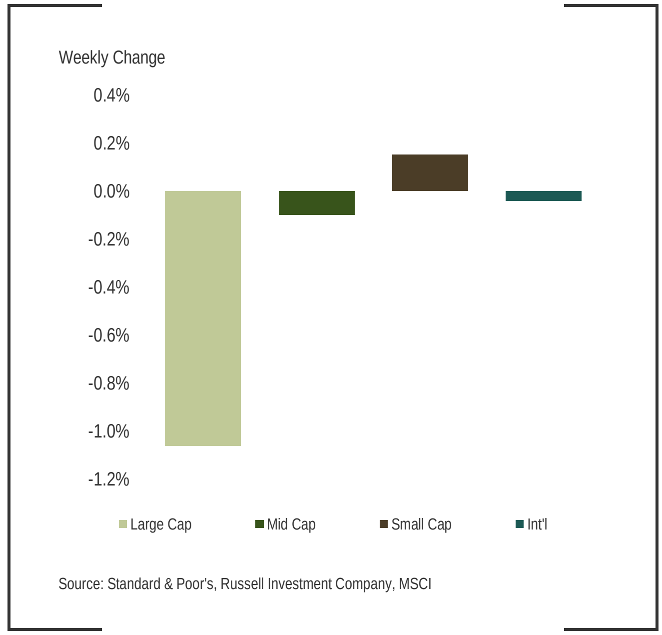
Source: Merrill Lynch

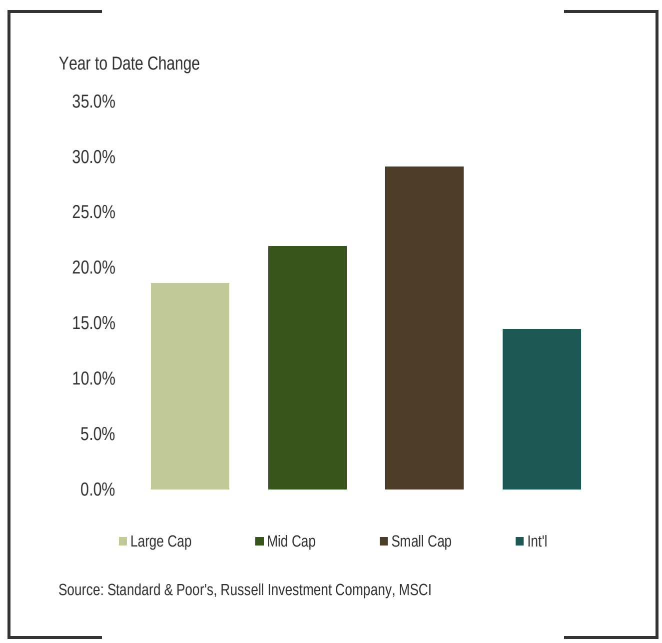
Stock Market Update

Equity markets closed out the last week of the month and the third quarter on a down note after three strong weeks as investors digested mixed economic data and worried about a possible government shutdown next week. For the week, the Dow Jones Industrial Average declined 1.1%, closing at 15258.24. The broader S&P 500 Index ended 1.1% lower at 1691.75. The NASDAQ Composite Index rose slightly, 0.2%, for the week to finish at 3781.59. For the month of September, the indices were up 3.0%, 3.6% and 5.3% respectively. There was a fairly large dispersion between index price performance in the third quarter as the NASDAQ finished 11.1% higher, the S&P 500 closed up 5% and the Dow increased only 2.4% since June 30.

European stocks were down to start the week after weekend elections in Germany showed Chancellor Angela Merkel will likely struggle to form a coalition government. On a positive note, the euro-zone “flash” composite PMI reached a 27-month high of 52.1, slightly ahead of expectations. The European Stoxx Index declined 0.7% for the week, but was up 4.7% in September and over 9% for the third quarter of 2013. Investors took profits in Chinese stocks after a strong rally. The Shanghai Composite Index decline 1.5% this week, despite a report on Monday showing China’s manufacturing activity jumped to a six-month high in September, beating expectations. New export orders were positive while output and overall orders grew at a faster rate than the prior month. The index closed up 4.8% in September. Since the end of the second quarter, Chinese stocks increased 10.7%. In Japan, the Nikkei index was flat for the week, up 10% in September, and 7.8% for the third quarter.

JC Penney stock fell near a 13-year low due to concerns about the company’s liquidity position heading into the holiday season. New Dow Jones Index member Nike reported its first fiscal quarter of 2014 results and the stock jumped over 5% on the news. Despite a 1% decline in sales in China, the company announced an 8% increase in worldwide revenues along with higher gross margins.





Issue	9.20.13	9.27.13	Change
Dow Jones	15,451.09	15,258.24	-1.25%
S&P 500	1,709.92	1,691.75	-1.06%
NASDAQ	3,774.73	3,781.59	0.18%
Russell 1000 Growth	794.85	789.63	-0.66%
S&P MidCap 400	1245.42	1,244.18	-0.10%
Russell 2000	1072.55	1,074.18	0.15%
MSCI EAFE	1,836.59	1,835.85	-0.04%
MSCI Small Cap	194.95	195.94	0.51%

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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 reached a one-week high on Friday, moving the precious metal out of negative territory for the week as uncertainty over the U.S. budget and jitters on the outlook for Federal Reserve policy fueled buying interest. The metal managed to post modest gains this week as many weighed the possibility of politicians continuing to "kick the can down the road" and not address the fundamental fiscal challenges facing the U.S. Gold surged to record highs, over $1,900 an ounce, after the last debt-ceiling fiasco in 2011.

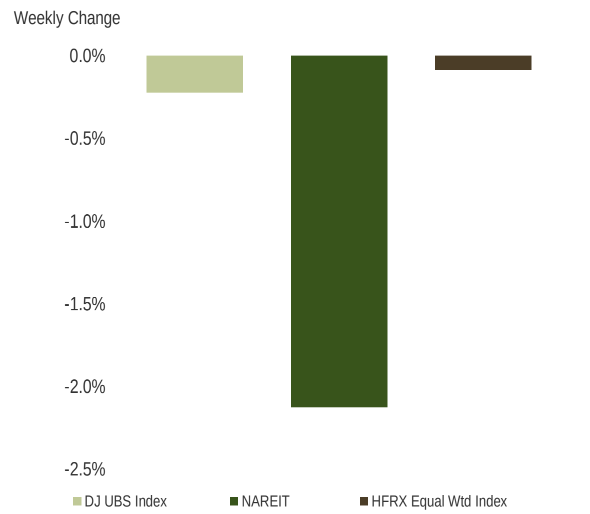
Soybeans rose this week, heading for a quarterly gain, after surging U.S. export sales signaled steady demand from China, the world's biggest importer and consumer. Net export sales of soybeans more than tripled to 2.82 million metric tons in the week through September 19 from a week earlier, the U.S. Department of Agriculture reported this week. Wheat also managed to post gains this week, while corn was little changed.

Crude oil slightly declined this week as traders weighed the looming U.S. budget deadline and its potential to weaken the dollar, which could lead to higher prices for dollar-denominated crude. Also contributing to oil's price were reports that the United Nations is investigating more chemical attacks in Syria. Oil prices had been falling in recent days as tensions over Syria eased and the U.S. and Russia agreed on a U.N. chemical arms draft resolution. The oil market followed developments in the Middle East and North Africa closely for possible disruptions to oil supply and transport in the region. Also announced this week, the Organization of Petroleum Exporting Countries (OPEC) would increase crude shipments by 1% next month as they seek to maximize flows before refineries are shut down for maintenance. OPEC, which supplies nearly 40% of the world's oil, will raise exports by 230,000 barrels a day to 23.9 million a day.

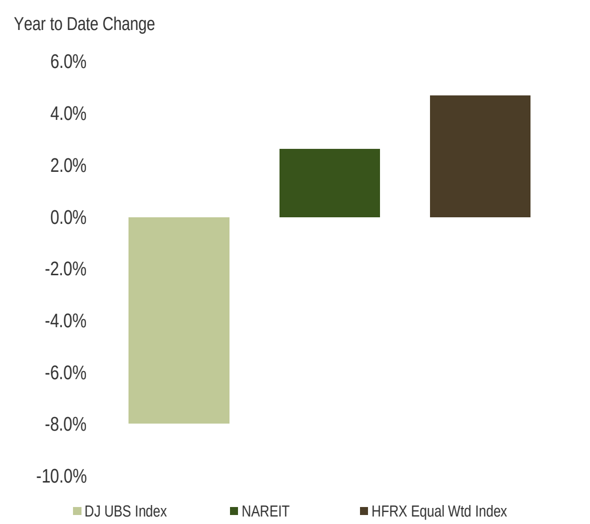
Natural gas futures rebounded from a five-week low earlier this week as traders closed out positions in expiring October contracts. Natural gas for electric power generation in the U.S. has slipped 14% during the first seven months of this year, compared with the same period last year, according to the Energy Information Administration (EIA).

Issue	Previous Week	Current[1]	Change
Gold	1,332.76	1,337.36	0.35%
Crude Oil Futures	104.67	102.72	-1.86%
Copper	330.50	331.90	0.42%
Sugar	17.74	17.74	0.00%
HFRX Equal Wtd. Strat. Index	1,177.80	1,176.79	-0.09%
HFRX Equity Hedge Index	1,124.59	1,120.03	-0.41%
HFRX Equity Market Neutral	933.63	934.44	0.09%
HFRX Event Driven	1,533.46	1,535.03	0.10%
HFRX Merger Arbitrage	1,552.16	1,551.76	-0.03%
Dow Jones UBS Commodity Index	128.29	128.01	-0.22%
FTSE/NAREIT All REIT	163.52	160.04	-2.13%

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



Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research

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