

MainStreet Advisors Financial Market Update

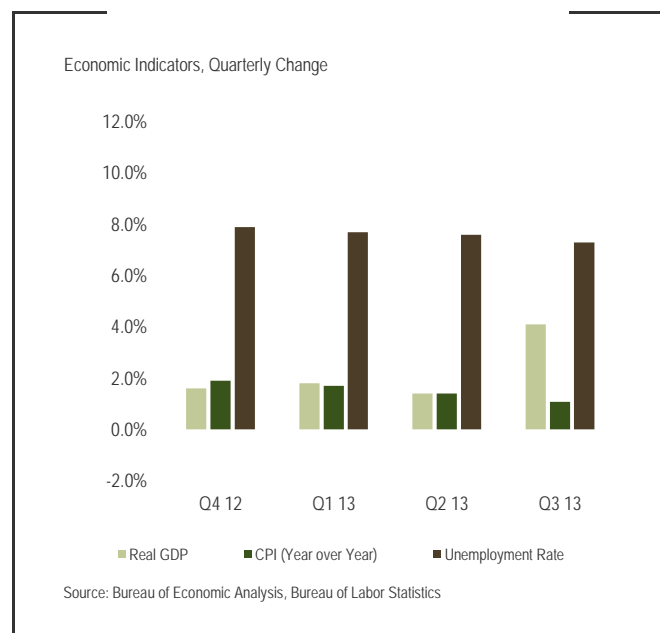
December 27, 2013
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Economic Update

New orders for durable goods surged 3.5% in November, easily outpacing the consensus estimate of 2.0%. Contrary to the last month, the transportation sector was the largest contributor, accompanied by industrial machinery. Excluding transportation, new orders were still strong at 1.2% relative to 0.7% consensus. The prior month was also revised up, bringing the annual gain to a respectable 10.9%. In addition, the report showed that unfilled orders rose to a new record high, up 1% in November and 7.8% for the past year. This trend is a good sign for the economy, given strong historical correlations between durable goods orders and employment/GDP data. Correspondingly, both the Richmond regional and Chicago Fed national manufacturing indexes showed healthy manufacturing activity in November.

Following a 0.1% decline in October, personal income gained 0.2% in November. The rebound was largely driven by increases in wages/salaries (+0.4%) and personal dividend income (+0.7%) while proprietors' income slipped for the second month in a row (-0.4%). At the same time, personal consumption expenditure (PCE) data showed that spending increased in November (+0.5%). Equally important, the PCE was revised up in October and September, indicating that the government shutdown scare had little impact on consumers' spending practices. Year-over-year personal income and spending are up 2.3% and 3.5% respectively. Meanwhile, an improving employment picture should bode well for both income and spending growth. Inflation, as measured by the PCE price index, was nonexistent in November, while core inflation (excluding food and energy) rose 0.1%. Inflation generally remains contained as both headline (+0.9%) and core (+1.1%) readings stayed below the Fed's 2% target in the past year.

The University of Michigan Consumer Sentiment Index for December was reported at 82.5 compared to 75.1 in the previous month. Improving economic outlook is the major driver behind the positive sentiment reading. On the housing front, new home sales declined 2.1% in November due to weakness in the Midwest and South regions; however, new sales are up 16.6% from a year ago. The monthly median sales price increased 4.5% (10.6% year-over-year), partially due to low inventory. The pace of price increases will likely slow in the future as the builders add more supply.



Dec 20th	Real GDP, Q4 Quarterly Change SAAR*	4.1%
Dec 23rd	Personal Income, Monthly Chg.	0.2%
Dec 23rd	Consumer Sentiment Index, December	82.5
Dec 24th	ICSC-Goldman Same Store Sales, Wkly. Chg.	1.4%
Dec 24th	Durable Goods New Orders, Dec. Monthly Chg.	3.5%
Dec 24th	New Home Sales, December	464,000
Dec 26th	Initial Jobless Claims (Week ending 12/21)	338,000
Dec 27th	EIA Natural Gas Report, Wkly. Chg.	-177bcf
Dec 27th	EIA Petroleum Status Report, Wkly. Chg.	-0.6 M

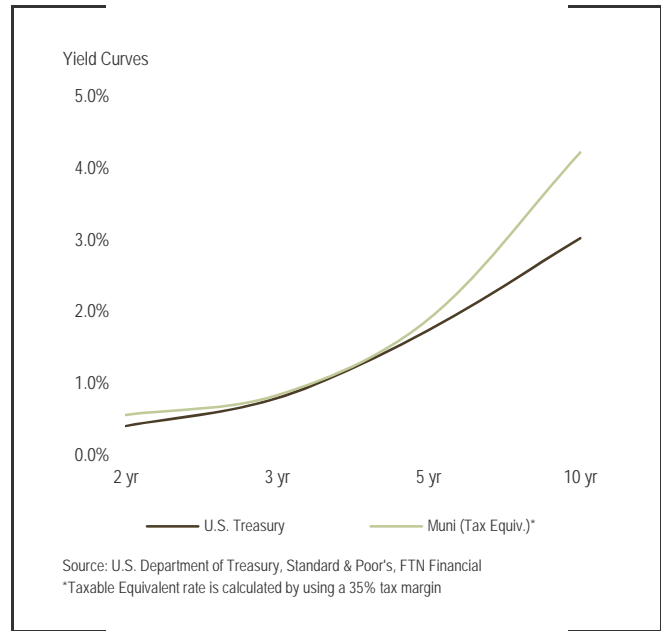
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Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the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

Bond Market Update

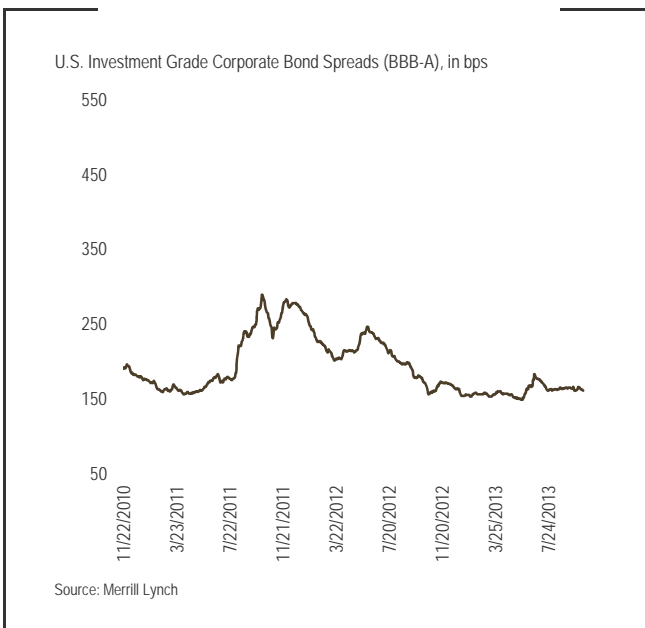
Treasuries softened through the week as continued positive economic data fueled investor conviction that the Federal Reserve will remain comfortable allowing long-term bond rates to normalize. Treasuries from the 2-year and longer range all eased higher with the 10-year rates topping a new 2-year high with yields holding over 3%. Market consensus seems to suggest that economic data out of the U.S. could support 10-year yields in the 3.25% - 3.50% range over the next quarter with rates moving higher later in 2014. While a realistic possibility, some analysts have indicated a sustained move of the 10-year into the 3.25% - 3.50% range could begin drawing European and Japanese sovereign bond investors from their relatively paltry yields and provide support for the U.S. Treasury prices.

While the Treasury markets struggled, corporate bonds continued to provide relative outperformance. Spreads between investment grade bonds and Treasuries have seen a reversal since the summer when Treasury yields first began their ascent on Fed tapering fears. At that time, spreads expanded as Treasury yields rose; recent market action has seen spreads narrow to their tightest range in two years. Spread compression has not been limited to investment grade corporate bonds either, as high yield bonds have seen option-adjusted spreads narrow to their tightest range since 2007.



Issue	12.20.13	12.27.13	Change
3 month T-Bill	0.07%	0.07%	0.00%
2-Year Treasury	0.37%	0.40%	0.03%
5-Year Treasury	1.66%	1.74%	0.08%
10-Year Treasury	2.89%	3.02%	0.13%
30-Year Treasury	3.82%	3.94%	0.12%

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

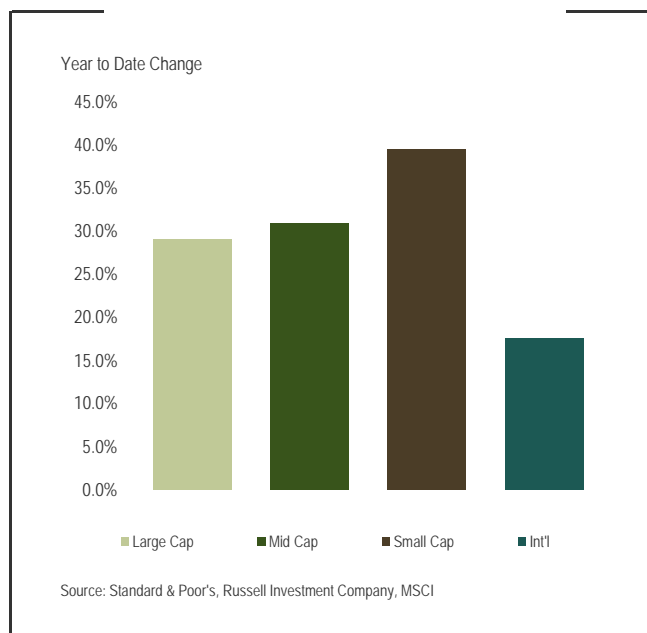
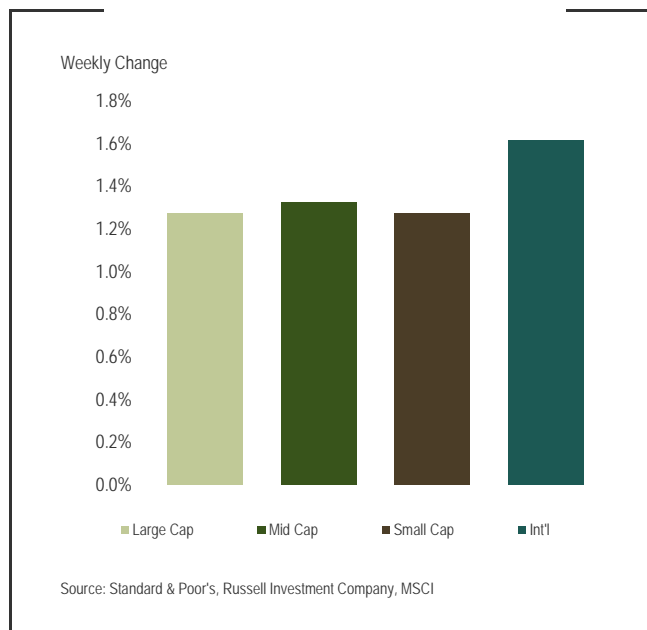


Stock Market Update

Domestic markets closed out the holiday-shortened week in positive territory. Better-than-expected new home sales, weekly jobless claims, and durable goods data, as well as strong consumer sentiment and consumer spending reports, helped lift markets throughout the week. Durable goods orders for big-ticket U.S. items, such as aircraft and transportation equipment, rose 3.5% last month, ahead of expectations of only 2%. The Dow Jones Industrial Average has recorded new highs 50 times this year out of 249 trading sessions. The index was up 1.6% this week, closing Friday at 16478.41. The broader S&P 500 Index increased 1.3% to end the week at 1841.40. The NASDAQ Composite Index reached its highest level since 2002 on Thursday, rising 1.3% for the four-day trading session, to finish at 4156.59.

International stocks were also positive for the week with many markets in Europe closed two days for the Christmas holiday. The European STOXX 600 Index increased 1.9% from last Friday's close. In Asia, the Nikkei Index increased 1.9%, extending its six-year high, above the psychologically important 16,000 mark Thursday as a weaker yen attracted foreign investors. Prime Minister Shinzo Abe also calmed investors' fears over his stimulus measures, saying he would announce a new reform agenda in June. The Shanghai Composite bounced back after declining last week, finishing up 0.8% after a 1.4% rally today. A decline in the benchmark rate Chinese banks charge each other provided relief to investors looking for liquidity as companies and banks are trying to shore up their balance sheets for year-end reports.

Tech stocks were especially volatile this week. Twitter's (TWTR) trading volume on Thursday more than tripled as investors pushed the company's stock to new highs, nearly tripling the stock's price from the initial public offering last month and up 15% for the week through Thursday's close. Twitter shares fell 13% on Friday after an analyst downgraded his rating on the stock to "sell." Apple (AAPL) jumped nearly 4% on Monday after the company announced that China Mobile, the world's largest mobile phone company with 700 million subscribers, would finally begin carrying iPhones on January 14th.



Issue	12.20.13	12.27.13	Change
Dow Jones	16,221.14	16,478.41	1.59%
S&P 500	1,818.32	1,841.40	1.27%
NASDAQ	4,104.74	4,156.59	1.26%
Russell 1000 Growth	848.93	859.23	1.21%
S&P MidCap 400	1318.85	1,336.30	1.32%
Russell 2000	1146.47	1,161.08	1.27%
MSCI EAFE	1,855.14	1,885.14	1.62%
MSCI Small Cap	198.92	202.12	1.61%

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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

Spot gold prices were higher on Friday morning in thin trading and heading for a modest gain for the week. It's been a difficult year for investors in Gold as the precious metal is approaching its biggest annual loss in almost three decades due to strong equity markets and an improving economic environment. Gold is set to lose approximately 30% this year and is 37% lower than its record close above \$1900 set in 2011. Silver prices are also higher for the week, but have followed Gold lower over the past year and staged for a 36% drop in 2013 with two trading days left. Energy Information Administration (EIA) data for last week showed oil production across the country reached 8.11 million barrels a day, the highest level since September 1988. Brent crude prices were approaching \$113/barrel on Friday while U.S. crude prices rose over a \$100/barrel for the first time in two months. Despite oil production at a 25-year high in the U.S., refineries in the Gulf Coast reduce inventories this time of year providing support for prices. With an improving economy, stronger demand is also providing support to energy and fuel prices. Further support for oil for the week is due to unrest in Sudan and Libya disrupting supplies, but both are modest contributors to global oil output. Natural Gas futures were also set to finish the week lower, snapping a seven-week rally, as an expected drop in inventories matched analysts' expectations.

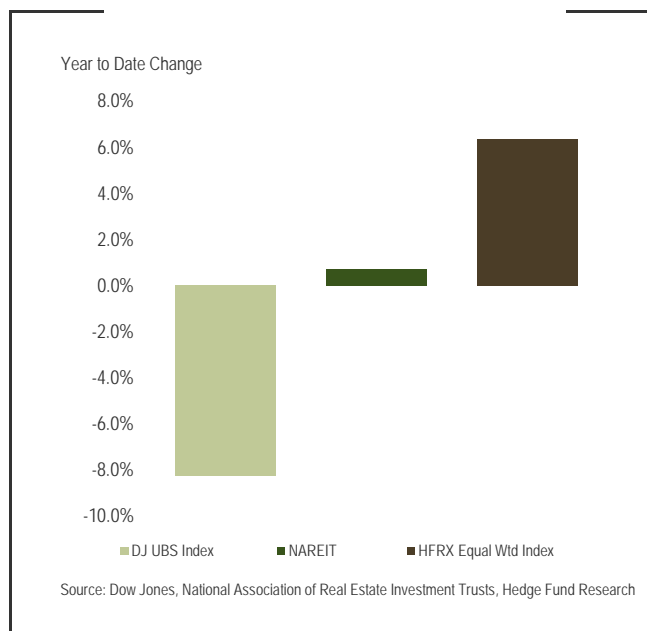
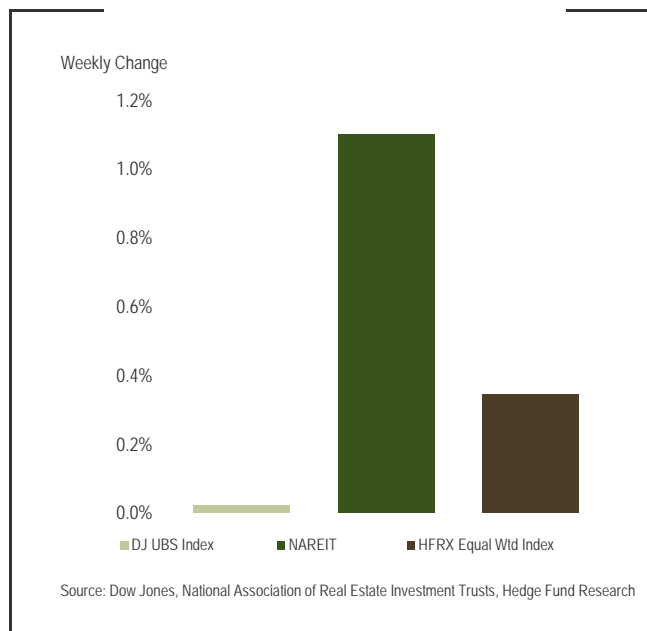
Real Estate Investment Trusts as measured by the Vanguard REIT Index ETF (VNQ) is set to finish the year with a modest gain of 2% with two trading days left. REITs have been under pressure all year as the prospects of higher interest rates have weighed on their performance. Despite continued attractive underlying fundamentals, investors have been paring holdings of interest rate sensitive securities. For the week, REITs were modestly up despite the ten-year Treasury yield approaching 3.0%. There were also a number of deals announced in the REIT market this week, including the multifamily REIT Essex Property Trust, Inc. (NYSE: ESS) acquiring its former competitor BRE Properties (NYSE: BRE), in a merger valued at approximately \$4.3 billion. The transaction will create a combined company with a total market capitalization of approximately \$15.4 billion.

Issue	Previous Week	Current ¹	Change
Gold	1,201.66	1,214.63	1.08%
Crude Oil Futures	99.14	100.15	1.02%
Copper	330.40	338.40	2.42%
Sugar	16.45	16.43	-0.12%
HFRX Equal Wtd. Strat. Index	1,191.70	1,195.79	0.34%
HFRX Equity Hedge Index	1,153.54	1,158.58	0.44%
HFRX Equity Market Neutral	957.14	955.75	-0.15%
HFRX Event Driven	1,565.77	1,572.52	0.43%
HFRX Merger Arbitrage	1,565.00	1,567.36	0.15%
Dow Jones UBS Commodity Index	127.58	127.61	0.02%
FTSE/NAREIT All REIT	155.33	157.04	1.10%

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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