MainStreet Advisors Financial Market Update

January 17, 2014

Economic Update

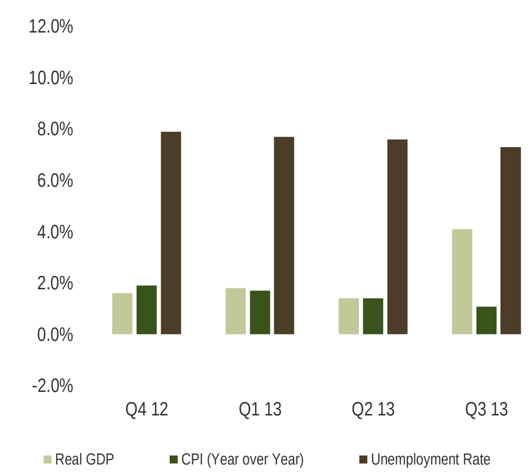
Retails sales were positive in December, suggesting a stronger presence of a healthier consumer than the previous jobs report would suggest. Retail sales bumped up 0.2% versus a consensus of no change after a 0.4% upward move in November. The number would have been significantly higher if not for motor vehicles, including parts, dropping 1.8%, erasing all gains in this sector from November. December retail sales actually climbed 0.7% when taking autos out of the equation.

Inflation remained low in December with the exception of energy prices. Headline CPI in December climbed 0.3% while the core figure was up just 0.1%. The energy sector jumped 2.1%, but most other components gained modestly or fell slightly. Inflation remains low in general, with the December year-over-year number coming in at 1.5%, still significantly below the Fed's target of 2%.

Housing starts fell in December by 9.8% after a major jump of 23.1% in November, but still gained 1.6% on a year-over-year basis. Overall housing permits dropped by 3.0%, suggesting a small rut in the growth of the housing sector, but much of this drop can be attributed to intensely cold temperatures and precipitation across the northern U.S. in December that halted some business activities. Construction activity is still positive in the housing sector but the slowdown in permits could indicate deceleration.

Manufacturing in the U.S. is still strong as the December industrial production number came in up 0.3% during the month after a 1.1% rise in November, with the manufacturing component increasing 0.4%. This marks the fifth consecutive monthly manufacturing increase; industrial production in total marked a 3.7% increase from a year ago. This figure should contribute to a healthy fourth quarter GDP, all other factors aside, and while employment numbers have seen recent weakness it seems the manufacturing sector is continuing to improve.

Economic Indicators, Quarterly Change



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

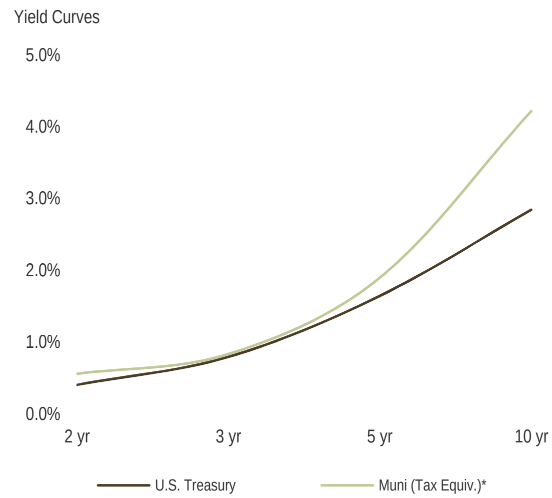
Dec 23rd	Personal Income, Monthly Chg.	0.2%
Dec 23rd	Consumer Sentiment Index, December	82.5
Dec 24th	ICSC-Goldman Same Store Sales, Wkly. Chg.	1.4%
Dec 24th	Durable Goods New Orders, Dec. Monthly Chg.	3.5%
Dec 24th	New Home Sales, December	464,000
Dec 27th	EIA Natural Gas Report, Wkly. Chg.	-177 bcf
Dec 27th	EIA Petroleum Status Report, Wkly. Chg.	-0.6 M
Dec 30th	Pending Home Sales, Nov. Monthly Chg.	-0.6%
Jan 2nd	Construction Spending, Nov. Monthly Chg.	-0.3%
Jan 14th	Retail Sales, Dec. Monthly Chg.	0.20%
Jan 15th	Producer Price Index, December Monthly Chg.	-1.9%
Jan 17th	Initial Jobless Claims (Week ending 1/11)	326,000
Jan 16th	Housing Starts, December	999,000

SEE IMPORTANT DISCLOSURES ON BACK PAGE.

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

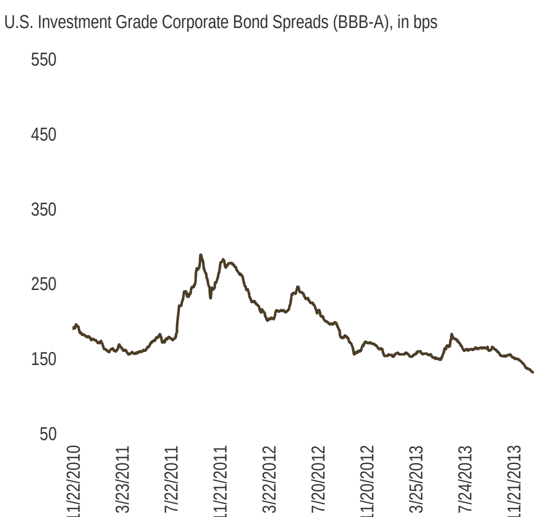
After gains earlier in the week, U.S. Treasuries finished the week modestly lower after a series of better-than-expected economic reports suggested strength in the ongoing economic recovery. In the short run, the Fed's stimulus tapering plan remains the main driver in the bond markets. Many strategists expect the central bank to announce $10 billion in reductions at each of its policy meetings, with the program ending toward the end of this year. Meanwhile, the long-term sell off in the muni market had a reprieve, as investors put a net $103 million into mutual funds in this sector for the week, breaking an almost eight-month redemption streak. Redemptions surged in 2013 as market participants first reacted to rising interest rates, and later to credit worries caused by a combination of the Detroit bankruptcy, concerns over Chicago's unfunded pension liabilities, and a weakening financial picture in Puerto Rico. However, expectations for the muni market have improved, as new issuance is forecast to remain subdued and higher tax rates are likely to attract investors back into this asset class. A tax increase of 3.8% to fund Medicare for high-income earners along with a cutback in deductions are likely to influence investor's decisions when considering after-tax returns. We continue to recommend munis with an emphasis on a defensive structure in the form of above-market coupons. Our focus maturity range for yield curve positioning remains five to seven years, preferring "A" rated GO and essential service revenue bonds.



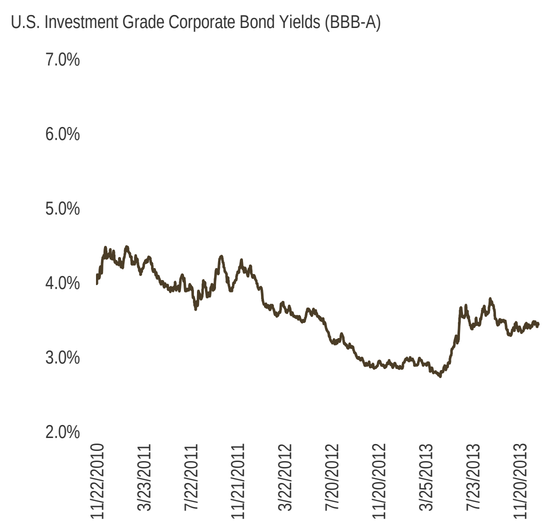
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	1.10.14	1.17.14	Change
3 month T-Bill	0.05%	0.05%	0.00%
2-Year Treasury	0.39%	0.40%	0.01%
5-Year Treasury	1.64%	1.64%	0.00%
10-Year Treasury	2.88%	2.84%	-0.04%
30-Year Treasury	3.80%	3.75%	-0.05%

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



Source: Merrill Lynch



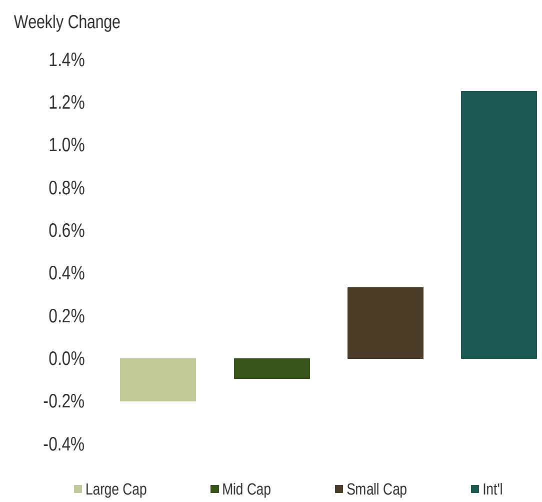
Source: Merrill Lynch

Stock Market Update

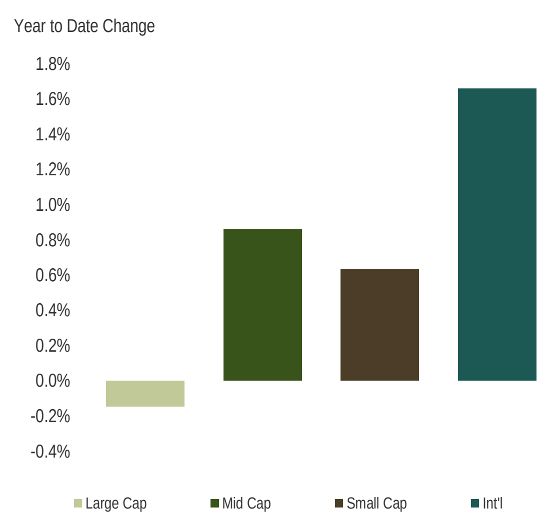
Mixed economic data and corporate earnings reports led to stock market volatility this week. The Dow Jones Industrial Average Index fell 179 points on Monday only to rebound back 111 points on Tuesday. For the week, the Dow was up 21 points, or 0.1%, closing Friday at 16,458.56.The broader S&P 500 Index declined 4 points, or 0.2% to end the week at 1,838.70, after reaching a record close level of 1848.38 on Wednesday. The NASDAQ Composite Index had the strongest performance rising 0.5% for the week, to finish at 4,197.58.

International stocks were mixed with strength in Europe and weakness in Asia. European stocks as measured by the STOXX 600 Index closed higher for the fifth straight day on Friday, reaching its highest closing level since January 2008. Retail sales in the UK jumped 2.6% in December, the biggest month-to- month rise since February 2010. Stocks in Asia were volatile this week. The Nikkei Index in Japan fell 3% on Tuesday after a three-day weekend as investors reacted negatively to the US jobs report and the yen's strength weighed on export-oriented stocks. The index rebounded later in the week, but was still off 0.9% from last Friday's close. China's Shanghai Composite Index fell 0.4%.

Corporate earnings were in full swing this week with reports out from Wells Fargo, GE, Schwab, Blackrock and Intel. Wells Fargo reported record earnings, despite a steep decline in mortgage origination fees. GE reported results in line with expectations, but the stock fell as industrial orders grew less than last quarter and overall margins were below the company's target. Stock market strength allowed Schwab and Blackrock to report revenues ahead of expectations. Stabilization in the PC market helped Intel's quarter, but management still guided for flat revenue and expenses in 2014.



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



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

Issue	1.10.14	1.17.14	Change
Dow Jones	16,437.05	16,458.56	0.13%
S&P 500	1,842.37	1,838.70	-0.20%
NASDAQ	4,174.66	4,197.58	0.55%
S&P MidCap 400	1349.09	1,347.81	-0.09%
Russell 2000	1164.53	1,168.43	0.33%
MSCI EAFE	1,892.69	1,916.40	1.25%
MSCI EM	963.11	974.65	1.20%

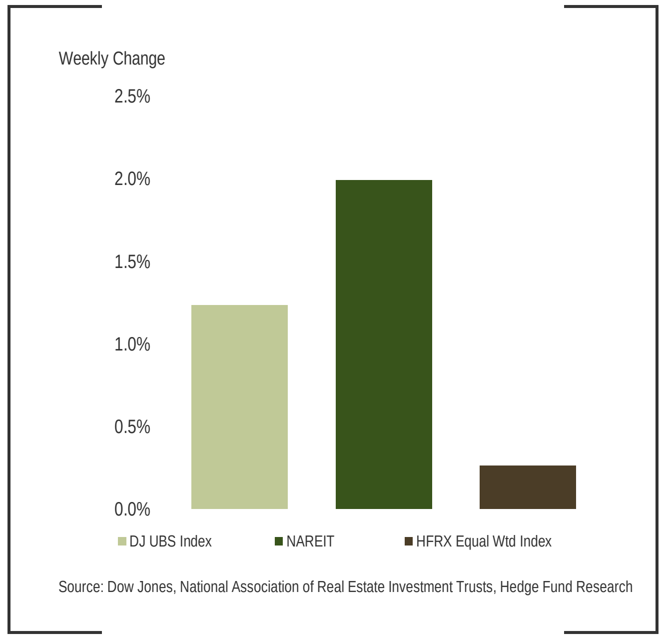
Prices reflect most recent data available at the time of publication
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Wolfe Trahan.

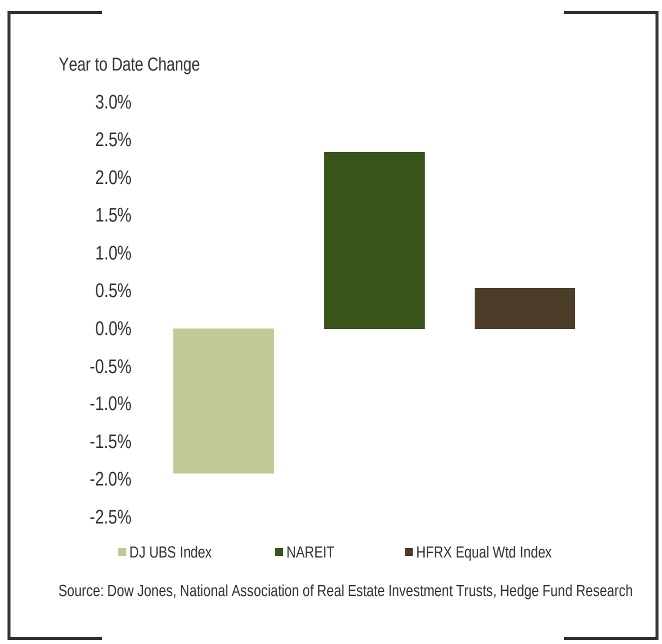
Alternative Investments Market Update

West Texas Intermediate crude reached its highest point in two weeks amid speculation that U.S. unemployment and manufacturing data signaled the world's biggest oil consumer will sustain its economic growth. Also this week, the Organization of the Petroleum Exporting Countries (OPEC) forecasted that global oil demand would increase by 1.05 million barrels per day to 90.91 million barrels per day in 2014 over last year. However, OPEC still expects demand for crude to decline from growing supplies outside of its member countries, mainly from the U.S.

Listed real estate investment trusts (REITs) raised a total of $76.96 billion of equity and debt last year, an amount that surpassed 2012's prior record of $73.33 billion, according to the NAREIT. The 2013 number included $46.22 billion of equity and $30.74 billion of debt. NAREIT reports that a total of $5.71 billion was raised in 19 initial public offerings (IPOs) during the year, the most since 2004, when $8.27 billion was raised in 29 IPOs. The overall size of the listed REIT industry also grew in 2013. The industry's market capitalization increased to $670 billion at the end of the year, up from $603 billion in 2012, and the number of companies in the FTSE NAREIT All REITs Index grew to 203, up from 172 companies at the end of 2012. The industry also continued to maintain a moderate level of leverage, with the debt ratio of the FTSE NAREIT All REITs Index at the end of the 2013 at 49.2%, approximately flat relative to its 48.8% level at the end of 2012.

Hedge funds suffered their biggest net outflows last month since the height of the financial crisis, as the SS&C GlobeOp Capital Movement Index fell 3.56% in December. The index, which measures net hedge fund subscriptions and redemptions, had its worst reading since September 2009. December's withdrawals all but wiped away last year's net inflows into hedge funds, as the SS&C index rose just 0.16% for 2013. The last month of the year usually sees large outflows within the industry, as investors move to rebalance their portfolios, but this past December's redemptions were much higher than in December 2012, when the index dropped 2.61%. Analysts point to hedge funds' substantial underperformance compared to the broader markets as a reason for increased withdrawals this year.





Issue	Previous Week	Current[1]	Change
Gold	1,246.23	1,253.36	0.57%
Crude Oil Futures	92.78	94.09	1.41%
Copper	334.25	334.30	0.01%
Sugar	15.57	15.22	-2.25%
HFRX Equal Wtd. Strat. Index	1,199.07	1,202.22	0.26%
HFRX Equity Hedge Index	1,168.23	1,171.91	0.32%
HFRX Equity Market Neutral	952.40	956.27	0.41%
HFRX Event Driven	1,583.58	1,589.51	0.37%
HFRX Merger Arbitrage	1,567.75	1,565.78	-0.13%
Dow Jones UBS Commodity Index	123.64	125.16	1.24%
FTSE/NAREIT All REIT	157.58	160.72	1.99%

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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