

MainStreet Advisors Financial Market Update

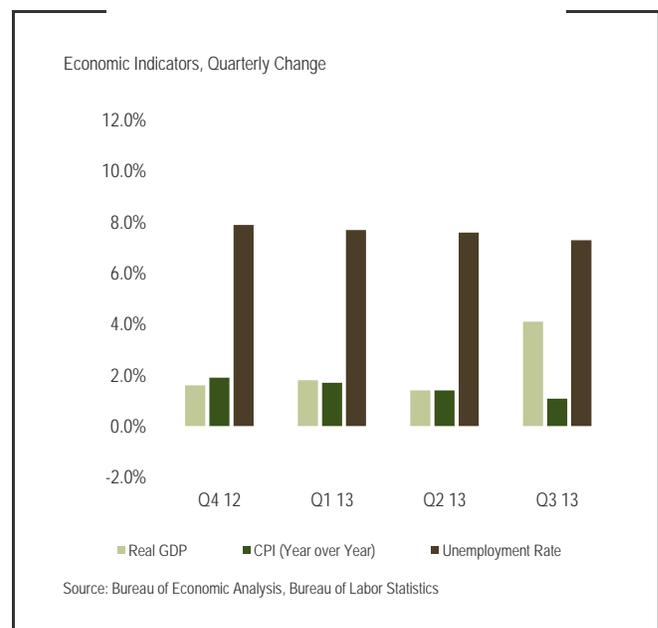
January 24, 2014
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Economic Update

It was a slow holiday week for U.S. economic releases. Existing home sales came back slightly from a weak November report, gaining 1.0% after a 4.3% November dip, settling at a level of 4.87 million homes. Available supply fell sharply to 4.6 months from a reading of 5.1 last month, indicating a significant tightening of supply which could lead to weak sales in the coming quarter.

Winter weather has certainly been a factor for the U.S. housing market in recent months. This can be seen in the Architecture Billings Index, which fell across the northern states in December by over 4.5%. The colder weather so far in January could lead to further weakness in the index, which is still rolling off negative effects from the government shutdown. The Architecture Billings Index is a leading indicator of overall U.S. construction spending, so hopefully this factor will strengthen with warmer weather.

Chinese manufacturing PMI fell in January to a nominal 49.6% and seasonally-adjusted 48.5%. This suggests a coming slowdown in real GDP growth, an idea supported by Premier Li Keqiang. He stated that China could keep unemployment low and maintain order throughout the country with GDP growth levels of 7.2%. Some analysts' forecasts of Chinese GDP have fallen below 7% for 2014. Furthermore, there is a historical correlation between Chinese bank stocks and the manufacturing PMI index, and as bank stock prices run lower this could indicate further downward movement for manufacturing PMI in China.



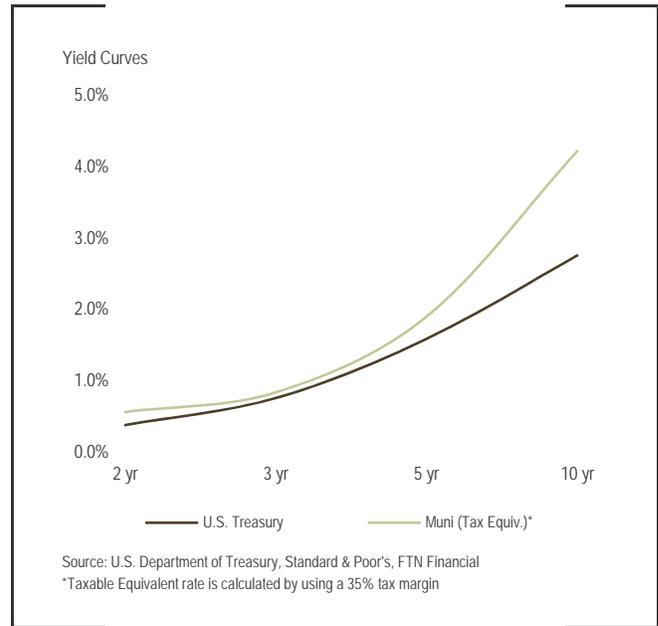
Dec 23rd	Personal Income, Monthly Chg.	0.2%
Dec 23rd	Consumer Sentiment Index, December	82.5
Dec 24th	ICSC-Goldman Same Store Sales, Wkly. Chg.	1.4%
Dec 24th	Durable Goods New Orders, Dec. Monthly Chg.	3.5%
Dec 24th	New Home Sales, December	464,000
Dec 27th	EIA Natural Gas Report, Wkly. Chg.	-177 bcf
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 16th	Housing Starts, December	998,999
Jan 23rd	Initial Jobless Claims (Week ending 1/17)	326,000
Jan 23rd	Existing Home Sales, December SAAR*	4.870 M

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.

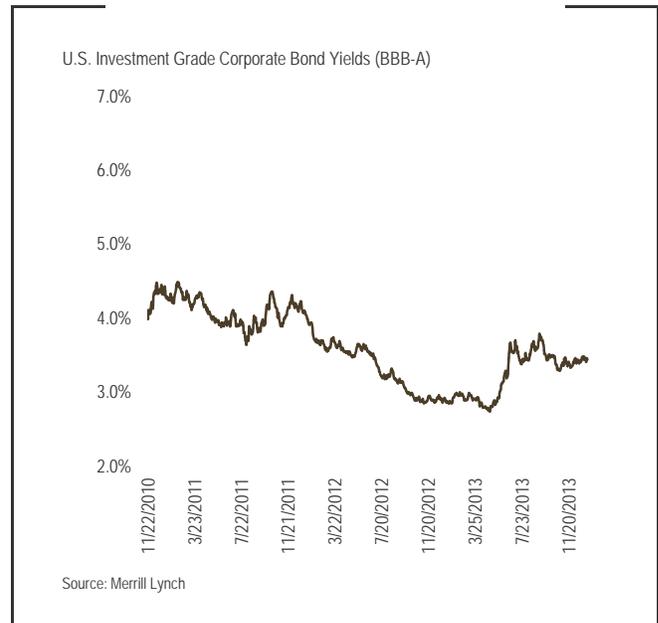
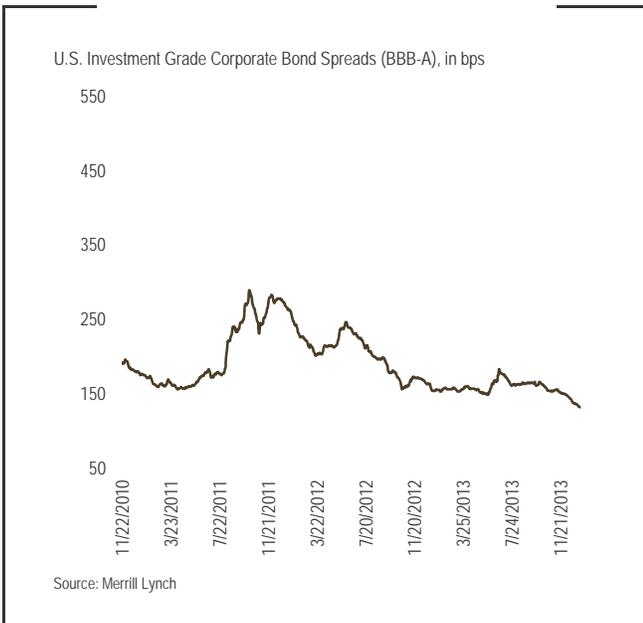
Bond Market Update

For the third straight week, U.S. Treasuries finished higher, pushing the yield on the 10-year note to an eight-week low. The trigger of the recent rally comes from a confluence of negative factors including declines in emerging market securities, growing concerns about the health of China's economy and the country's non-bank financial institutions, and a plunging peso in Argentina. Because many strategists suggested earlier in the year that yields would trend higher, this rally caught many market participants off guard, with concerns now escalating the Fed might delay tapering its quantitative easing program. Meanwhile, some bond investors are losing their aversion to illiquid parts of the corporate junk bond sector, as the extra yield buyers demand to own smaller denominations that trade infrequently dropped to 0.25% from 1.00%. The lower premium for illiquid assets suggests managers are still willing to reach for yield to enhance returns, likely increasing expected volatility in the markets. Because stricter banking regulations accelerated a decision by many bond dealers to reduce or eliminate using their own assets to facilitate trading, illiquid securities become more vulnerable to price swings when market sentiment deteriorates. Against this backdrop, mutual fund managers forced to sell assets to meet withdrawal requests often accept weak bids since many large market-makers, driven out by the Volcker Rule, no longer participate in this arena.



Issue	1.17.14	1.24.14	Change
3 month T-Bill	0.05%	0.04%	-0.01%
2-Year Treasury	0.39%	0.37%	-0.02%
5-Year Treasury	1.64%	1.58%	-0.06%
10-Year Treasury	2.88%	2.75%	-0.13%
30-Year Treasury	3.80%	3.64%	-0.16%

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

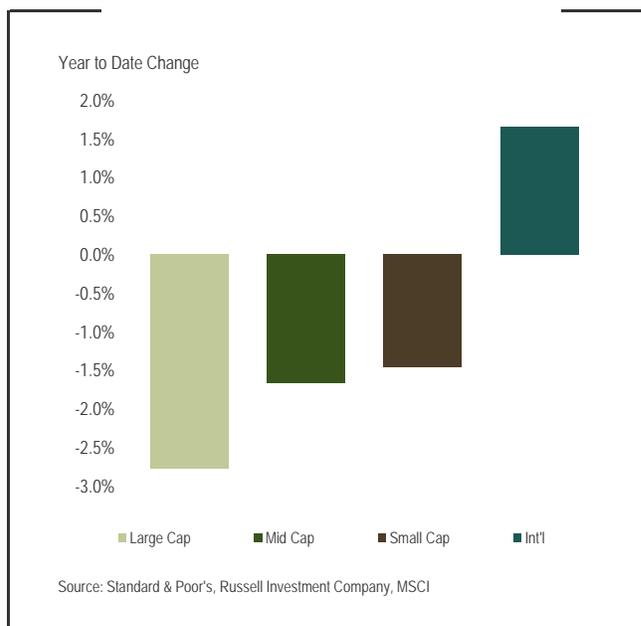
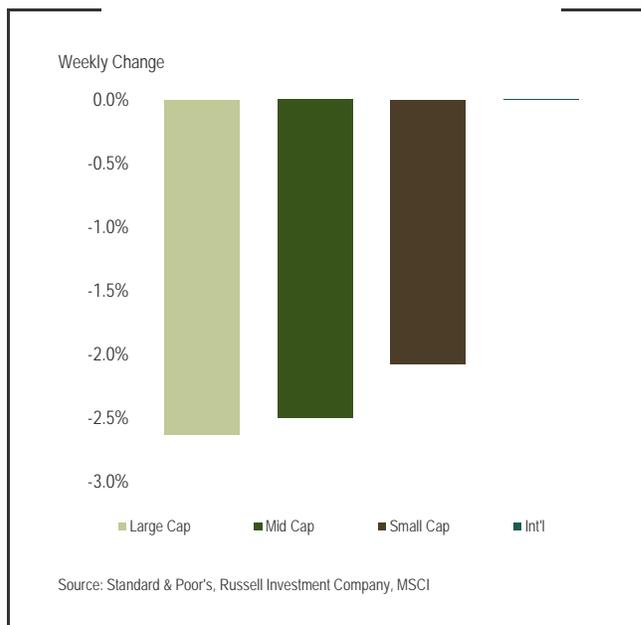


Stock Market Update

Stocks were weak across the board due to concerns about slowing growth in China and financial volatility in Latin America after the Argentinian central bank struggled to stem a decline in its international reserves. The Dow Jones Industrial Average Index experienced two days in a row of triple digit losses, including a 318 point drop on Friday to close at 15,879.11, a five-week low and down 3.5% since last week. The broader S&P 500 Index finished the week 2.6% lower at 1,790.29. The NASDAQ Composite Index declined only 1.6% for the week to 4,128.17. All three indices are now lower year-to-date. The CBOE volatility index increased 18% on Friday.

International stocks were also weak as China economic data disappointed and volatile currencies in Turkey and Argentina spooked investors. After reaching its highest closing level since January 2008 last Thursday, European stocks, as measured by the STOXX 600 index, declined 3% this week, marking its worst weekly performance since June. An index of Chinese manufacturing growth released on Thursday showed that the sector was contracting for the first time in six months. The Nikkei Index in Japan fell 2.2% for the week, while China's Shanghai Composite Index was up 2.5% despite the weak economic data.

According to Zacks Investment Research, total earnings for the S&P 500 are on track to reach a new all-time quarterly record, with easy comparisons allowing for the strongest year-over-year growth of 2013. Through yesterday 102 companies have reported earnings. We believe excluding earnings outliers from Bank of America, Verizon and Travelers Corp, earnings growth reported so far has been near 8.3%. Nearly 66% of companies that have reported have beat earnings expectations. Revenues for these companies are up 3.6% as 55% have surpassed sales. Total earnings growth for the quarter is now expected to come in around 7.6%.



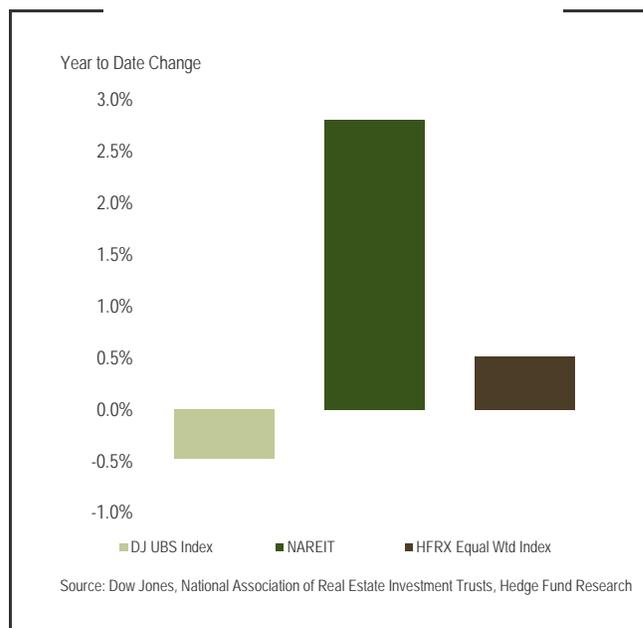
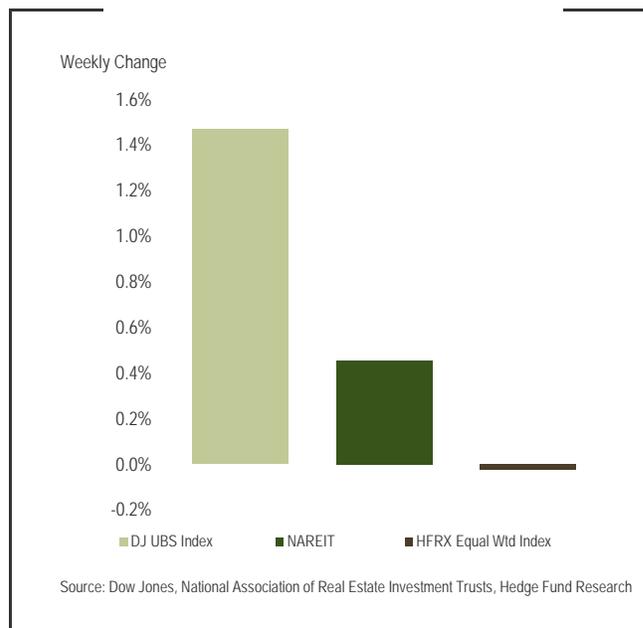
Issue	1.17.14	1.24.14	Change
Dow Jones	16,458.56	15,879.11	-3.52%
S&P 500	1,838.70	1,790.29	-2.63%
NASDAQ	4,197.58	4,128.17	-1.65%
S&P MidCap 400	1,347.81	1,314.07	-2.50%
Russell 2000	1,168.43	1,144.13	-2.08%
MSCI EAFE	1,916.40	1,916.36	0.00%
MSCI EM	974.65	963.98	-1.09%

Alternative Investments Market Update

Gold rose to a two-month high on Friday and posted its fifth consecutive weekly gain as a global flight from emerging-market assets and declines in equities increased bullion's safe-haven appeal. The precious metal rallied more than 2% earlier this week as a drop in the dollar and a call from India's ruling party chief to review import restrictions on gold prompted a flood of short-covering. Despite precious metals funds seeing their first inflows in 19 weeks this week, investors remain cautious of a market that in 2013 took its biggest tumble in more than 30 years. Crude oil traded near three-week highs on Friday as well, with snow storms across the U.S. boosting demand for heating oil, along with upbeat U.S. data adding to signs that the country's economic growth is accelerating. It was also announced this week that after several major crashes involving North American trains transporting crude oil, the National Transportation Safety Board (NTSB) issued recommendations for alternative routing intended to protect the public in the event of future derailments, fires and spills. The NTSB noted that crude oil shipments by rail have increased by more than 400% since 2005. Freight railroads in the U.S. transported nearly 234,000 carloads of crude oil in 2012, up from just 9,500 in 2008 and according to the Association of American Railroads, preliminary data suggests that rail carloads of crude surpassed 400,000 last year.

Capital invested in the global hedge fund industry surged to a record in the final quarter of 2013, finishing a strong year of capital growth as hedge funds posted their best performance in three years. According to Hedge Fund Research (HFR), total capital increased in Q4 2013 by \$120 billion on \$10.5 billion of net inflows to \$2.63 trillion, the sixth consecutive quarterly record, led by a surge in investor interest in Event Driven strategies. For the full year, total hedge fund capital increased by \$376 billion on \$63.7 billion of net inflows, as the HFRI Fund Weighted Composite Index posted gains of 9.2%, the best calendar year performance since 2010. Event Driven funds led capital inflows across all strategies for the first time since 2007, with investors allocating \$29.5 billion in 2013. Event Driven strategies grew by \$140 billion to more than \$698 billion for 2013, surpassing Relative Value Arbitrage as the second largest strategy area of hedge fund capital.

Issue	Previous Week	Current ¹	Change
Gold	1,253.36	1,267.86	1.16%
Crude Oil Futures	94.09	96.92	3.01%
Copper	334.30	326.25	-2.41%
Sugar	15.22	15.11	-0.72%
HFRX Equal Wtd. Strat. Index	1,202.22	1,201.92	-0.02%
HFRX Equity Hedge Index	1,171.91	1,167.98	-0.34%
HFRX Equity Market Neutral	956.27	955.41	-0.09%
HFRX Event Driven	1,589.51	1,589.00	-0.03%
HFRX Merger Arbitrage	1,565.78	1,567.36	0.10%
Dow Jones UBS Commodity Index	125.16	127.00	1.47%
FTSE/NAREIT All REIT	160.72	161.45	0.45%



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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