MainStreet Advisors
Financial Market Update

February 28, 2014
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Economic Update

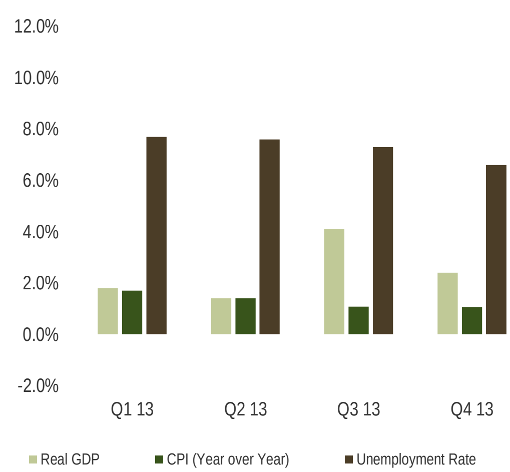
New home sales jumped 9.6% in January to an annual rate of 468,000 homes, the highest reading since July of 2008. This was surprising with weather weighing down on construction and sales in December, but it seems consumers may be buying new homes rather than existing homes, which are in very short supply. Although it is just one month of data, this burst of strength in home sales shows that higher mortgage rates and higher home prices than we have seen in the past few years are not slowing the housing market, but inventories remain an issue.

New orders for durable goods fell by 1.0% in January after analysts estimated a more significant 1.7% drop. The primary driver of the weak numbers was the transportation sector, as the index excluding transportation rose 1.1% on the month. The volatility of airline orders can skew this number on a monthly basis, and the “polar vortex” that swept through the country slowed some business activity during January. We expect orders to improve as weather normalizes and consumer and business balance sheets continue to show improved strength.

Real U.S. GDP was revised down to 2.4% in Q4 2013 from a previous figure of 3.2%. Consumer spending was revised downward but capital spending was revised up significantly. Federal government spending was predictably revised down, which is good from a budget/deficit standpoint, but state and municipal spending moved down as well, which is not ideal. Despite the headline downward revision, we believe the increase in business investment will fuel production and orders going into the second quarter.

The Treasury Department announced this week that the federal deficit fell to $680 billion in 2013 from over $1.1 trillion in 2012, the largest drop in federal deficit since World War II. Most of this drop can be attributed to increased revenue from taxes and almost no increase in government spending during the year.

Economic Indicators, Quarterly Change



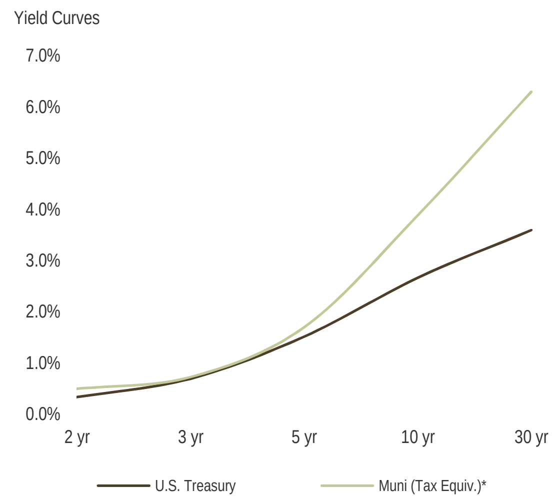
Source: Bureau of Economic Analysis, Bureau of Labor Statistics

Feb 20th	Philidelphia Fed Survey, Feb	-6.3
Feb 21th	Existing Home Sales, December SAAR*	4.62 M
Feb 25th	Consumer Confidence Index, Feb	78.1
Feb 26th	New Home Sales, Jan	468,000
Feb 27th	Durable Goods New Orders, Jan. Monthly Chg.	-1.0%
Feb 27th	Initial Jobless Claims (Week ending 2/22)	348,000
Feb 28th	Real GDP, Q4 Quarterly Change SAAR*	2.4
Feb 28th	Consumer Sentiment Index, Feb	81.6
Feb 28th	Chicago PMI, Feb	59.8

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

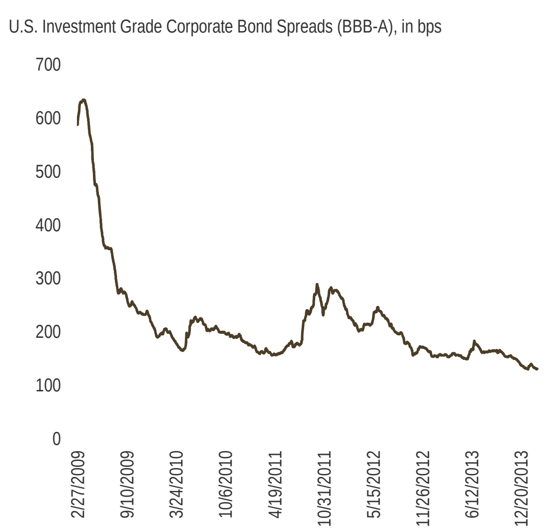
Despite a sell-off on Friday caused by a strong consumer sentiment report, U.S. Treasuries finished the week modestly higher. Looking forward, a key question concerning the direction of interest rates is whether this winter's particularly harsh conditions will serve as only a temporary drag on overall economic growth. Until this uncertainty evaporates, many bond traders expect the 10-year note to trade between 2.60% and 2.80%. Meanwhile, given the recent filing for bankruptcy protection in Detroit along with all three major ratings agencies downgrading Puerto Rico to below investment grade, volatility in the municipal bond market is expected to remain well above historical averages. Although the muni market has a troubled history when it comes to digesting negative news, we feel instances of increased volatility often unlock value for well-informed investors with a long-term perspective. Largely attributable to the combination of historically low default rates, attractive spreads relative to U.S. Treasuries, and a constructive demand/supply picture, we remain optimistic on the long-term outlook for municipal bonds. We continue to recommend an emphasis on defensive structures 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.



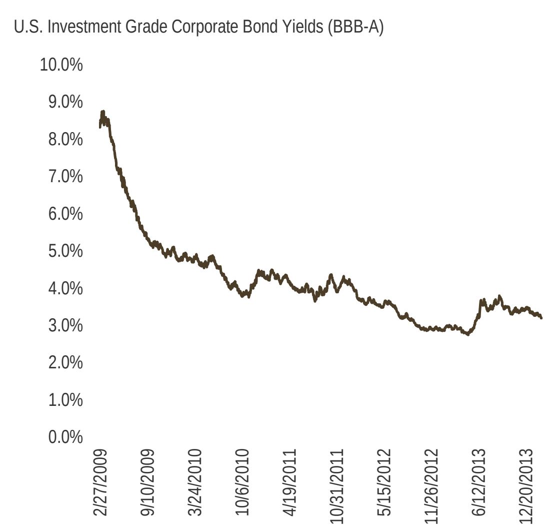
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	2.21.14	2.28.14	Change
3 month T-Bill	0.05%	0.05%	0.00%
2-Year Treasury	0.33%	0.33%	0.00%
5-Year Treasury	1.56%	1.51%	-0.05%
10-Year Treasury	2.73%	2.66%	-0.07%
30-Year Treasury	3.69%	3.59%	-0.10%

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

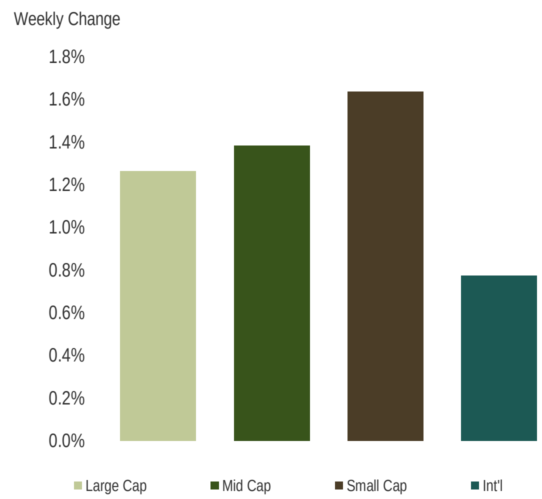
Stock Market Update

After a lackluster January in the stock market as all indices posted negative returns, the markets roared back to post positive returns for both February and year-to-date for the broader indices. The Dow Jones Industrial Average closed Friday at 16,321.71, finishing the week higher by 1.36%. The broader S&P 500 Index ended the week at 1,859.45, higher by 1.26%. The NASDAQ Composite finished higher by 1.05% and closed the week out at 4.308.12.

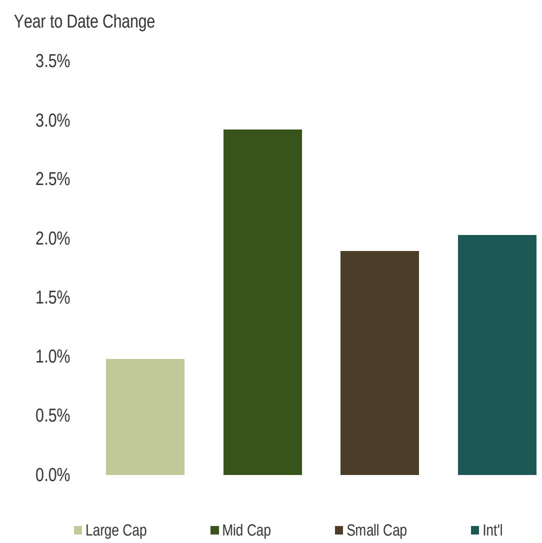
The broader markets posted positive performance for the week and got an additional boost after Fed Chairman Janet Yellen expressed concerns to lawmakers regarding the weather playing a factor in the lackluster economic data coming out over the months of December and January. Economists have been worried that the economy was beginning to lose momentum based on the hiring and manufacturing data reported and got some relief after the comments.

United Continental Airlines (UAL) announced the weather would have an effect on upcoming earnings. The company reported a cancellation of 22,500 flights over the first two months of the year which is four times the number of cancelations from the prior year. Through the first six weeks of the year a total of 75,000 flights have been cancelled across all airlines, the highest since the shutdown due to the 9/11 attacks.

eBay (EBAY) has come under attack this week by activist investor Carl Icahn. In a recent filing, Icahn reported a stake in the company at the end of January of around 2.2%. Mr. Icahn has called upon shareholders to vote for his slate of directors and to back his proposal of splitting the company up between eBay and Paypal. Shares of eBay closed Friday at $58.74 and finished the week up 7.69%.



Source: Standard & Poor's, Russell Investment Company, MSCI; (Price Return)



Name	Previous Week	Current[1]	Change
S&P 500	1,836.25	1,859.45	1.26%
S&P Mid Cap 400	1,356.56	1,375.33	1.38%
Russell 2000	1,163.98	1,183.03	1.64%
MSCI EAFE	1,908.56	1,923.34	0.77%
MSCI EM	950.62	963.23	1.33%
DJ Industrial Average	16,103.30	16,321.71	1.36%
NASDAQ	4,263.41	4,308.12	1.05%

SEE IMPORTANT DISCLOSURES ON BACK PAGE.
1 Prices reflect most recent data available at the time of publication
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Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Cornerstone, Morngingstar

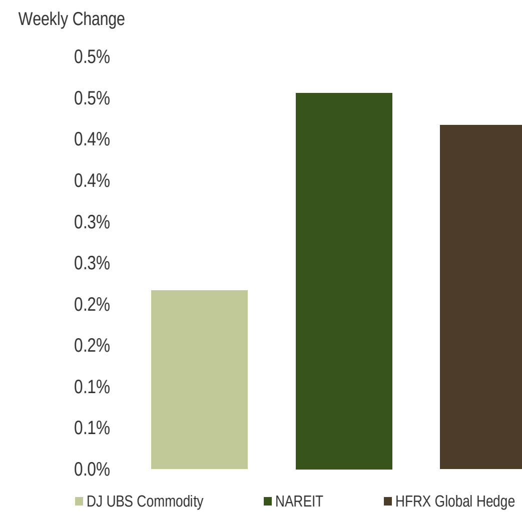
Alternative Investments Market Update

Gold traded around $1,325 an ounce on Friday as persistent concerns about a slowdown in the U.S. economy continues to hurt the dollar. The precious metal has risen nearly 7% this month, its largest one month rally since July. Not only has the metal strengthened due to doubts about the current state and pace of the U.S. recovery after Fed Chairman Janet Yellen's comments this week, but weak data out of China and turmoil in Ukraine have also lifted demand for gold as an insurance against risk. Crude oil ended the week relatively flat, while natural gas experienced a roller-coaster ending on a rise, as cold weather returned to much of the United States. Forecasts expect colder temperatures to linger into March.

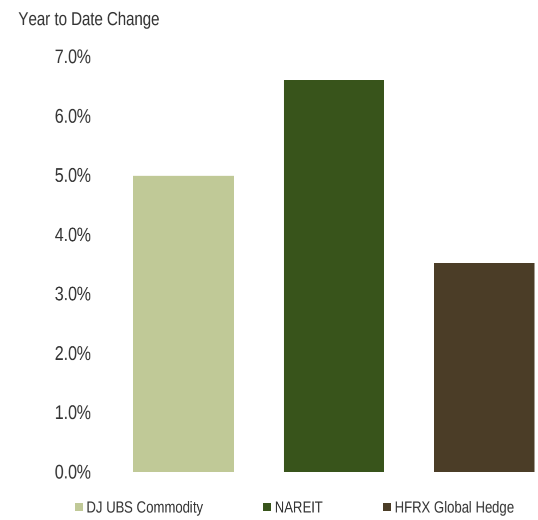
Hedge funds are bullish on both gold and crude pouring huge money into the yellow metal and so-called "black gold", triggering the industry's highest wager since 2011 as shown by data from the U.S. Commodities Futures Trading Commission (CFTC). According to the International Business Times, gasoline, natural gas and soybeans also generated interest from hedge funds and commodity speculators. Hedge funds and speculators wagered net-long or bullish money across 22 U.S. commodity markets amounting to $119.5 billion in the week ending February 18, from $102 billion during the week previous week. Gold accounted for $2.9 billion or 21% of the weekly bullish position in commodities. Domestic crude rose by $2.6 billion in total net-long money, or 20% of the total rise in weekly net longs of managed money.

With the possibility of changes to federal monetary policy on the horizon, real estate investment trusts (REITs) are generally well-positioned to withstand higher interest rates, according to a report this week from Fitch Ratings, Inc. The rating agency believes that conservative balance sheets and limited exposure to short-term and floating-rate debt are working in favor of the industry and that the true impact could depend on how the broader economy reacts to higher rates. Fitch analysts note that the most immediate impact of higher rates would be reflected in a decline in fixed-charge coverage by REIT sectors with higher levels of floating-rate debt, raising concerns about their ability to satisfy their financing expenses.

Name	Previous Week	Current[1]	Change
DJ UBS Commodity Index	133.69	133.98	0.22%
FTSE/NAREIT All REIT Index	166.65	167.41	0.46%
HFRX Global Hedge Index	1,232.86	1,238.00	0.42%
Gold	1,323.63	1,326.14	0.19%
Crude Oil Futures	102.18	102.50	0.31%



Source: Dow Jones, NAREIT, Hedge Fund Research; (Price Return)



Source: Dow Jones, NAREIT, Hedge Fund Research; (Price Return)

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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