MainStreet Advisors
Financial Market Update

March 14, 2014
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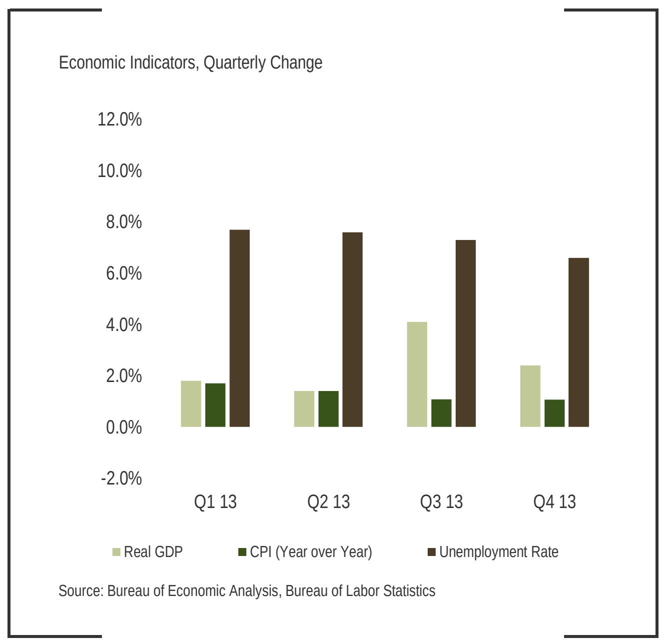
Economic Update

News out of China this week suggests several economic indicators slowing gradually as the previously-surging Chinese economy is beginning to stabilize. Despite missing expectations, industrial output and domestic spending grew 8.6% and 11.8%, respectively, while exports fell a significant 18% from this time last year. These reports have caused many investment banks, including Merrill Lynch, HSBC, Societe Generale, and Nomura, to cut Chinese growth forecasts from around 8% down into the 7% to 7.5% range. Despite these lower-than-expected economic growth figures, many economists maintain that this does not indicate an increased possibility of a “hard landing” for the Chinese economy, but rather a gradual decent into a more reasonable growth environment and a moderating economy going forward. This is supported by the comments of Chinese Premier Li Keqiang, who hinted that China will accept slower growth in the short term while putting reforms in place to provide more sustainable growth in the future. Furthermore, China saw its first ever corporate bond default last week, which has prompted some conversation lately about the changing policy and the potential for more defaults to come, although the government maintains that debt risks are controllable. Chinese corporate bonds used to enjoy a government guarantee to ensure market stability, but Li stated that they would reluctantly allow more defaults while enhancing oversight and focusing on systematic risks.

Moving to the U.S., retail sales climbed 0.3% in February after a -0.6% drop in January. Motor vehicle sales moved up 0.3% this month after falling over 2% in January. Building materials sales continued to increase after a jump in January despite the poor weather which does indicate strength in the housing market. Internet and mail-order sales continued to be a strong point in the report, and many analysts expect sales in other sectors to rebound significantly as the weather-related lull in consumer activity subsides.

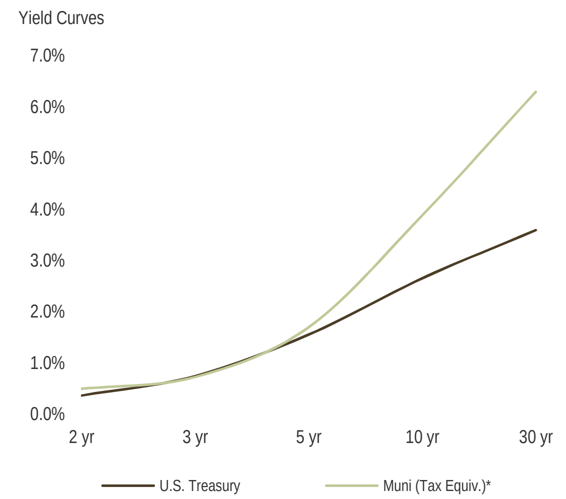


Feb 28th	Real GDP, Q4 Quarterly Change SAAR*	2.4
Feb 28th	Consumer Sentiment Index, Feb	81.6
Feb 28th	Chicago PMI, Feb	59.8
Mar 3rd	Personal Income, March Monthly Chg	0.3%
Mar 3rd	ISM Mfg. Index - Level, Mar.	53.2
Mar 5th	ISM Non-Mfg. Index, Feb	51.6
Mar 7th	International Trade Balance Level, Jan	-39.1B
Mar 13th	Retail Sales, Feb Chg	-0.4%
Mar 13th	Initial Jobless Claims, wk 3/8	315,000
Mar 14th	Producer Price Index, Feb Chg	-0.1%

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

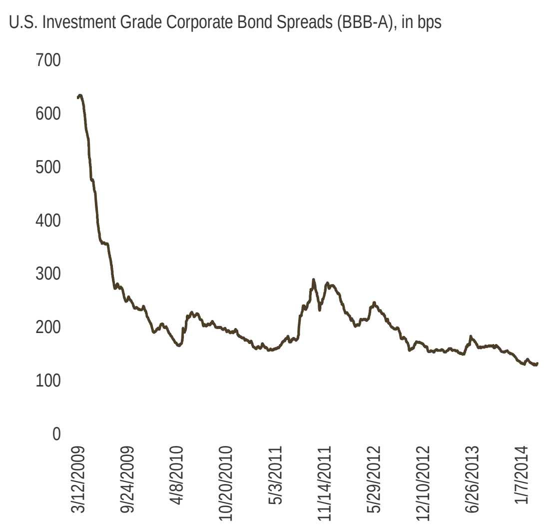
Largely attributable to continued unrest in Ukraine, Treasuries posted their biggest weekly gain in two years as investors flocked to the safety of U.S. government debt. In a sign of strong demand, alongside an oversubscribed reading not seen since March 2013, Wednesday's auction of 10-year notes sold at a yield of 2.73%, the lowest level since October. Investors, rather than dealer banks, were major buyers of the sale, another sign of strong buying interest. Meanwhile, Fitch Ratings noted that recently proposed changes to the U.S. tax code regarding municipal debt could act as a detriment, increasing the cost of capital for issuers. Last week, President Obama called for a 28% cap on the tax exemption on municipal bond interest for high-income earners. At the same time, a tax reform plan released by Congressman Dave Camp proposed the combination of removing the federal tax subsidy for newly issued private activity and advanced refunding bonds, eliminating the bank qualification for small issues, and stopping the issuance of tax credit bonds. Although the prospects for either proposal remain uncertain, many strategists feel the likelihood of Congressional ratification borders on remote. However, we will continue to monitor the proceedings along with other budgetary negotiations as these issues have market moving potential.



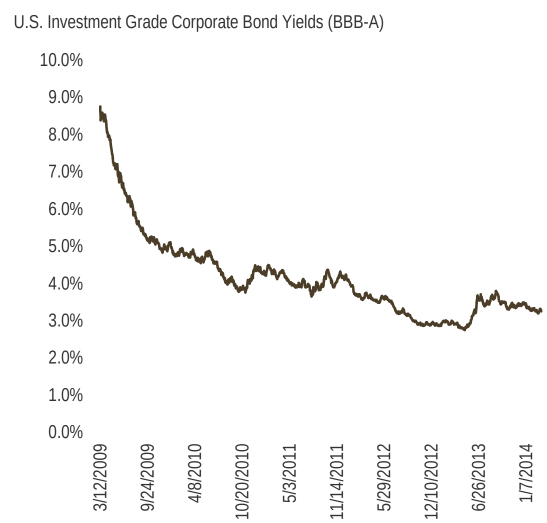
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	3.7.14	3.14.14	Change
3 month T-Bill	0.06%	0.05%	-0.01%
2-Year Treasury	0.38%	0.36%	-0.02%
5-Year Treasury	1.65%	1.55%	-0.10%
10-Year Treasury	2.80%	2.65%	-0.15%
30-Year Treasury	3.72%	3.59%	-0.13%

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

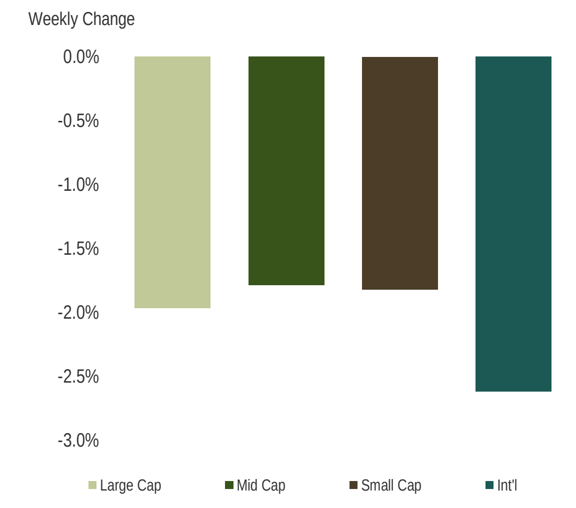
Stock Market Update

Domestic stocks gave back some of February's gains this week on concerns over disappointing growth numbers at home and abroad, coupled with geopolitical concerns about Russia's confrontation with Ukraine. The S&P 500 index closed out the week at 1841.13, or 1.9% lower for the period, while the Dow Jones Industrial Average fell 356 points to 16,065.67, a loss of 2.2% for the week. The biggest move came on Thursday when China released disappointing figures on its industrial production and retail sales. Closer to home, the Commerce Department reported that business inventories rose in January, putting the inventory-to-sales ratio at 1.32, the highest level in four years. This may dampen business orders for new goods, and with it the Gross Domestic Product results for the first quarter.

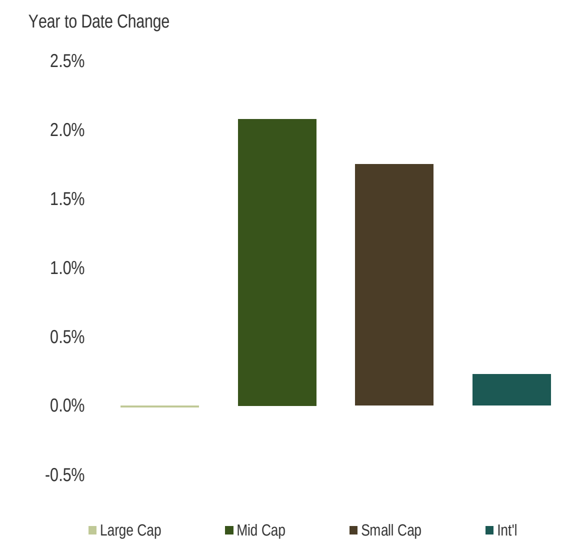
International stocks were particularly hard hit by worries about the situation in Ukraine and Crimea. British and European exchanges saw losses in the 3% to 5% range for the week, with the Russian MICEX index down over 7%. If Sunday's referendum on Crimean secession passes, the United States and Europe are threatening to impose stinging economic sanctions on Russia. Western Europe receives about one-third of its natural gas from Russian pipelines, while oil and gas represent approximately half of Russian exports, so a disruption of trade could have impacts on both sides. Asian stocks were also lower this week; the Shanghai Composite closed 2.6% weaker at 2004.34, owing to the disappointing economic figures mentioned above. Japan's Nikkei 225 Index lost 5.3% on the week, to close at 14,327.66.

It was a difficult week for American car manufacturers. Last month, GM recalled certain models of Chevrolets, Pontiacs, and Saturns for a defective ignition switch tied to power losses or engine stalling. This week the company disclosed that it had received some information as far back as 2001 regarding this problem. The stock closed this week at $34.09, down over 9%. At the other end of the car-affordability spectrum, Tesla Motors also suffered a setback as New Jersey ruled that it cannot bypass dealers and sell its cars directly to consumers in that state. Tesla is hoping to forestall this outcome in Ohio and other states considering the issue. The carmaker's shares closed the week at $230.34, down 3.4%.

Name	Previous Week	Current[1]	Change
S&P 500	1,878.04	1,841.13	-1.97%
S&P Mid Cap 400	1,388.95	1,364.10	-1.79%
Russell 2000	1,203.32	1,181.41	-1.82%
MSCI EAFE	1,940.23	1,889.43	-2.62%
MSCI EM	970.27	943.19	-2.79%
DJ Industrial Average	16,452.72	16,065.67	-2.35%
NASDAQ	4,336.22	4,245.40	-2.09%



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



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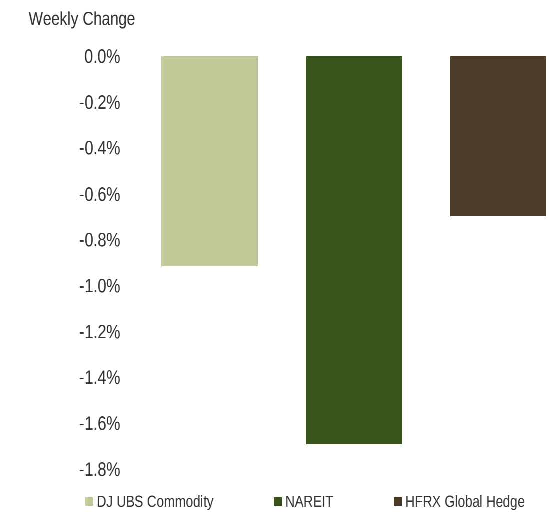
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Cornerstone, Morngingstar

Alternative Investments Market Update

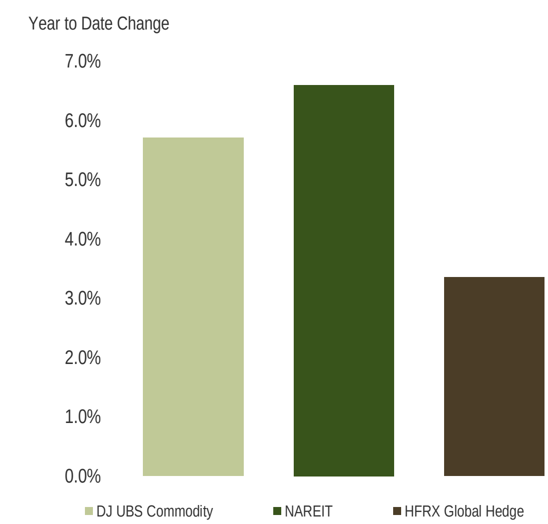
Gold rose to a six-month high on Friday, reaching its biggest weekly gain in four weeks, buoyed by lower equity markets on mounting tensions between Russia and the West over Ukraine and worries of an economic slowdown in China. The precious metal has gained almost 3% this week, its sixth straight weekly rise, as investors' appetite for risk diminished in view of increasing political tensions and economic troubles, benefitting gold. The political crisis in Ukraine has catalyzed gold's gains in recent weeks, highlighting the metal's role as a perceived haven from global turmoil. During Friday trading, bullion prices touched a six-month high of $1,388.40 an ounce as traders stocked up on the haven asset ahead of Crimea's referendum. Another element of support for the metal is related to worries over China's economy, as data this week showed growth slowed in the first two months of the year. The continued rally of the precious metal could depend largely on the outcome of the Federal Reserve`s next meeting on March 18-19, where expectations are in favor of seeing further bond purchases cut by slashing another $10 billion this month to $55 billion. So far, gold has gained near 14% this year after dropping 28% in 2013.

Crude oil extended its losses this week on a larger than-expected rise in crude supplies and the announcement of the government's plan to sell oil from its strategic petroleum reserve. According to the U.S. Energy Information Administration, U.S. crude-oil supplies rose by 6.2 million barrels last week which was above analysts' expectations for a 2 million-barrel rise. Domestic crude-oil supplies have risen for eight straight weeks. Demand for crude oil typically falls in February and March as refiners undergo seasonal maintenance and prepare to blend summer-grade gasoline. The U.S. Energy Department also announced this week that it would release 5 million barrels of oil from the strategic petroleum reserve, a federally owned stockpile of oil with a capacity of 727 million barrels that is available in case of an emergency or sudden disruption in supply. A spokesman for the Energy Department called the move a "test" to evaluate how the reserve system works to release and sell the oil, which is required by law and done on a periodic basis. The last time the administration released oil from the reserve was in 2011 in coordination with the International Energy Agency (IEA), during unrest in Libya that was causing market disruption.

Name	Previous Week	Current[1]	Change
DJ UBS Commodity Index	136.14	134.90	-0.91%
FTSE/NAREIT All REIT Index	170.28	167.40	-1.69%
HFRX Global Hedge Index	1,244.56	1,235.90	-0.70%
Gold	1,340.31	1,383.20	3.20%
Crude Oil Futures	102.54	98.94	-3.51%



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



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

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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