MainStreet Advisors
Financial Market Update

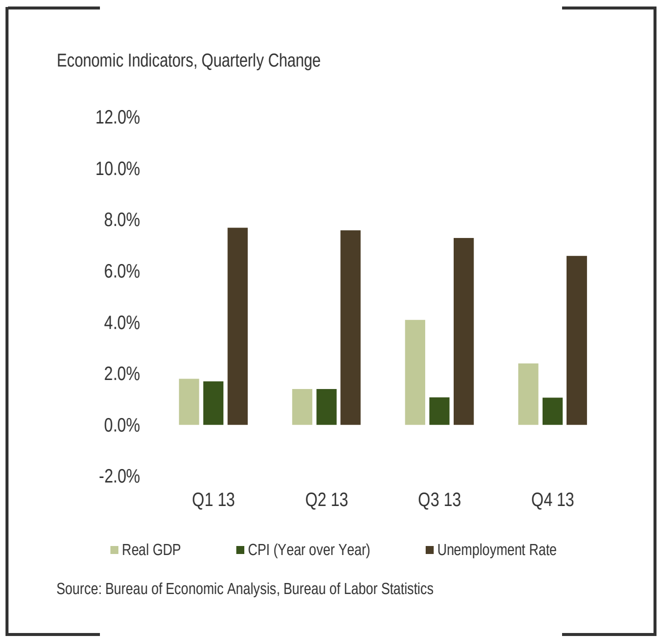
March 21, 2014

Economic Update

In February, housing starts fell by just 0.2% to an annualized rate of 907,000 homes indicating stabilization in construction after the past few months of weather-related obstacles. Going forward, the recovery in housing starts heavily depends on hiring patterns as higher mortgage rates and home prices will be headwinds for residential construction. The current short supply will help boost demand for housing into the spring, as can be seen from a 7.7% rise in housing permits filed in February. This is the largest jump since October, but the surge is mainly attributable to apartment building construction as single-family home permits actually dropped slightly.

The Fed meeting minutes this week were as expected with rates remaining unchanged and the taper continuing at a pace of $10 billion per month. Based on the language in the latest report, the future reduction in quantitative easing will continue to be done in steps, with the April cuts resulting in monthly purchases of $25 billion in mortgage-backed securities and $30 billion in longer-term treasuries. The committee maintains that inflation and employment are the primary economic elements that factor into the decision to continue tapering, and they implied that they would like to see inflation back around 2%.

Factory output in the US rose 0.8% in February, the largest jump in 6 months. Auto production, business equipment, and chemical production all gained last month after January numbers were weak across most elements of the index. The Philadelphia Fed's factory index, a primary indicator of manufacturing strength, also rose to a level of 9 this month after 6.3 in February. This is welcome news after some months of weak manufacturing data in the US. The gain in February all but erased the weather-related declines in January and sets the stage for manufacturing strength going forward into the warmer months.



Mar 13th	Initial Jobless Claims, wk 3/8	315,000
Mar 14th	Producer Price Index, Feb Chg	-0.1%
Mar 17th	Industrial Production, Feb Monthly Chg	0.6%
Mar 18th	CPI Feb. Monthly Chg	0.1%
Mar 18th	Housing Starts, Feb	0.907 M
Mar 20th	Philidelphia Fed Survey, March	9.0
Mar 20th	Existing Home Sales, Feb	4.6 M
Mar 20th	Initial Jobless Claims, wk 3/15	320,000

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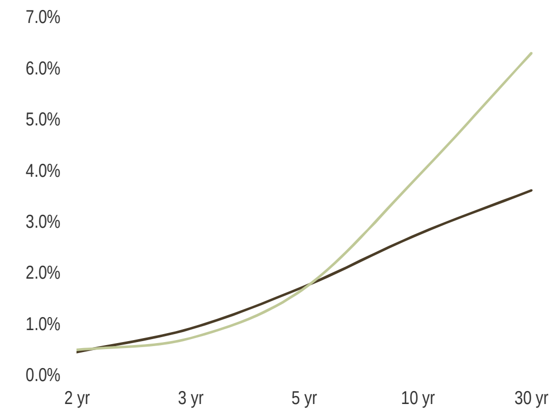
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

This week's Federal Open Market Committee (FOMC) meeting sparked a sell off in U.S. Treasuries as investors absorbed growing hawkishness by committee members. While the headline announcement of a continued $10 billion reduction in asset purchases surprised few people, interest rate projections by the FOMC proved less accommodating than the market had been anticipating. The FOMC increased their rate projections for the end of 2015 from 0.75% to 1.00% and the end of 2016 from 1.75% to 2.25%. Federal Reserve Chairperson Janet Yellen did little to ease jittery investors in her post-meeting news conference by indicating she expected monetary tightening to begin "on the order of six months" after Federal Reserve asset purchases cease. Projections now put the first Fed funds rate hike to occur in April of 2015 after the markets had been pricing in the first increase in August of 2015. With little current inflation pressure, investors rushed out of shorter duration Treasuries with most selling pressure between 2-year and 7-year maturities. 10-year Treasury yields rose 11 basis points compared to the rise of 17 basis points in 7-year bonds.

Yield Curves



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

Issue	3.14.14	3.21.14	Change
3 month T-Bill	0.05%	0.06%	0.01%
2-Year Treasury	0.36%	0.45%	0.09%
5-Year Treasury	1.55%	1.73%	0.18%
10-Year Treasury	2.65%	2.75%	0.10%
30-Year Treasury	3.59%	3.61%	0.02%

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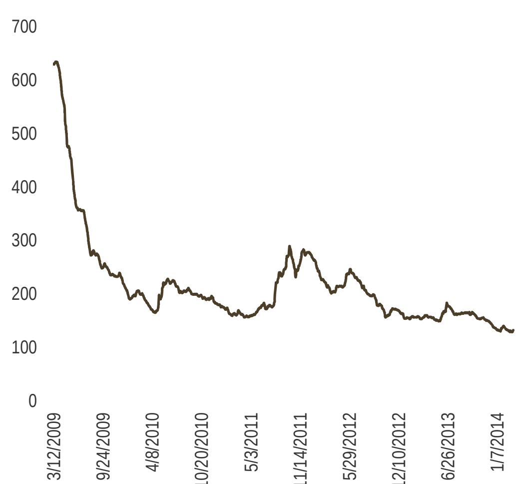
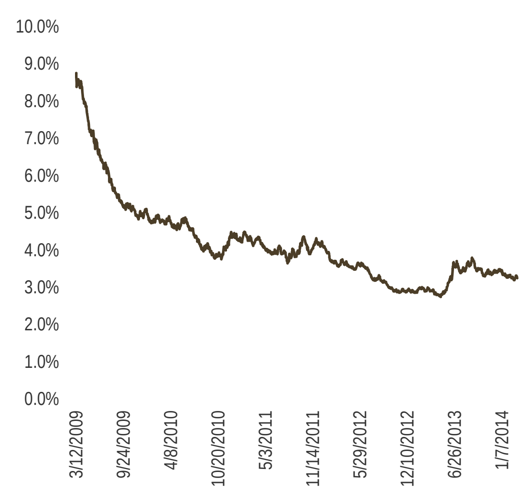
U.S. Investment Grade Corporate Bond Spreads (BBB-A), in bps



Source: Merrill Lynch

U.S. Investment Grade Corporate Bond Yields (BBB-A)



Source: Merrill Lynch

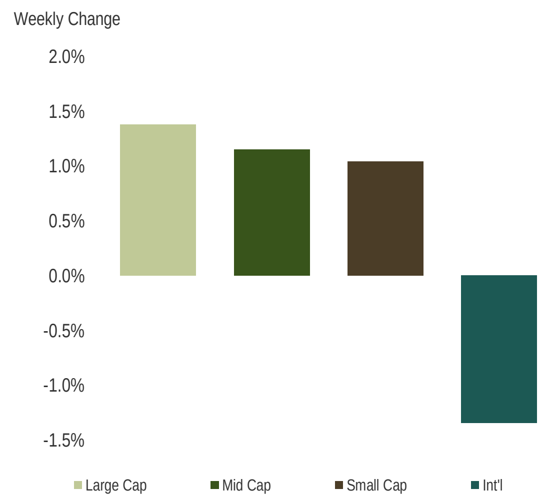
Stock Market Update

Most major stock markets rebounded after a big sell-off last week. Early in the week investors reacted positively to news regarding improvements in industrial production, New York regional manufacturing conditions, and home builder confidence. Stocks fell sharply on Wednesday after Janet Yellen's post-Fed meeting comments led investors to believe interest rate increases would occur sooner than expected. The Dow Jones Industrial Average was down over 200 points during the press conference, but recovered slightly to close down only 114 points. Markets were strong again on Thursday as positive economic news appeared to show that the cold and snowy winter was to blame for weakness earlier this year. For the week, the Dow rose 1.5% to close out at 16,302.77.The broader S&P 500 Index increased 1.4% to end the week at 1,866.52.The NASDAQ Composite Index fell 1% on Friday, but still finished the week up 0.7% to 4,276.79.

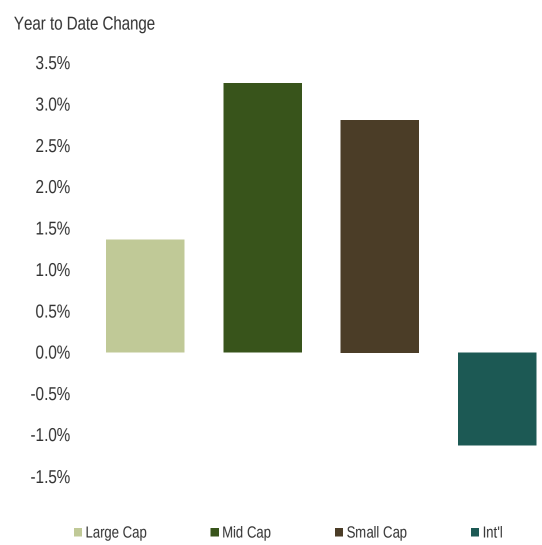
International stocks were mixed this week. The Nikkei fell 4% in the five-day trading period on fears the economy may be faltering. Foreign investors appear to be leading the way in selling Japanese stocks, at the fastest pace in more than ten years, according to the Wall Street Journal. The index is down 13% year to date, after a 57% jump in 2013. Equity investors in Europe pushed the Stoxx Europe 600 Index up nearly 2% above last Friday's close. China's Shanghai Composite Index rose 2.7% on Friday and finished 2.2% higher for the week.

Quarterly earnings were reported this week by Oracle (ORCL), Nike (NKE) and Darden Enterprises (DRI). While Oracle's revenue and EPS were below expectations, hardware, database, and analytics sales showed positive surprises. Guidance remained in line with expectations. Nike reported earnings ahead of expectations but management cautioned the stronger dollar may hamper sales this quarter. Nearly 45% of Nike's revenues are international. On a positive note, sales increased in every region in the most recent quarter, including China. Darden Enterprises reported weak same-store sales in each restaurant division. Earnings fell from $1.02/share in the year ago period to only $0.82/share this quarter. The company recently announced plans to spin off its lagging Red Lobster chain.

Name	Previous Week	Current[1]	Change
S&P 500	1,841.13	1,866.52	1.38%
S&P Mid Cap 400	1,364.10	1,379.82	1.15%
Russell 2000	1,181.41	1,193.73	1.04%
MSCI EAFE	1,889.43	1,864.01	-1.35%
MSCI EM	943.19	940.70	-0.26%
DJ Industrial Average	16,065.67	16,302.77	1.48%
NASDAQ	4,245.40	4,276.79	0.74%



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

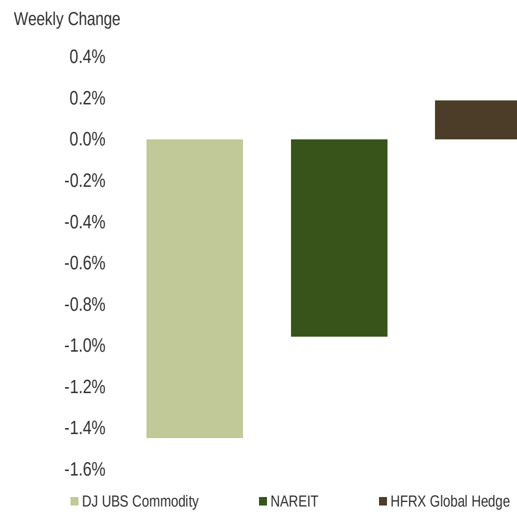
Alternative Investments Market Update

Crude oil traded around $100 a barrel this week, posting gains as domestic stockpiles climbed by 5.85 million barrels to 375.9 million, the highest level since November 29, according to data from the EIA. Crude strengthened after Enterprise Products Parents LP (EPD) announced it would double the capacity of a pipeline connecting Oklahoma storage with Gulf Coast refineries sooner than expected. Production of crude increased to 8.215 million barrels a day, the highest rate in almost 26 years. Supplies of distillate fuel, a category that includes heating oil and diesel, fell 3.1 million barrels last week to 110.8 million, the least since May 2008. Gasoline stockpiles dropped 1.47 million barrels to 222.3 million.

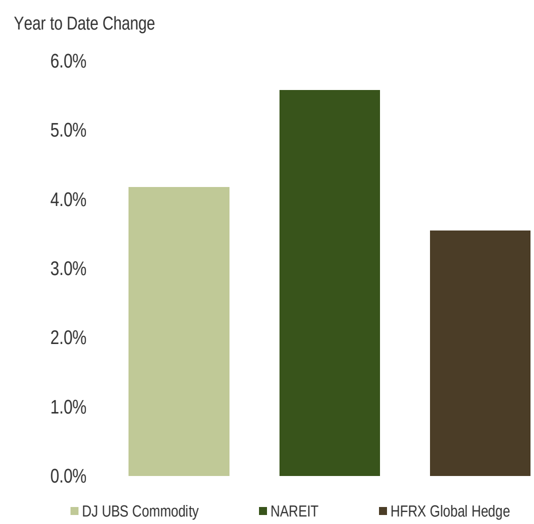
Gold rose on Friday ahead of several speeches by U.S. Federal Reserve officials, but still managed to post its biggest weekly fall since November (3%) following hints of an interest rate hike in the first half of 2015. Low interest rates, which cut the opportunity cost of holding non-yielding bullion above other assets, has been a key factor driving the metal higher in recent years. Earlier this week, the precious metal briefly touched a six-month high of $1,391.76 an ounce on tensions in Ukraine and concerns about growth in China before the focus shifted towards the U.S. monetary stance.

According to the most recent report from eVestment, investors allocated an estimated $41 billion to hedge funds in February, the largest monthly allocation since the firm began tracking monthly inflows in October 2008. The current total industry AUM of $2.93 trillion is only $12 billion below its all-time high set in Q2 2008. Performance gains added an additional $45.9 billion, bringing February's asset increase to $86.9 billion, a 3.1% rise. This is the industry's largest asset growth since performance gains drove a large increase in May 2009. In terms of specific strategies, investor preferences for equity over credit continued for the fourth consecutive month, the longest such streak since investors chased the equity market recovery in the months following the financial crisis. Despite being overshadowed by equity flows, credit strategies showed a significant rebound of investor sentiment last month, more than offsetting the jump in redemptions following the sharp uptick of interest rates in May 2013.

Name	Previous Week	Current[1]	Change
DJ UBS Commodity Index	134.90	132.94	-1.45%
FTSE/NAREIT All REIT Index	167.40	165.80	-0.96%
HFRX Global Hedge Index	1,235.90	1,238.22	0.19%
Gold	1,383.20	1,333.95	-3.56%
Crude Oil Futures	98.94	99.43	0.50%



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



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

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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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