MainStreet Advisors
Financial Market Update

May 2, 2014

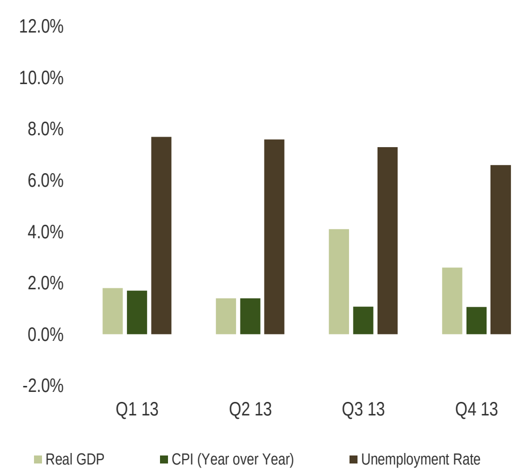
Economic Update

The employment report this week exceeded expectations and marked the strongest monthly employment gain in over two years. Payrolls rose 288,000 versus a 215,000 consensus estimate. Each subsector of the report saw gains, and the March report was also revised up. Much of this may be catch-up from a slow winter but the release is still positive news for growth in the U.S. job market. The unemployment rate dropped to 6.3% from 6.7% in March, which has to do as much with a low participation rate as with an improving labor market. Citizens leaving the workforce can influence the unemployment rate as much as a gain in employment, so the headline rate is a less reliable indicator of growth. Despite the strong jobs report the Fed will likely wait until next month's report before factoring any of this into the tapering discussion.

In the euro zone, unemployment held steady at 11.8%, near the 12% record set last year. Despite the employment obstacles, many of the primary economic indicators are accelerating throughout the euro zone. One major indicator, the Purchasing Managers Index (PMI), rose to 53.4 this month, marking the 10th straight period of expansion. Factory output has been strong across several euro zone countries, including Germany and Italy, and overall GDP growth looks positive, with European Commission estimates coming in at 1.2% for 2014 and 1.8% for 2015.

Back in the U. S., personal income rose 0.5% in March after a 0.4% gain in February. Personal consumption expenditures, one of the more significant gauges of consumer spending, jumped 0.9% in March, marking a rebound from a slightly weaker winter period. As the consumer continues to grow, aided by strong employment growth and lower inflation, overall economic growth in the U.S. is poised to move higher. The second quarter started with considerable momentum from the end of Q1 as the cold winter caused a lag in economic data during the first few months of the year. The economy as a whole seems to be gaining steam although there are certainly some elements that could see improvement.

Economic Indicators, Quarterly Change



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

Apr 17th	Initial Jobless Claims, wk 4/12	304,000
Apr 17th	Philadelphia Fed Survey, April	16.6
Apr 22nd	Existing Home Sales	4.59 M
Apr 23rd	New Home Sales	384 K
Apr 24th	New Durables Orders	2.6%
Apr 25th	Consumer Sentiment	84.1
Apr 30th	Real GDP, Q1 Quarterly Change SAAR*	0.1%
May 1st	Initial Jobless Claims, wk 4/26	344,000
May 1st	Personal Income, March Monthly Chg.	0.5%
May 1st	ISM Mfg. Index - Level, Apr.	54.9
May 2nd	Non-farm Payrolls, Apr. Monthly Chg.	288,000

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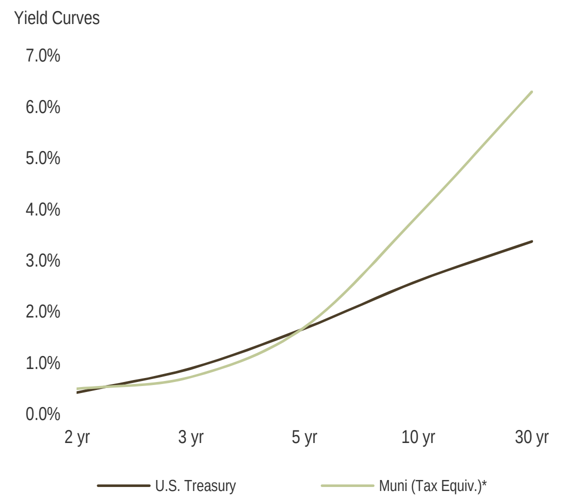
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

Despite a stronger than expected employment report, U.S. Treasuries finished the week higher as investors continue to flock to safe haven securities amid escalating tensions between Russia and Ukraine. In another sign of an improving economy, the Fed announced it would reduce its bond-buying program by $10 billion per month, a continuation of the policy strategy laid out. The central bank also reiterated its guidance on short-term interest rates, emphasizing they would remain near zero for a “considerable period” after the bond buying program ends later this year. Most strategists do not expect the Fed to begin raising rates until well into next year. Meanwhile, a wave of cash is flooding into euro-region bonds in anticipation of a new quantitative easing program from the European Central Bank (ECB). ECB President Mario Draghi said, “further monetary stimulus is required as the euro appreciates to keep the ECB’s policy stance equally accommodative.” He also stated that the ECB might start broad-based asset purchases to ward off the risk of deflation. When the ECB meets next week, strategists expect Draghi to seek out policy tools, including verbal intervention, to stimulate the euro zone economy. Should communication not assuage the markets, market participants expect the central bank to take some sort of monetary action within the next two months.



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

Issue	4.25.14	5.2.14	Change
3 month T-Bill	0.03%	0.02%	-0.01%
2-Year Treasury	0.43%	0.42%	-0.01%
5-Year Treasury	1.72%	1.67%	-0.05%
10-Year Treasury	2.68%	2.60%	-0.08%
30-Year Treasury	3.45%	3.37%	-0.08%

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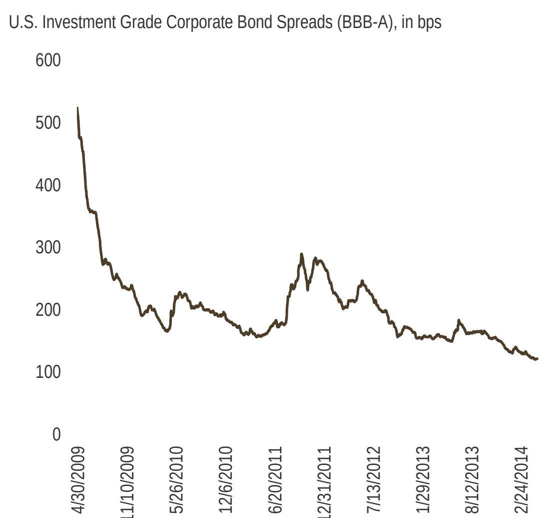
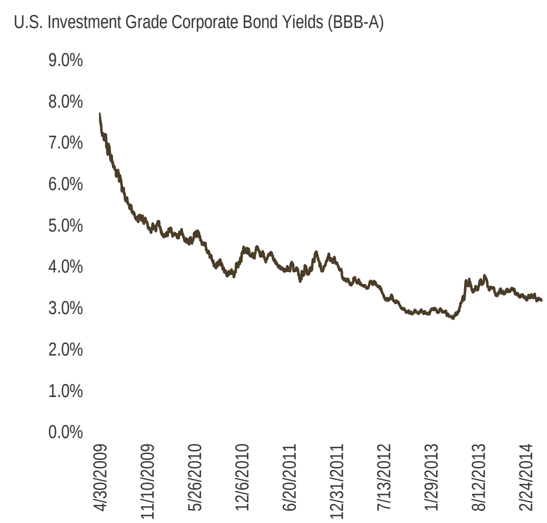


Source: Merrill Lynch



Source: Merrill Lynch

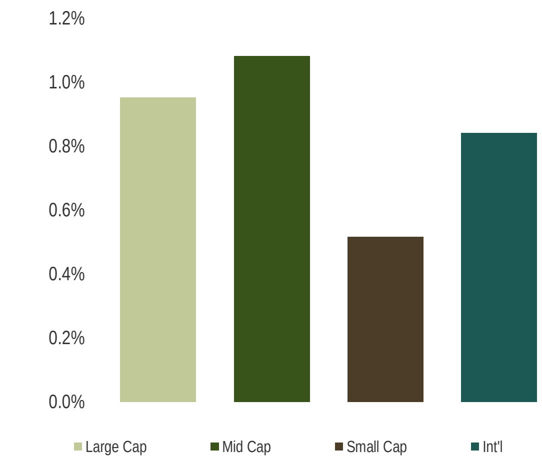
Stock Market Update

The markets reversed course after being negative for most of the month of April. The major indices were boosted by strong economic data, positive earnings data, and several large acquisitions being announced. During the past week, the Dow Jones Industrial Average closed at 16,512.89, finishing the week higher by 0.93%. The broader S&P 500 Index ended the week at 1,881.14, higher by 0.95%. The NASDAQ Composite finished higher by 1.19% and closed the week out at 4,123.90.

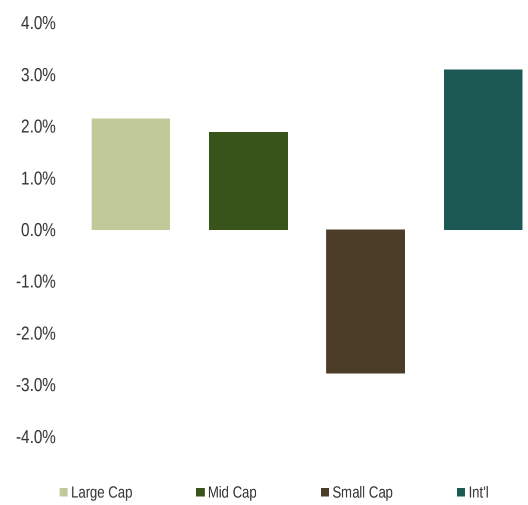
European and Asian markets followed the domestic markets higher for the week, however, more volatility was seen due to the rising crisis between Russia and the Ukraine. The developed European and the Emerging Markets both finished high by over 1.00% for the week.

AstraZeneca PLC rejected Pfizer's (PFE) latest takeover after raising the takeover price to $106 billion. The merger would create the world's largest pharmaceutical company. AstraZeneca's board said the offer significantly undervalues the company. Also in the healthcare space, Bill Ackman's company Pershing Square joined together with Valeant Pharmaceuticals (VRX) and announced a hostile takeover to buy Allergan (AGN). This is the first time we have seen a hedge fund manager partnering with a company for this type of offer.

Several of the social media stocks were down for the week based on lower projected forecasts after the companies announced earnings. Shares of Yelp (YELP) declined over 6% after the most recent earnings announcement, and shares of LinkedIn (LNKD) followed suit after the company announced earnings and lowered its guidance below analyst expectations.



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



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

Name	Previous Week	Current[1]	Change
S&P 500	1,863.40	1,881.14	0.95%
S&P Mid Cap 400	1,347.00	1,361.57	1.08%
Russell 2000	1,123.00	1,128.80	0.52%
MSCI EAFE	1,927.38	1,943.58	0.84%
MSCI EM	1,004.46	996.01	-0.84%
DJ Industrial Average	16,361.46	16,512.89	0.93%
NASDAQ	4,075.56	4,123.90	1.19%

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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, Cornerstone, Morningstar

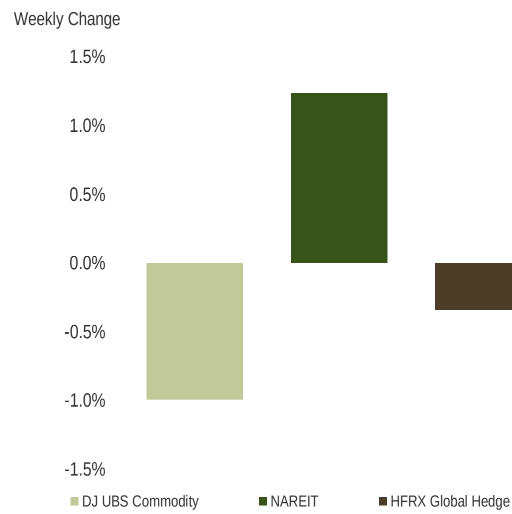
Alternative Investments Market Update

Crude oil ended the week relatively flat after hitting a five-week low in earlier sessions as U.S. crude inventories advanced to record highs and fuel stockpiles grew. U.S. crude inventories have climbed to their highest level since 1931. Gasoline supplies increased by 1.56 million barrels to 211.6 million, while stockpiles of distillate fuel, a category that includes heating oil and diesel, expanded by 1.94 million to 114.4 million, according to the Energy Information Administration (EIA). Both fuels posted the biggest inventory gains since January. Refineries operated at 91% of capacity in the week ended April 25; unchanged from the prior week when operating rates climbed to the highest level this year. Units often restart after performing maintenance in late winter as attention shifts away from heating oil to gasoline.

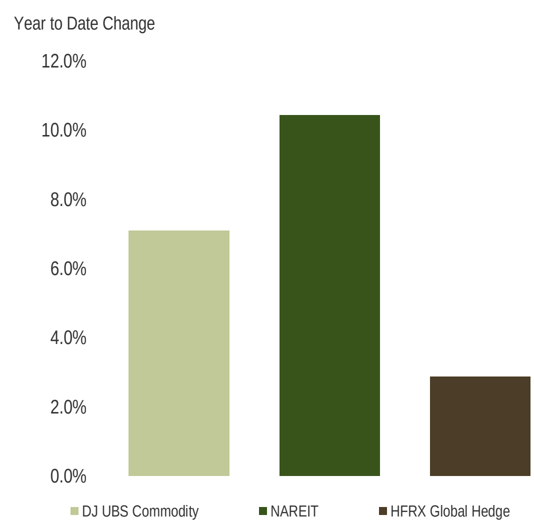
Gold rebounded this week as the escalating tension between Russia and Ukraine boosted demand for the precious metal as a safe haven investment. The metal dropped as much as 0.7% earlier after a government report showed U.S. employers boosted payrolls in April by the most in two years. Bullion has climbed 6.7% so far this year amid signs of faltering U.S. economic growth and mounting political crisis in Eastern Europe.

As share buybacks become more appealing for equity real estate investment trusts (REITs), ratings firm Fitch Ratings warns of the potential risks to the companies' credit ratings. Despite outperforming the broader market in Q1, shares of equity REITs continue trading below net asset value (NAV), making share buybacks "an intriguing use of capital," according to a report released by Fitch this week. As of the end of 2013, REITs traded at a 7.2% discount to NAV. In the previous year, pricing was essentially in line with NAV, according to Fitch. Persistently low capitalization rates are also increasing the appeal of share buybacks, the report claimed, while improved balance sheets since the recession have made potential share repurchases easier for REITs to justify. The report did stress, however, that current REIT leverage is above levels seen at the end of 2006, just before share buybacks spiked sharply during the last credit cycle. Buybacks leading up to the financial crisis were made at near-peak valuations and were one of the drivers of the liquidity issues many REITs faced during the credit crunch from 2008 to 2009.

Name	Previous Week	Current[1]	Change
DJ UBS Commodity Index	138.05	136.68	-0.99%
FTSE/NAREIT All REIT Index	171.32	173.44	1.24%
HFRX Global Hedge Index	1,234.35	1,230.12	-0.34%
Gold	1,302.70	1,298.66	-0.31%
Crude Oil Futures	100.63	99.80	-0.82%



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



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

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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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