

# MainStreet Advisors Financial Market Update

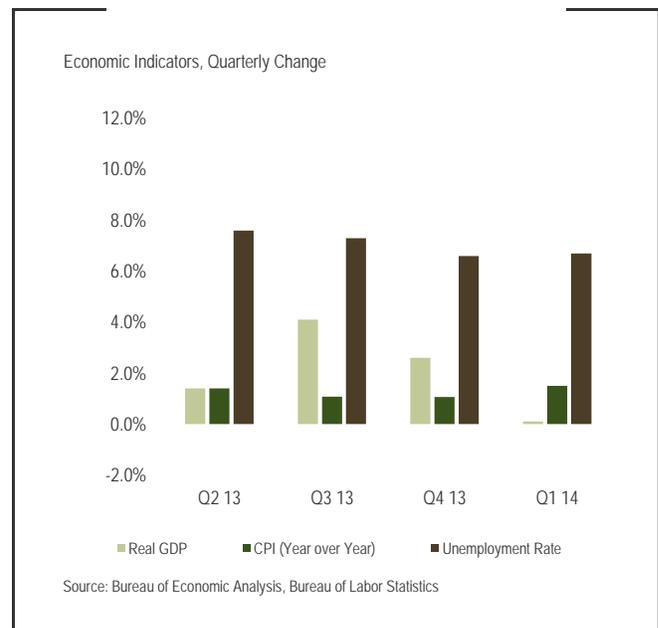
May 16, 2014  
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## Economic Update

Reports this week showed that U.S. home construction gained traction in April as crews continued to resume building after weather-related slowdowns. Housing starts beat all analyst forecasts and climbed 13.2% to 1.07 million starts annually, the highest level in six months. Permits for future projects also advanced, signaling an even stronger pace of new construction in the coming months. Lower borrowing costs and looser credit standards are elevating the amount of interested buyers, and increasing the demand for builders. The stronger job market and widespread increased net worth in the U.S. has allowed more consumers to consider serious purchasing decisions, such as a new home. This is widely positive for the U.S. housing, and all signs lead to further momentum in the housing market.

Industrial production fell by 0.6% after two previously strong reports. Manufacturing declined 0.3% and high-tech equipment fell 0.2%, while auto production rose modestly. A factor in the drop was utility output, which declined 5.2% to mark the largest monthly fall in eight years. Still, industrial output is up 5.6% year-over-year over the past three months, and after this month's correction there should be upward pressure on industrial production in the coming months. Businesses are financially strong so potential for increased purchasing in the industrial sector is significant.

Finally, retail sales came up 0.1% in April, below analyst expectations but still positive after two strong months (including an upward revision of March numbers). Gasoline sales led the gain; without automotive and gas sales the retail number actually fell 0.1%. Department store sales gained 1.8%, while building materials and home supplies saw gains as well. Electronics and appliance sales were the primary sector that fell last month. Although weak, the April retail sales report is likely normalizing from two consecutive months of large gains, and as consumer net worth strengthens we could see further upward potential in coming months.



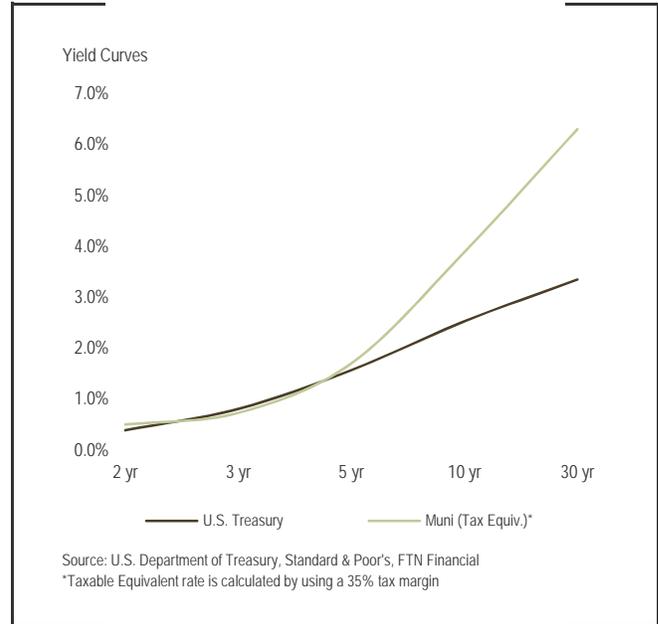
May 8th	Initial Jobless Claims, wk 5/3	319,000
May 13th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-0.1%
May 13th	Retail Sales, Apr. Monthly Chg.	0.1%
May 14th	Consumer Price Index, Apr Monthly Chg.	0.3%
May 15th	Initial Jobless Claims, wk 5/10	297,000
May 15th	Industrial Production, Apr. Monthly Chg.	-0.6%
May 15th	Philidelphia Fed Survey, May	15.4
May 16th	Housing Starts, April	1.072 M
May 16th	Consumer Sentiment Index, January	81.8

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.

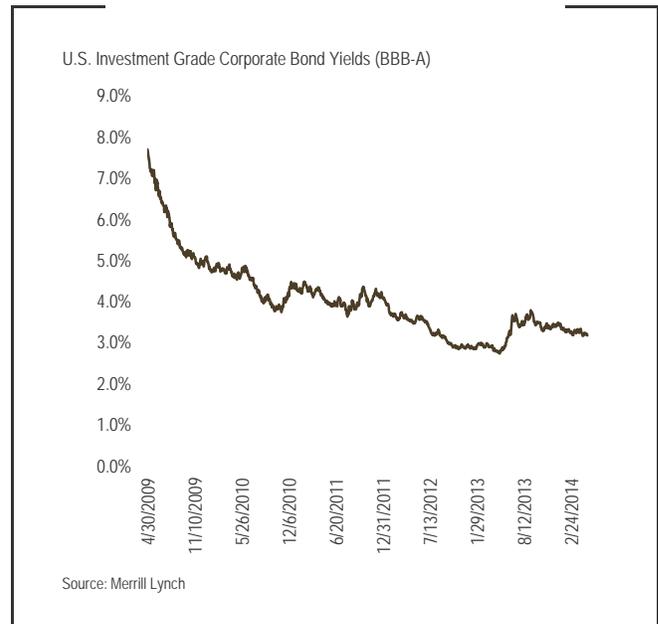
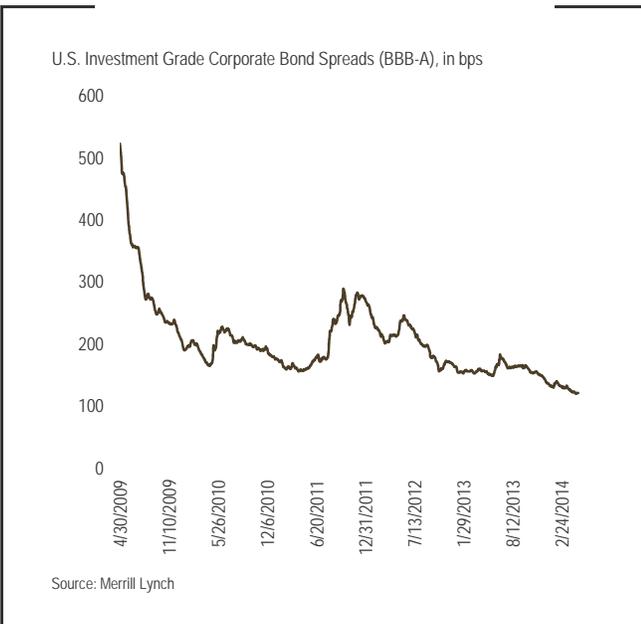
Bond Market Update

Despite a pullback on Friday, U.S. Treasuries rallied, posting the largest weekly gain in two months. In a sign of strength in the bond market, the yield on the 10-year note dropped on Thursday to its lowest level since October of last year. The combination of soft euro zone growth, mixed with U.S. economic reports, and concerns about weakness in China have increased speculation that the major global central banks will continue to keep short-term interest rates low for longer than anticipated to support growth, encouraging demand for bonds. Meanwhile, despite yields on high-yield bonds dropping to near record low levels, investors continue to purchase debt in this area of the market at an accelerating pace. A desperate search for yield has driven demand for these securities sharply higher, allowing some highly distressed companies to issue new bonds. Not only are investors buying high-yield securities at low yields, they are also agreeing to weaker covenants, or restrictions on leverage. Robust demand for the lowest rated debt in this segment of the market has narrowed the premium for these bonds, relative to the highest rated bonds, to the lowest level in over two years. However, Moody's expects default rates to fall to less than half the historical average by year-end, suggesting corporate financial strength remains healthy.



Issue	5.9.14	5.16.14	Change
3 month T-Bill	0.03%	0.03%	0.00%
2-Year Treasury	0.40%	0.38%	-0.02%
5-Year Treasury	1.63%	1.56%	-0.07%
10-Year Treasury	2.62%	2.52%	-0.10%
30-Year Treasury	3.47%	3.34%	-0.13%

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



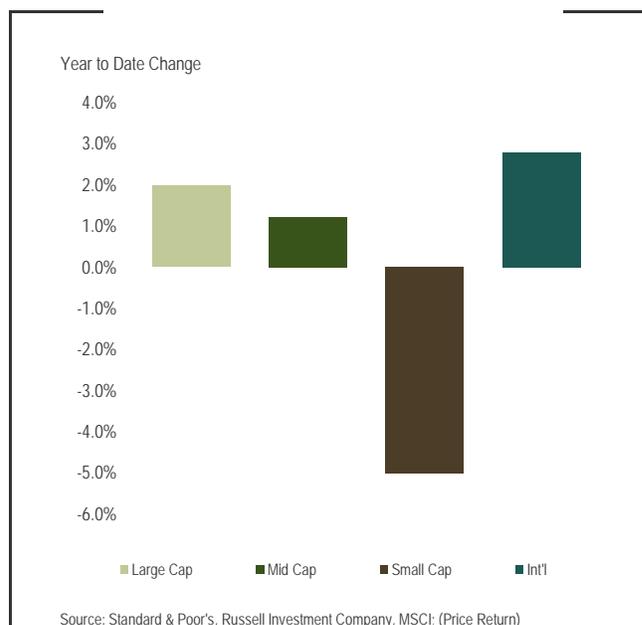
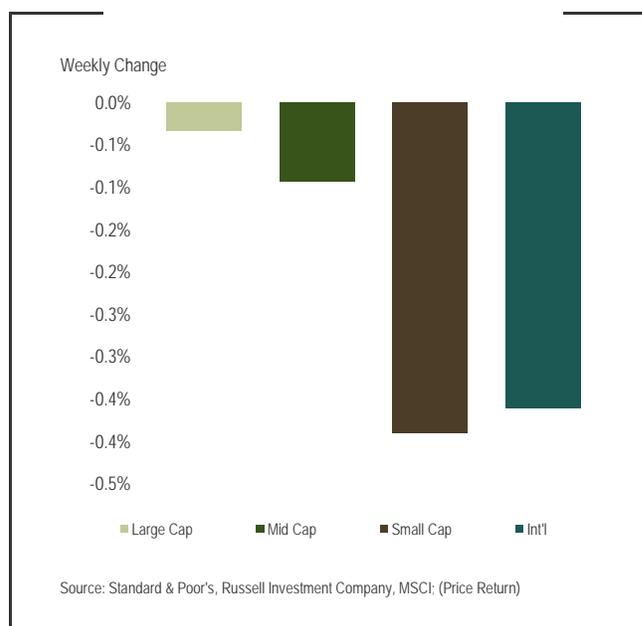
## Stock Market Update

The old stock market adage says “A bull market climbs a wall of worry,” and this week reflected that dynamic. The Dow Jones Industrial average posted an all-time high by closing Tuesday at 16,715.44. But by Thursday the wall of worries had returned to investors’ minds. Disappointing data on factory output, coupled with weak outlooks from retailers Walmart and Kohl’s, torpedoed the market’s progress, and the benchmark fell 167 points that day. For the week, the average fell 0.6% to 16,491.31, and is now down 0.5% for all of 2014. The broader S&P 500 index was flat on the week, and has risen 1.6% year-to-date.

This week also saw the continued separation of results between large and small-cap stocks. As economic and earnings data have suggested that the recovery remains meek, investors have sought safety in bigger-cap stocks, trading out of smaller equities that are more reliant on an economic tailwind. Part of this shift is due to investors seeking out dividend yields from large-cap stocks. The dividend yield of the S&P 500 stocks is just under 2%. This search for safety and yield was confirmed by a rush this week into 10-year Treasury bonds, which saw its yield tumble to 2.52%. The Russell 2000 Index of small-cap stocks has fallen approximately 5% in 2014 and is trading near its year-to-date low. Risk aversion has also punished tech and biotech stock values, with the NASDAQ Composite having fallen 6% from its 2014 high.

International stocks in the developed world largely tracked the path of U.S. stocks this week. Euro zone GDP figures showed just 0.8% growth in Q1 for the area as a whole, with stagnation in France, and negative growth in Italy and a number of other nations. The MSCI EAFE Index was unchanged for the week. Emerging market stocks were helped by pro-business election results in India, ending the week up 1.3%.

Name	Previous Week	Current <sup>1</sup>	Change
S&P 500	1,878.48	1,877.86	-0.03%
S&P Mid Cap 400	1,353.79	1,352.53	-0.09%
Russell 2000	1,107.22	1,102.91	-0.39%
MSCI EAFE	1,944.74	1,937.72	-0.36%
MSCI EM	1,008.85	1,029.11	2.01%
DJ Industrial Average	16,583.34	16,491.31	-0.55%
NASDAQ	4,071.87	4,090.59	0.46%



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Prices reflect most recent data available at the time of publication

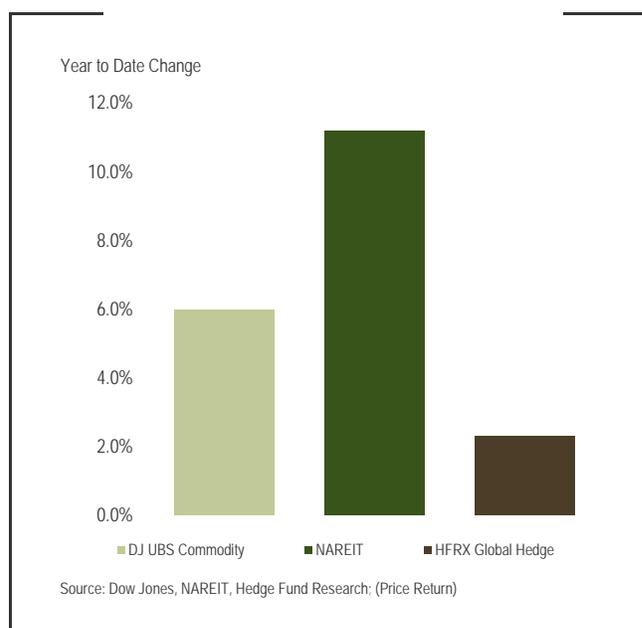
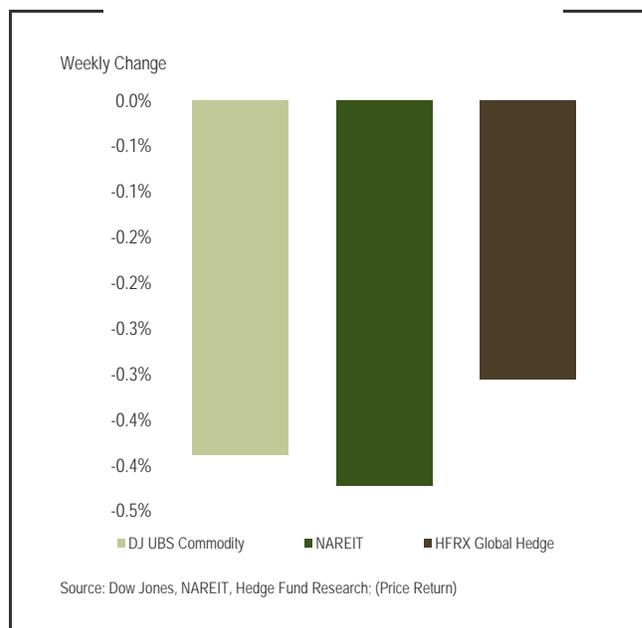
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Cornerstone, Morningstar

Alternative Investments Market Update

West Texas Intermediate (WTI) crude rose for the fourth time in five days on Friday, finishing higher for the second straight week. Data showed an improving U.S. economy amid the escalating Ukraine tensions. The Energy Information Administration (EIA) reported crude stockpiles rose to near-record numbers last week while output climbed the most since 1986. Also, demand for the Organization of Petroleum Exporting Countries (OPEC) crude will be higher than previously estimated in the second half of the year following stronger-than-expected fuel use in developed nations. OPEC will need to provide an average of 30.7 million barrels a day in the second half of this year, which comes out to 800,000 a day more than it pumped last month. WTI rebounded last week after the EIA said crude inventories slid from 399.4 million barrels, the most since weekly reports began publishing in 1982. U.S. production increased by 78,000 barrels a day to 8.428 million, the EIA said. Gasoline supplies fell by 772,000 barrels last week to 212.4 million, while distillate inventories, which includes heating oil and diesel, dropped by 1.12 million to 112.9 million. Stockpiles at Cushing, Oklahoma, the delivery point for WTI, shrank by 592,000 barrels to 23.4 million, the lowest level since December 2008.

Gold futures traded mostly higher on Friday, with demand for the metal getting a boost on the back of an unexpected dip in U.S. consumer sentiment, and prices posted a modest gain on the week. The gains could have been greater had it not been for a nearly 1% drop earlier in the week. A jump in U.S. consumer prices and a drop in jobless claims pointed to an economy on the mend, dulling the metal's safe-haven appeal. Traders of the precious metal continue to closely monitor developments in India following elections earlier this week as some analysts believe that the nation will soon ease restrictions on gold imports. Meanwhile, platinum had its biggest weekly gain in three months on supply worries due to prolonged strikes in top producer South Africa, while palladium was poised for a weekly increase of around 1%.

Name	Previous Week	Current <sup>1</sup>	Change
DJ UBS Commodity Index	135.76	135.23	-0.39%
FTSE/NAREIT All REIT Index	175.34	174.60	-0.42%
HFRX Global Hedge Index	1,227.30	1,223.54	-0.31%
Gold	1,289.30	1,293.10	0.29%
Crude Oil Futures	100.08	102.05	1.97%



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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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