MainStreet Advisors
Financial Market Update

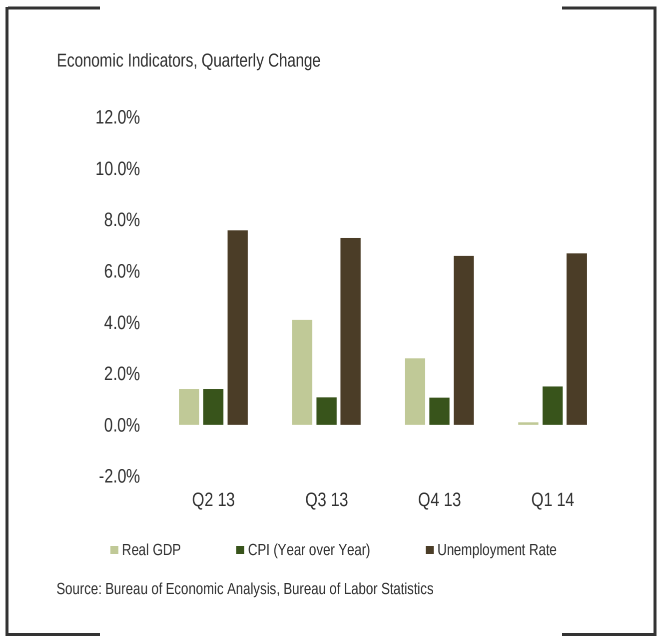
May 30, 2014

Economic Update

U.S. first quarter real GDP was revised down to a -1.0% annual rate from a previous figure of 0.1%. The largest factor in the downward revision was inventories, followed by commercial construction and net exports. Consensus expectations called for a revision down to -0.5%. It was the first real GDP decline since 2011. When breaking down the individual elements that comprise the GDP figure there is a clear lack of inventory growth that pulled the number down significantly, while final demand hardly changed. The second quarter data is accelerating as housing and employment continue to improve, so Q2 real GDP numbers are expected to show a healthy rebound from the disappointment of Q1.

Consumer spending also disappointed this week with a modest drop of -0.1% after a very strong 1.0% gain in March, which was the strongest reading in nearly five years. Auto sales factored into the drop in April, falling 0.5%, and services spending fell another 0.2%, mostly due to small drops in healthcare and utilities spending. After a major March surge due to pent-up demand from a tough winter, it seems that spending normalized in April and should pick up in the next few months due to continued strength in the job market.

The labor market continues to gain momentum as this week's initial jobless claims dropped to 300,000, bringing the 4-week moving average down to a recovery low of 311,500. This is the most optimistic reading since August of 2007 for initial claims, and continuing claims also dropped to a recovery low to 2.631 million. This is an indication of growing business demand, and a sign that more businesses are going to be increasing their workforce going forward. Although this is short-term data, we expect to see stronger recoveries in consumer spending stemming from the improved labor situation, which is important as the consumer makes up nearly 70% of U.S. GDP.



May 22nd	Initial Jobless Claims, wk 5/17	326,000
May 22nd	Existing Home Sales, April SAAR*	4.65 M
May 23rd	Housing Starts, April	433,000
May 27th	Durable Goods New Orders, Apr. Monthly Chg.	2.6%
May 28th	GDP Price Index, Q4 Quarterly Change SAAR*	-1.0%
May 29th	Initial Jobless Claims, wk 5/24	300,000
May 30th	Personal Income, Apr. Monthly Chg.	0.3%
May 30th	Chicago PMI Business Barometer Index, May	65.5

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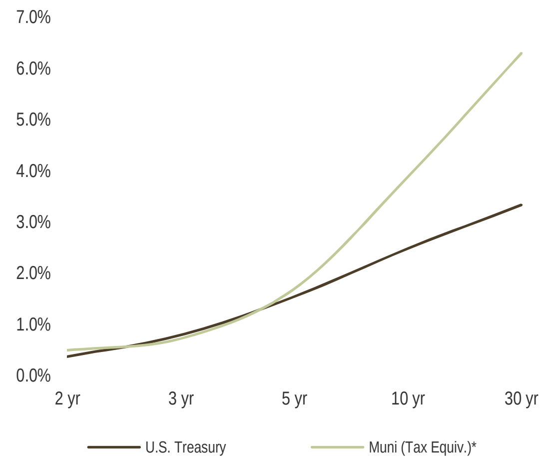
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

Uncertainties about the pace of global economic growth drove demand for U.S. Treasuries sharply higher, extending a rally that few expected at the beginning of the year. Demand was equally strong in much of the sovereign debt market amid expectations the ECB could cut interest rates as soon as next week to support the economy. On Wednesday, the yield on the 10-year U.S. Treasury closed at 2.44%, its lowest level since June 2013. Largely driven by the rally in Treasuries, the Barclay's U.S. Aggregate Index, a broad gauge of the fixed income markets, increased by 1.17% this month as of Thursday. Robust demand for government debt has also trickled into other areas of the credit markets. Over the same period, investment grade corporate bonds posted a gain of 1.42%, high-yield corporates rose 0.83% and munis returned 1.30%, all among the best performing asset classes in the financial markets. For the first time since 1991, municipal bonds have posted gains in each of the first five months of the year, outperforming U.S. Treasuries, corporate bonds, and the S&P 500. A strong appetite for munis flies in the face of consensus expectations at the beginning of this year when most strategists forecast a year of losses in this area of the market. Looking ahead, strategists feel conditions still favor munis, particularly given strong supply/demand metrics. High income investors are also reconsidering tax-exempt bonds after a rise in tax rates.

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	5.23.14	5.30.14	Change
3 month T-Bill	0.04%	0.04%	0.00%
2-Year Treasury	0.37%	0.37%	0.00%
5-Year Treasury	1.55%	1.54%	-0.01%
10-Year Treasury	2.54%	2.48%	-0.06%
30-Year Treasury	3.40%	3.33%	-0.07%

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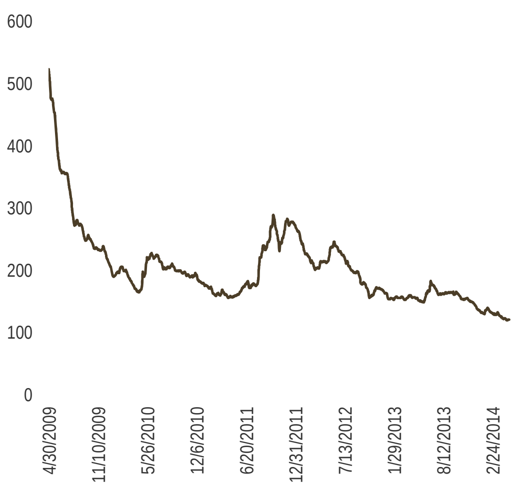
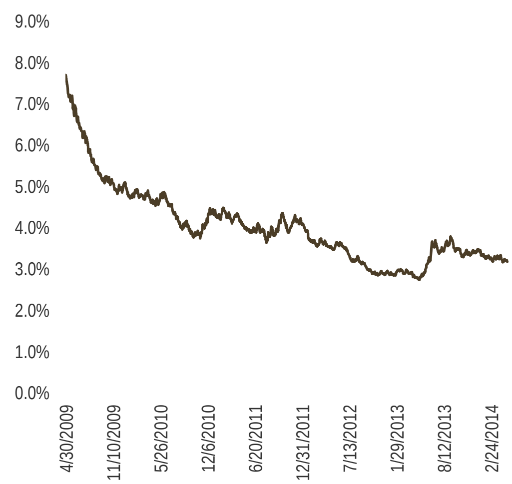
U.S. Investment Grade Corporate Bond Spreads (BBB-A), in bps



Source: Merrill Lynch

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



Source: Merrill Lynch

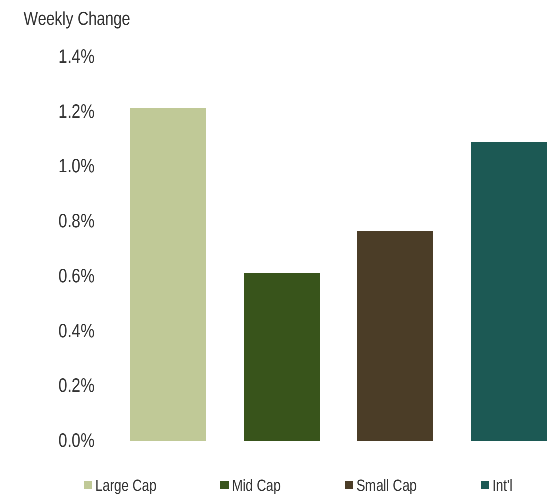
Stock Market Update

Domestic markets edged higher over this holiday-shortened week. Government economic reports continue to show mixed results on the direction of the economy, from the University of Michigan Index of Consumer Sentiment, to pending home sales, to first-quarter GDP readings. It seems that between the negative impact of the winter weather to the amount of inventory restocking inherent in the GDP figure, it can be difficult to try to divine the overall trend of economic output. In the absence of more clarity, the U.S. equity markets continue to trend higher. For the week, the S&P 500 index rose 1.2%, to 1,923.57, its all-time closing high. As we close out the fifth month of 2014, the S&P 500 index has risen 4.1% year-to-date., while the Dow Jones Industrial Average, at 16,717.17, is up just 0.8%.

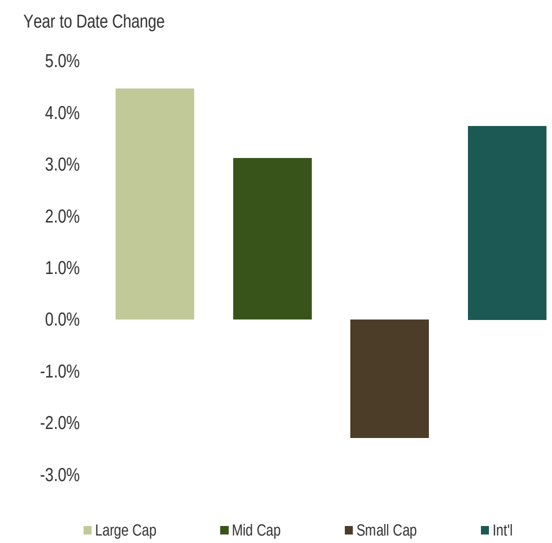
Most overseas markets are faring a little better in 2014. For example, the Stoxx 600 index of European stocks has risen 4.9% year-to-date. Though the European economy is also still struggling to find its footing (except for Germany), stocks there have been heartened by the European Central Bank's focus on ways to fight off deflation and stimulate economic activity. Emerging markets are also generally better than domestic stocks so far in 2014. The MSCI Emerging Markets Index (Total Return, in USD) has risen approximately 4.6% for the year, and the MSCI EFM Africa index and its Southeast Asia index are up about 9%. Notable laggards this year are in East Asia, which is battling slowing growth. China's Shanghai Stock Exchange Composite has fallen 3.5% for the year, and Japan's Nikkei 225 index is down just over 10% year-to-date.

Merger and acquisition activity has accelerated this year, driven by low financing costs, stronger balance sheets, and a challenging economy for organic revenue growth. Apple announced this week that it is paying $3 billion for Beats, which makes headphones and speakers and has a growing music-subscription service. Poultry producer Pilgrim's Pride on Tuesday made a $6.4 billion bid for Hillshire Brands, maker of lunch meats and sausages; but that bid was upped two days later by Tyson Foods.

Name	Previous Week	Current[1]	Change
S&P 500	1,900.53	1,923.57	1.21%
S&P Mid Cap 400	1,369.63	1,377.98	0.61%
Russell 2000	1,125.90	1,134.50	0.76%
MSCI EAFE	1,934.60	1,955.68	1.09%
MSCI EM	1,041.19	1,038.64	-0.25%
DJ Industrial Average	16,606.27	16,717.17	0.67%
NASDAQ	4,185.81	4,242.62	1.36%



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



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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

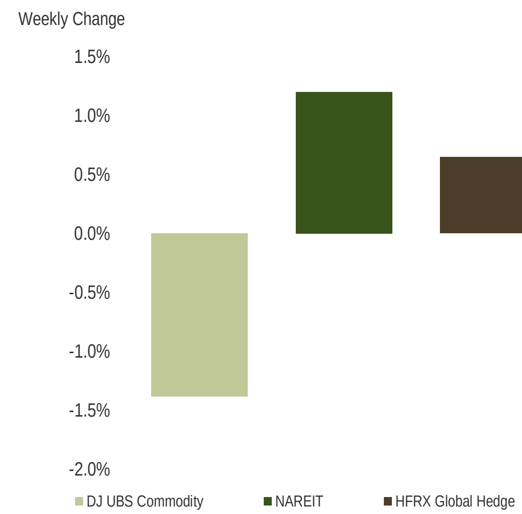
Oil-price volatility fell to a record low on Friday amid diminished speculation of future shortages due to strengthening economies. The growth in U.S. crude supply and spare production capacity in Saudi Arabia helped bring the 20-day historical volatility of Brent crude to 8.1 percent, the lowest since the contracts started trading in 1988. The slip in Brent was also accommodated by Russian troops' pullback from Ukrainian borders. West Texas Intermediate (WTI) suffered its first weekly loss since May 2 due to subpar economic data and inventory buildup showing ample supply. Yesterday, Energy Information Administration (EIA) reported a surge in crude stockpiles to 393 million barrels last week.

The real estate investment trust (REITs) continues to be the best performing sector for the year. The attractive yields, as high as 19%, offered by REITs are looking more appealing than ever given the recent unexpected drop in the long-term rates. The Citigroup survey on the hedge fund industry shed some light on future expectations. The survey showed the industry to double in size over the next four years. The industry is expecting to be managing $5.8 trillion by the end of 2018. The survey results are relative as the industry is taking on more investors in the retail sector looking for uncorrelated returns in their customized portfolios.

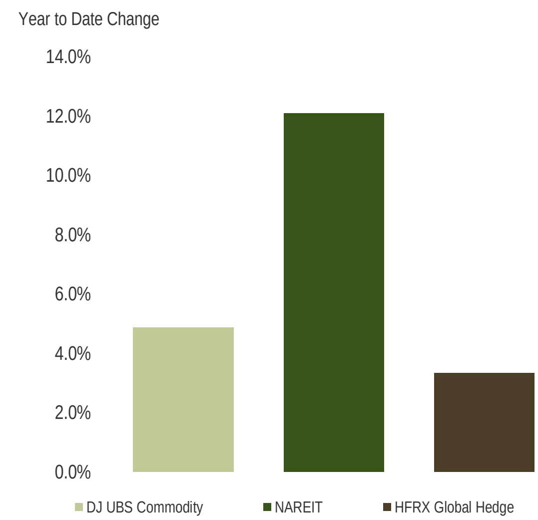
Soybeans fell this week as U.S. sowing progress sent crop futures to their fifth weekly loss. Recent rain in dry regions sparked speculation that the U.S. may have record breaking harvest potential this year and add to strong global supplies. Wheat futures are poised for the biggest monthly decline since 2011. Crops may remain under pressure as forecasts predict abundant rain in the Midwest over the next two weeks will boost soil moisture and crop development.

Gold futures suffered the biggest weekly drop since September as increasing risk appetite sent investors from the safe haven asset to the equity markets. Easing tensions in the Ukraine and growing sentiment that U.S. GDP growth is accelerating in Q2 gave investors little reason to hang on to gold and miss the equity rally. Contracts tumbled across the futures curve, and assets in global gold ETFs suffered outflows with assets tumbling to the lowest since 2009.

Name	Previous Week	Current[1]	Change
DJ UBS Commodity Index	135.71	133.83	-1.38%
FTSE/NAREIT All REIT Index	173.93	176.02	1.20%
HFRX Global Hedge Index	1,227.82	1,235.77	0.65%
Gold	1,292.81	1,251.46	-3.20%
Crude Oil Futures	104.39	102.85	-1.48%



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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