# MainStreet Advisors Financial Market Update

June 20, 2014
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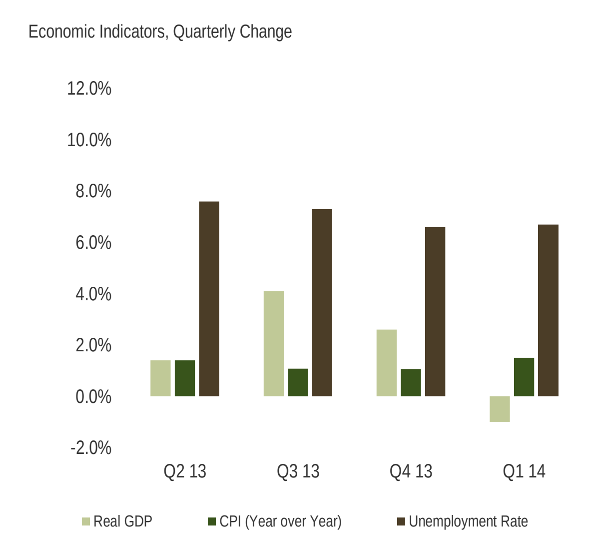
## Economic Update

The Federal Reserve FOMC minutes released on Wednesday provided few surprises as to the Fed's interest rate policy going forward. Bond purchases will continue to shrink by $10 billion a month to $35 billion in July. Despite seeing positive progress in the labor market, the committee still expressed concerns about the unemployment rate. There was no discussion about the latest inflation report, and policy rate forecasts still call for no rate hikes until 2015. Finally, the Fed's GDP estimates for the year were unsurprisingly revised down slightly due to weaker-than-expected numbers in Q1 2014.

Housing starts dropped 6.5% in May following a 12.7% surge in April. Despite falling during the month, the reported 1.001 million annual rate remains 9.4% higher than this time last year. Multi-family units declined 7.6% after rising nearly 30% in April, and single-family starts dropped 5.9%. We could be seeing a minor slowdown in the housing construction market as new permits also fell in May, and were issued last month at a rate of 1.9% less than they were one year ago. Housing data saw weakness during the winter and a boom during the spring so this could be a correction from inflated recovery data released over the past few months.

The manufacturing sector saw more positive news as industrial production beat analyst expectations and rose 0.6% after losing 0.3% in April. This bump also came with upward revisions and production is now up 4.3% from a year ago. The manufacturing element of the data climbed 0.6% and mining production climbed 1.3%; autos and high-tech also gained. Furthermore, capacity utilization crept up to 79.1%, boosting it above the 20-year average. U.S. corporate profits continue to rest near record highs, which could be an indication that companies will continue to have the capacity to make larger investments that provide a boost to industrial demand.




Source: Bureau of Economic Analysis, Bureau of Labor Statistics

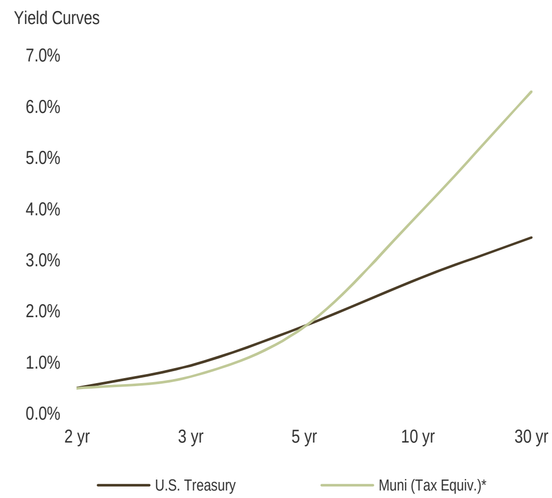
| | |
|---|---|
| June 13th Producer Price Index, May Monthly Chg. | -0.2% |
| June 13th Consumer Sentiment Index, May | 81.2 |
| June 16th Industrial Production, May Monthly Chg. | 0.006 |
| June 17th Consumer Price Index, May Monthly Chg. | 0.4% |
| June 18th Business Inventories, May Monthly Chg. | 0.6% |
| June 19th Housing Starts, May | 1.001 M |
| June 20th Initial Jobless Claims ( Week ending 6/14) | 312,000 |
| June 21th Philidelphia Fed Survey, June | 17.8 |

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

Bond investors responded to Federal Reserve Chair Janet Yellen's warning this week that short-term interest rates might remain low for longer than anticipated by selling U.S. Treasuries. Yellen described inflation data, a primary driver of interest rates, as being on the "high side" but she stressed these figures are "noisy," and indicated price increases are evolving in-line with the central bank's expectations. Looking forward, strategists feel a sixth year of short-term interest rates near zero will continue to push investors into riskier asset classes.

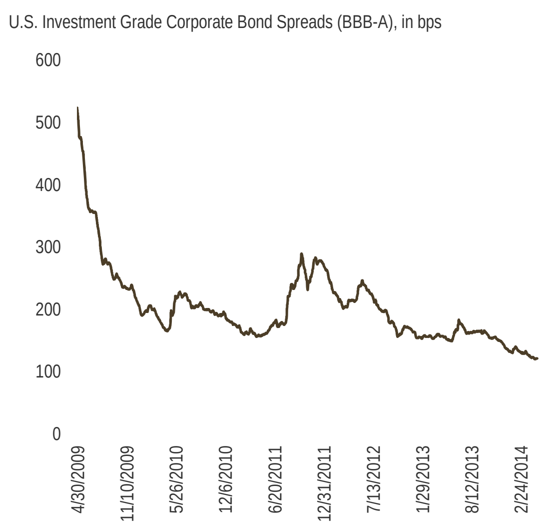
Meanwhile, the supply slump fueling the best run for munis since 2009 is poised to end next year as municipalities ramp up borrowing for long-delayed projects. States and local governments are likely to increase spending by 18% relative to this year, the first increase since 2012, according to a report by Citigroup. Examples of these municipality projects include the need to meet new regulations for water and sewer systems, and financing for road and bridge upgrades. However, until this increase in new issuance materializes, strategists expect the municipal market to remain robust, as new deals today are many times oversubscribed. With less new issuance, cash available to purchase new bonds often surpasses deal sizes by a wide margin, suggesting attractive demand/supply metrics in this space in the short- to intermediate-term.



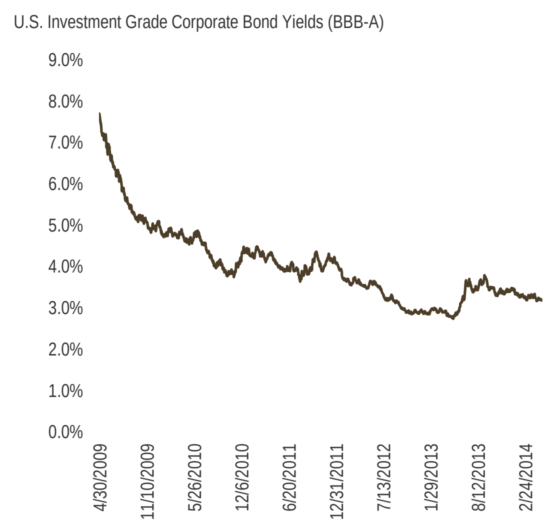

Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

| Issue | 6.13.14 | 6.20.14 | Change |
|---|---|---|---|
| 3 month T-Bill | 0.04% | 0.02% | -0.02% |
| 2-Year Treasury | 0.42% | 0.50% | 0.08% |
| 5-Year Treasury | 1.66% | 1.71% | 0.05% |
| 10-Year Treasury | 2.58% | 2.63% | 0.05% |
| 30-Year Treasury | 3.41% | 3.44% | 0.03% |

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

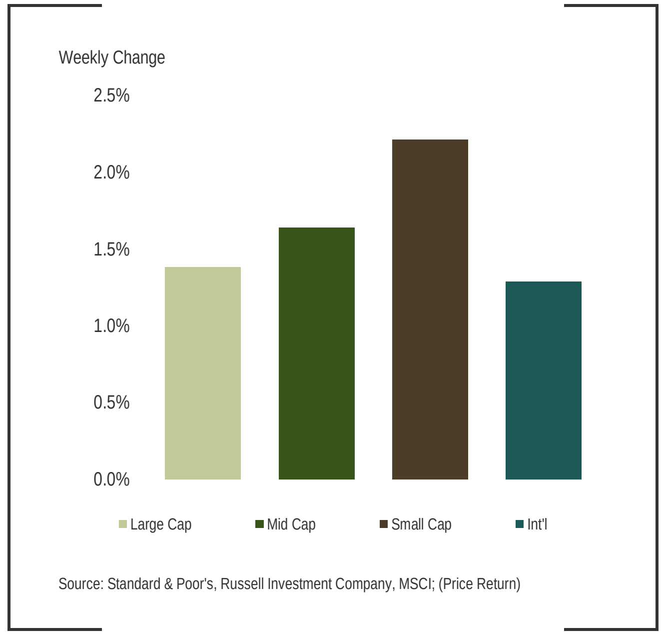


## Stock Market Update

The U.S. stock market pressed higher this week, with the S&P 500 index rising all five trading days, to close at 1,962.87, a rise of 1.4% on the week. The Dow Jones Industrial Average made a new high on Friday, closing at 16,947.08, or 1.0% higher on the week. The biggest movement in equity prices came on Wednesday in reaction to the Federal Reserve's comments after its two-day policy meeting. As expected, the Fed decided to continue tapering its bond-buying program. It also lowered its forecast for U.S. GDP growth for 2014 from 3.0% to 2.2%, in reaction to a weather-influenced first quarter, and slightly upped its targets for the Fed Funds rate for 2015 and 2016. Markets reacted, deciding that the combination of moderate economic growth and ultra-low interest rates is neither too hot nor too cold, but "just right" for equity prices. As we approach mid-year, the year-to-date total return on the S&P 500 is just over 7%.

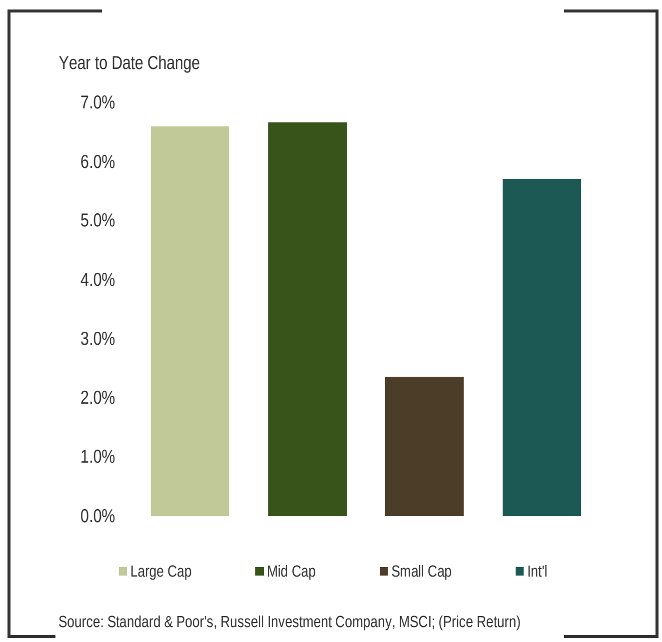
Foreign equity markets acted similarly this week. The MSCI EAFE index of developed markets gained 1.3% for the week. Despite stark differences in the strengths of the developed foreign economies around the world, the year-to-date gain of the EAFE index, at 5.7% (total return, in US dollar terms), is close to that of the S&P 500. Likewise, the MSCI Emerging Markets index has gained just under 6% for the year.

Notable stock movers this week included Oracle, which dropped approximately 4% on Friday after releasing 4Q results that fell short of analyst expectations. Coach fell almost 9% on Thursday after lowering its expectations for same-store sales at a meeting with analysts. Winners this week include CarMax, up over 16% on Friday on stronger sales and earnings than expected. Both FedEx Corporation and Adobe Systems set new highs on Wednesday after strong earnings, rallying 6% and 8% respectively.




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

| Name | Previous Week | Current[1] | Change |
|---|---|---|---|
| S&P 500 | 1,936.16 | 1,962.87 | 1.38% |
| S&P Mid Cap 400 | 1,402.38 | 1,425.36 | 1.64% |
| Russell 2000 | 1,162.68 | 1,188.40 | 2.21% |
| MSCI EAFE | 1,967.38 | 1,992.69 | 1.29% |
| MSCI EM | 1,054.74 | 1,049.94 | -0.46% |
| DJ Industrial Average | 16,775.74 | 16,947.08 | 1.02% |
| NASDAQ | 4,310.65 | 4,368.04 | 1.33% |




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

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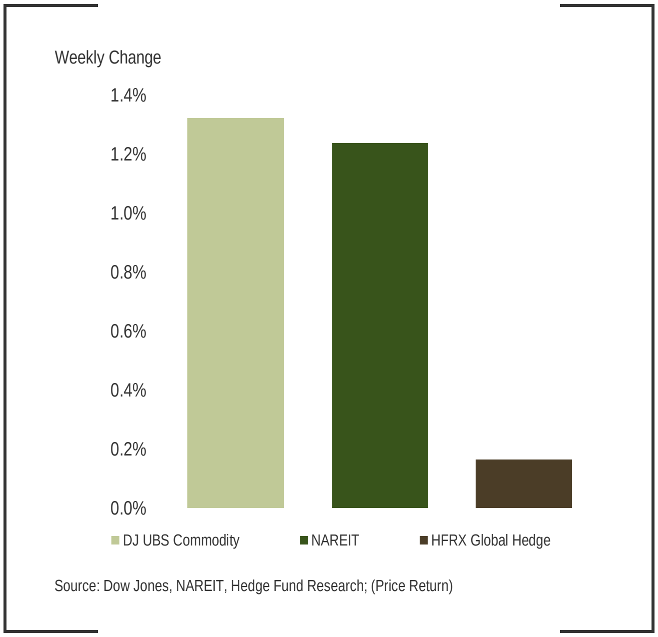
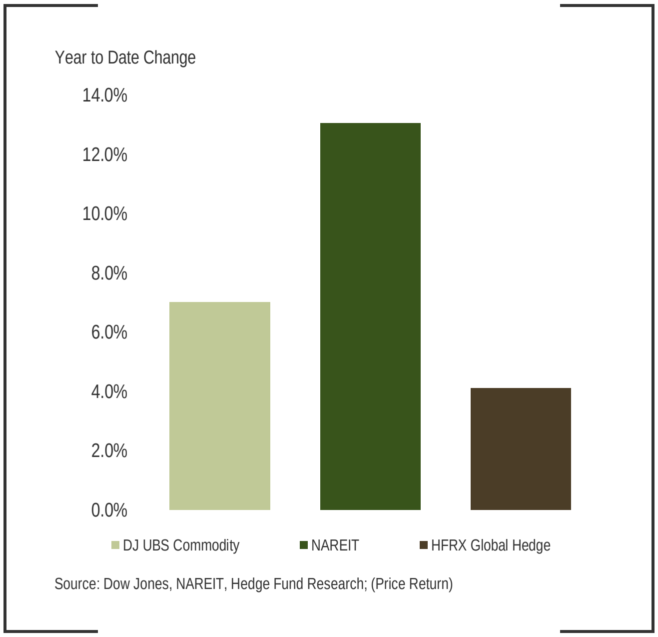
Prices reflect most recent data available at the time of publication
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Cornerstone, Morningstar

## Alternative Investments Market Update

Global oil prices climbed to a new nine-month high this week after President Obama emphasized he wouldn't send U.S. forces to Iraq. Prices were already higher this week on reports that Sunni militants had occupied a chemical-weapons facility in Iraq, and any further deterioration within the country could see prices increase even more. Analysts believe Brent crude could hit $120 a barrel if the violence spreads south of Baghdad, where Iraq's major oil fields are located. These fields are linked by pipelines to the export terminals, from which Iraq ships most of its crude into the Persian Gulf and beyond. Despite all this, the country's oil production and exports haven't been disrupted yet. Iraq exported 2.7 million barrels of oil a day last month, according to the International Energy Agency (IEA). The fighting continued on Thursday over Iraq's largest oil refinery, which serves the domestic market. If the rebels succeed in holding this refinery, they would cut off a vital lifeline of petroleum to the rest of Iraq and further destabilize the country.




Gold prices posted their biggest daily gain in nine months earlier this week, driven by investors who were caught flat-footed by the Federal Reserve's outlook for continued low interest rates. The precious metal rose 3.3% on Thursday, the biggest one-day percentage gain since September 2013. Gold rose after Fed Chairwoman Janet Yellen gave a positive assessment of the U.S. economy on Wednesday, reiterating that rates would stay low for a long time. The metal also got a boost from the continued violence in Iraq, as well as rising tensions between Ukraine and Russia. The precious metal has rocketed past the $1,300-an-ounce threshold, breathing new life into the market and luring momentum-chasing funds in as buyers. Prices for gold are up nearly 6% since hitting a yearly low of $1,240.20-an-ounce earlier this month, but are still below the intraday high of $1,392.60 set in March, which came amid worries that the U.S. recovery was losing its footing, a concern that has been dispersed by an upturn in economic data.




Soybeans fell this week on speculation that U.S. supplies would be ample after farmers expanded planting this season and as most crops are now developing in good condition. The U.S. soybean crop was rated 73% in good or excellent shape as of June 15, the best for the date since at least 1987, according to the U.S. Department of Agriculture.

| Name | Previous Week | Current[1] | Change |
|---|---|---|---|
| DJ UBS Commodity Index | 134.77 | 136.55 | 1.32% |
| FTSE/NAREIT All REIT Index | 175.38 | 177.55 | 1.24% |
| HFRX Global Hedge Index | 1,243.00 | 1,245.04 | 0.16% |
| Gold | 1,277.16 | 1,314.92 | 2.96% |
| Crude Oil Futures | 106.87 | 107.26 | 0.36% |

SEE IMPORTANT DISCLOSURES ON BACK PAGE.
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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