MainStreet Advisors
Financial Market Update

July 3, 2014

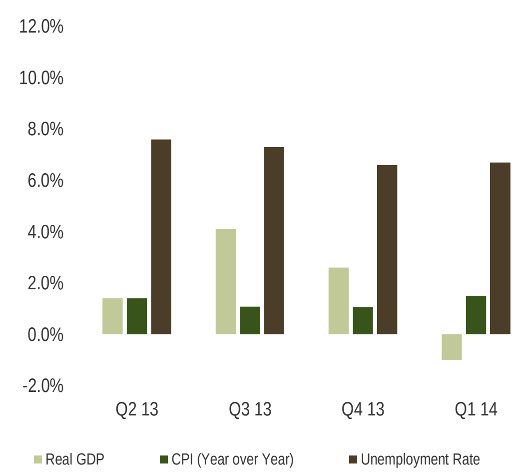
Economic Update

Thursday's employment report was quite strong as 288,000 new jobs were created, blowing away analyst estimates of 210,000 to 215,000. This comes after a gain of 224,000 in May and 304,000 in April, marking three very strong months. The unemployment rate fell to 6.1%, a nearly six-year low, and it certainly seems that the job market is gaining steam. The economic rebound in the second quarter of 2014 is causing companies to hire more staff to meet production demands, and this surge in hiring could translate to higher wages if sustained. The number of the long-term unemployed dropped to its lowest reading in five years, while factories and service providers led the hiring binge.

With positive job growth comes speculation and uncertainty about the Federal Reserve Board and the current tapering of QE3. Fed Chair Janet Yellen confirmed her position on Wednesday that rates would not rise ahead of schedule, and she believes that achieving stability and full employment is the most important focus of the low-rate policy at this time. Some say rates should begin to rise because the economy has reached the employment goals set by the Fed, and also to prevent financial risks caused by inflated market prices, but Yellen maintains that regulation and supervision are the tools she would prefer to use to protect the financial system from turmoil rather than monetary policy.

In the manufacturing sector, the headline ISM Index held steady in May at 55.3, signaling continued growth. However, the new orders component of the report grew 2.0 points to 58.9, which is a leading indicator to increased manufacturing activity going forward. The index has seen four strong months in a row, and has been in expansion (levels over 50) for 13 straight months. According to ISM, a 55.3 reading is consistent with about 4% annualized GDP growth. While this is likely an aggressive estimate, the belief that GDP will rebound in Q2 is gaining momentum.

Economic Indicators, Quarterly Change



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

June 30th	Chicago PMI Business Barometer Index, June	62.6
June 30th	Pending Home Sales, May Monthly Chg.	6.1%
July 1st	ISM Mfg. Index - Level, June	55.3
July 1st	Construction Spending, May Monthly Chg.	0.1%
July 2nd	Factory Orders, May Monthly Chg.	-0.5%
July 3rd	Non-farm Payrolls, June Monthly Chg.	288,000
July 3rd	Unemployment Rate, June	6.1%
July 3rd	International Trade Balance Level, May	$ -44.4B

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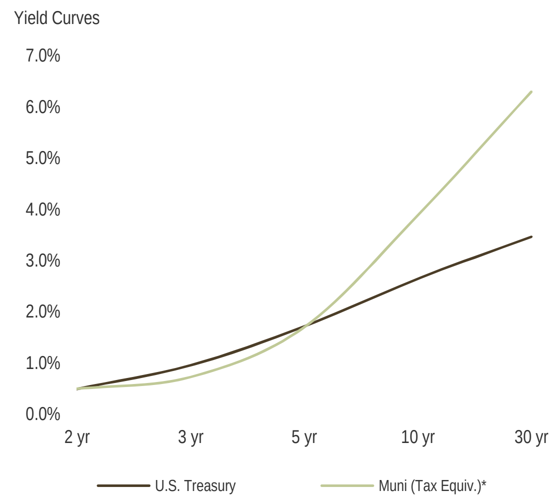
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

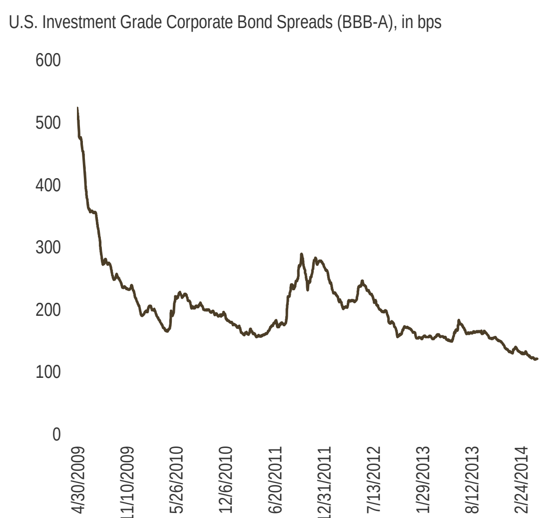
After better than expected economic data reports this week, U.S. Treasuries sold off amid reduced demand for safe-haven assets. Data this week boosted optimism the economy has turned more resilient after a recent soft patch. The selloff sent the yield on the benchmark 10-year note to an intra-day high of 2.69%, its highest level since May 2. At the same time, the two-year note's yield touched its highest level since September 2013. Separately, Fed Chair Janet Yellen said monetary policy faces "significant limitations" as a tool to counter financial stability risks. Some market analysts feel Yellen was rebutting various Fed officials who believe financial stability should be given a more prominent place in formulating policy by arguing higher rates should at least be considered to help mitigate asset bubbles. However, Yellen made clear she did not see the necessity for the central bank to alter its current monetary program. Meanwhile, ECB President Draghi's plan to conduct long-term refinancing operations to motivate its region's banks to lend is adding fuel to the rally in European bonds, banishing memories of the sovereign debt crisis that threatened the ongoing viability of the euro as recently as 2012. Against this backdrop, yields on Belgian, French, Irish, Italian, and Spanish government debt fell to all-time lows, while German government debt, the euro zone's benchmark, fell to levels not reached since early 2013.



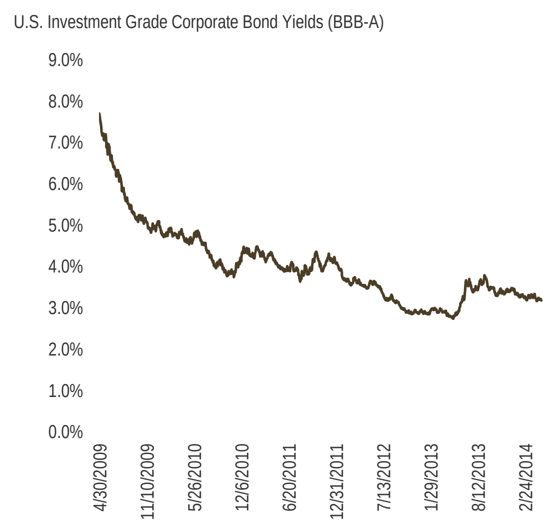
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	6.26.14	7.3.14	Change
3 month T-Bill	0.04%	0.02%	-0.02%
2-Year Treasury	0.46%	0.49%	0.03%
5-Year Treasury	1.64%	1.71%	0.07%
10-Year Treasury	2.53%	2.64%	0.11%
30-Year Treasury	3.35%	3.46%	0.11%

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



Source: Merrill Lynch



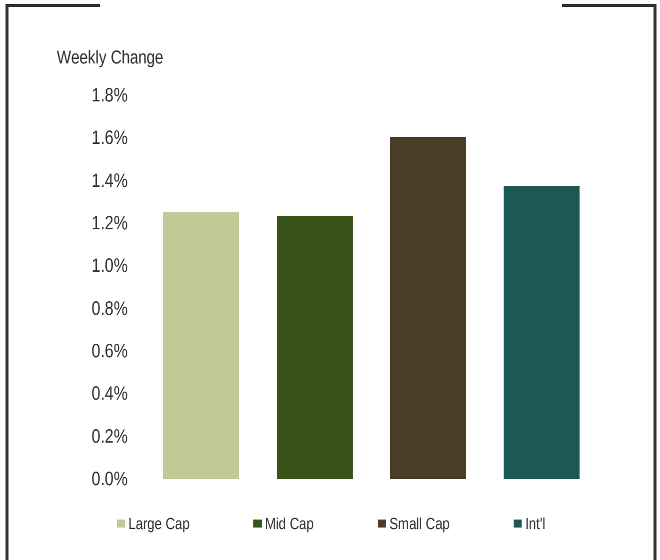
Source: Merrill Lynch

Stock Market Update

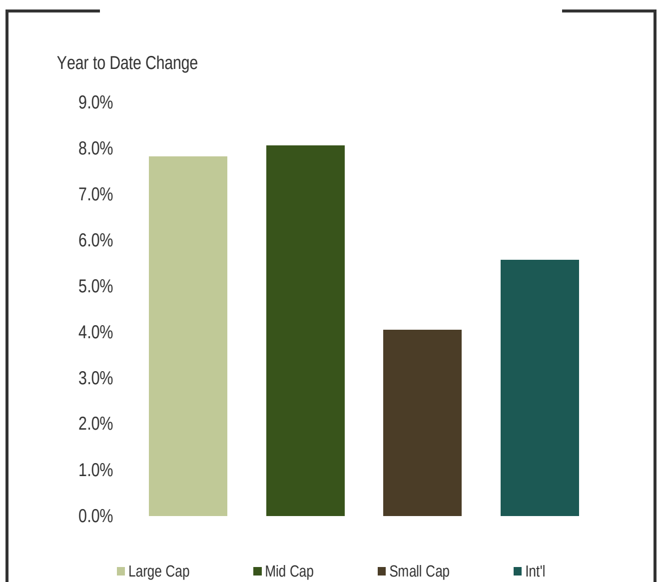
17,000! After hovering just below the 17,000 level to end the first half of 2014 the Down Jones Industrial Average finally eclipsed the 17,000 level on Thursday. The level is more psychological than technical, but it does lift the confidence investors have in the current market environment. The jobs data was released Thursday due to the shortened trading week, and the numbers were well above expectations sending the stock market higher on what is typically a very low volume day. During the past week, the Dow Jones Industrial Average closed at 17,068.26, finishing the week higher by 1.28%. The broader S&P 500 Index ended the week at 1,985.44, higher by 1.27% on the week. The NASDAQ Composite finished higher by 1.76% and closed the week out at 4,485.93.

The European stocks climbed higher Thursday after the European Central Bank (ECB) left key interest rates unchanged. The ECB also left the bank deposit rate unchanged at negative .10% after lowering it into negative territory for the first time last month. The measures put in place were done to spur economic growth throughout Europe, and the markets are trading under the principle that the ECB will remain accommodative.

Shares of PetSmart (PETM) were up sharply Thursday morning after it was announced that hedge fund manager Jana Partners took a 9.9% stake in the company. The hedge fund plans to have discussions with the board of directors at PetSmart to review different strategic moves to enhance shareholder value, including the possible sale of the company or taking the company private. Shares of PETM have been under pressure to start the year and were up 12.50% on the news to close Thursday at $67.28/share.



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	1,960.96	1,985.44	1.25%
S&P Mid Cap 400	1,426.55	1,444.14	1.23%
Russell 2000	1,189.05	1,208.13	1.60%
MSCI EAFE	1,963.27	1,990.23	1.37%
MSCI EM	1,046.81	1,060.57	1.31%
DJ Industrial Average	16,851.84	17,068.26	1.28%
NASDAQ	4,397.93	4,485.93	2.00%

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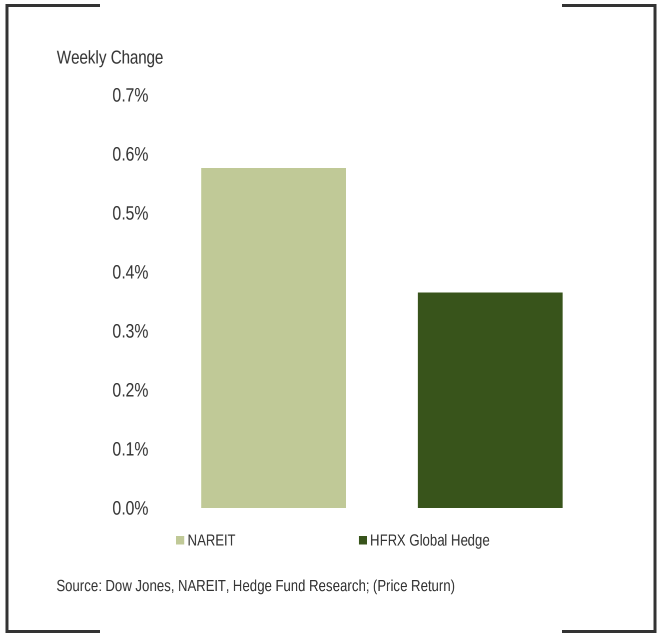
Prices reflect most recent data available at the time of publication
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Cornerstone, Morningstar

Alternative Investments Market Update

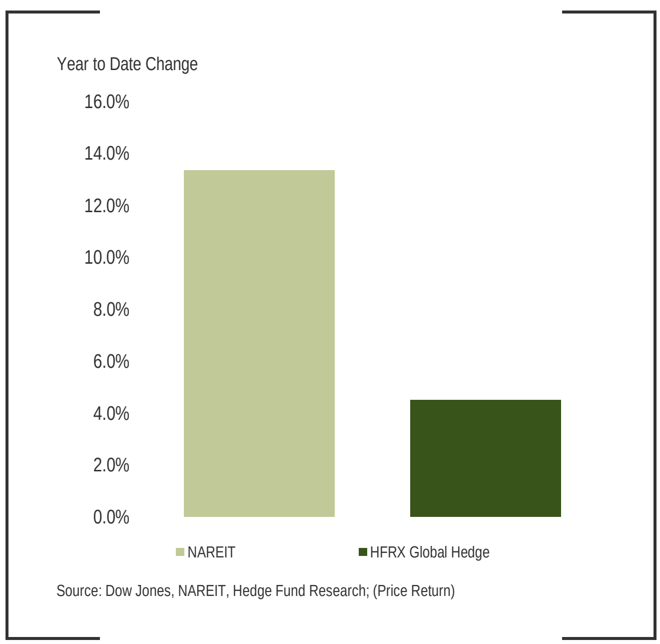
Crude oil dropped slightly below $104 a barrel this week as the risk of supply disruptions in Iraq continued to recede, and two key export terminals in Libya were expected to reopen soon. The terminals in eastern Libya manage nearly half the country's normal oil exports. Strikes and armed occupations at fields and ports since the fall of leader Muammar Gadhafi had cut Libyan production to around a fifth of its normal output of about 1.5 million barrels a day. Analysts believe that a resumption of Libyan exports would reduce concerns in the oil market that an insurgency in Iraq could lead to supply disruptions. Futures have fallen for five straight sessions as market participants appear less concerned that the turmoil in Iraq could immediately threaten the country's oil output. Iraq's oil production is based in the southern part of the country, far from the current fighting. Crude prices were also affected by higher government data released this week showing a bigger-than-expected drop in oil and gasoline stockpiles. Crude oil stockpiles decreased by 3.2 million barrels, nearly doubling analysts' previous expectations for stocks to fall by 1.7 million barrels on the week. Demand for crude typically rises at this time of year as refineries conclude seasonal maintenance and ramp up production ahead of the busy summer driving season. Gasoline stockpiles fell by 1.2 million barrels to 213.7 million barrels, the EIA said in its weekly report. Analysts surveyed by The Wall Street Journal expected a 200,000 barrel increase.



Corn traded near the lowest numbers in almost six months, and is on the verge of a bear market amid expectations farmers will produce a record crop in the U.S., the world's largest grower and exporter. According to Bloomberg, the crop may join wheat in a bear market as global grain stockpiles rise, helping curb world food costs while crimping farmers' incomes. Prices fell this week after the U.S. Department of Agriculture stated domestic inventories of the most valuable U.S. crop were bigger than expected.

U.S. soybean futures rose for the first time in five sessions today, as investors returned to the market to seek cheap valuations in the wake of recent losses. Prices of the oilseed fell to a five-month low of $13.0500 earlier this week after the U.S. Department of Agriculture projected U.S. soybean seedings at a record high 84.8 million acres, up from a prior forecast for about 81.49 million acres.

Name	Previous Week	Current[1]	Change
FTSE/NAREIT All REIT Index	176.99	178.01	0.58%
HFRX Global Hedge Index	1,245.20	1,249.75	0.37%
Gold	1,318.80	1,321.10	0.17%
Crude Oil Futures	105.81	103.76	-1.94%



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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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