MainStreet Advisors
Financial Market Update

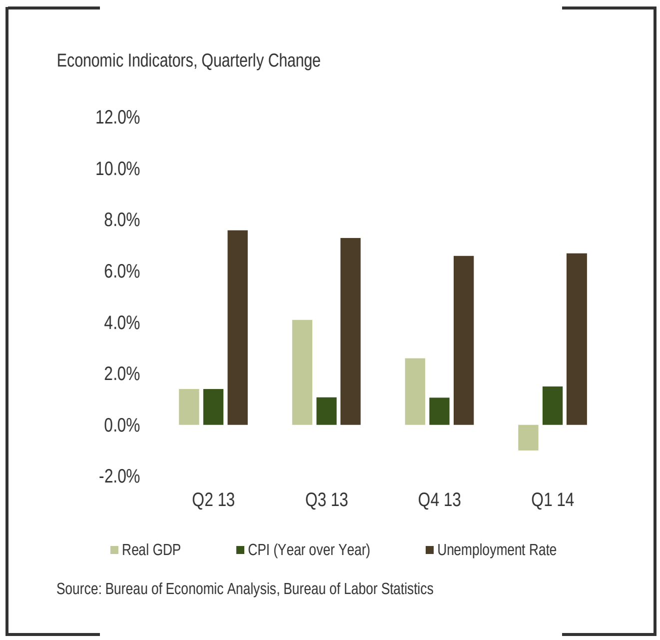
July 25, 2014

Economic Update

Global purchasing managers' index (PMI) reports were stronger than expected this month in many key industrial nations. China hit an 18-month high with a reading of 52, one full point over expectations, after policy makers introduced an increase to their accommodative stance with regards to economic policy. France and Germany both hit a three-month high, and the euro zone as a composite beat by over one point as business activity continued to accelerate. One of the only weak spots was Japan, whose PMI reading fell to 50.8 in July. This reading still indicates an expanding environment, but the fall represents a deceleration in growth likely stemming from tax law changes earlier in the year.

Turning to the U.S., the housing market had a mixed June as new home sales dropped, while existing home sales continued to recover from winter lows. New home sales fell 8.1% in June to an annual rate of 406,000, down 11.5% from last year. This metric has remained weak for a few reasons. First, there has been a trend in the U.S. of increased renting since the housing crisis, resulting in lower overall home ownership. Second, many buyers are opting to purchase condos or high-rise apartments, which are not counted in the single-family new homes sales data. Lastly, financing is still tighter than it has been in the past. Inventories, which had been suppressed for quite some time, did rise in June, but they remain low as well. Meanwhile, existing home sales jumped 2.6% to a 5.04 million annual rate as all four U.S. regions saw gains. Both single-family and condo sales increased, but existing inventory remained at 5.5 months, which is the primary reason realtors say this winter was so weak in the housing market.

Finally, durable goods orders increased 0.7% in June, making a comeback from the 1.0% drop in May. Orders are now up in four of the last five months as U.S. manufacturing continues its uptrend into the summer. This should contribute to second quarter GDP significantly, which will be released next Wednesday.



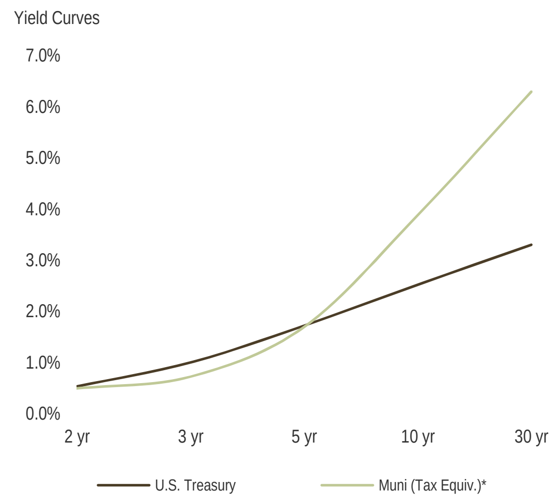
July 17th	Philidelphia Fed Survey, July	23.9
July 18th	Consumer Sentiment Index, July	81.3
July 22nd	Consumer Price Index, June Monthly Chg.	0.3%
July 22nd	Existing Home Sales, June SAAR*	5.04M
July 24th	Initial Jobless Claims (Week ending 7/19)	284,000
July 24th	New Home Sales, June	406,000
July 25th	Durable Goods New Orders, June Monthly Chg	0.7%

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

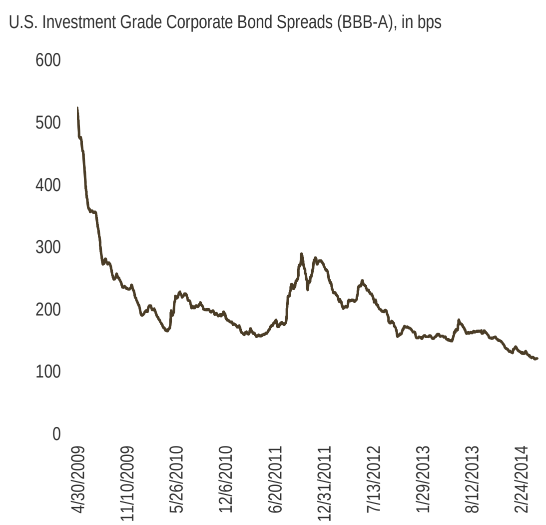
Despite upbeat data reports, U.S. Treasuries finished the week mostly unchanged, with the intra-day yield on the 10-year note falling to its lowest levels in more than one year. Some strategists feel that this low yield, tethered to 2.5% recently, signals either prolonged geopolitical or economic concerns in the market. For yields to move significantly higher, market participants will need to see stronger signs of growth and inflation, enough for the Federal Reserve to acknowledge progress toward a more robust domestic economy. Meanwhile, investors have started to sell high-yield bonds at the fastest pace in more than a year, with valuation concerns triggering the sell-off. Strong demand in this area of the fixed income market over recent years has sent yields and spreads to near record low levels. Notwithstanding low default levels, strategists warn yields have dropped to levels where investors are not being adequately compensated for risk. In a sign of weakness, two PIMCO high-yield funds saw $1.8 billion of outflows in June, their largest drawdown on record. Given these concerns, we continue to focus on short-duration platforms in this sector of the market.



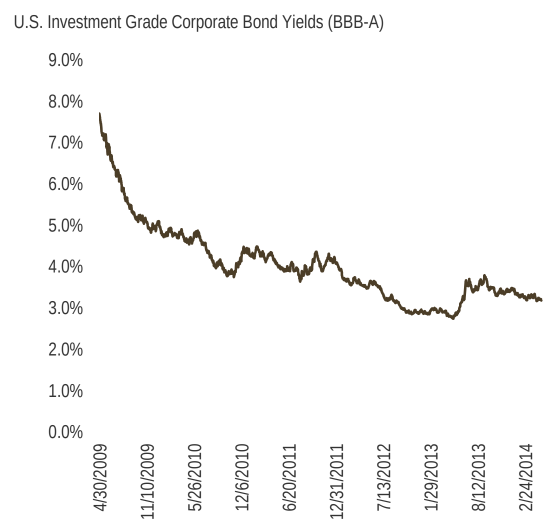
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	7.18.14	7.25.14	Change
3 month T-Bill	0.02%	0.03%	0.01%
2-Year Treasury	0.51%	0.53%	0.02%
5-Year Treasury	1.69%	1.72%	0.03%
10-Year Treasury	2.50%	2.52%	0.02%
30-Year Treasury	3.29%	3.30%	0.01%

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

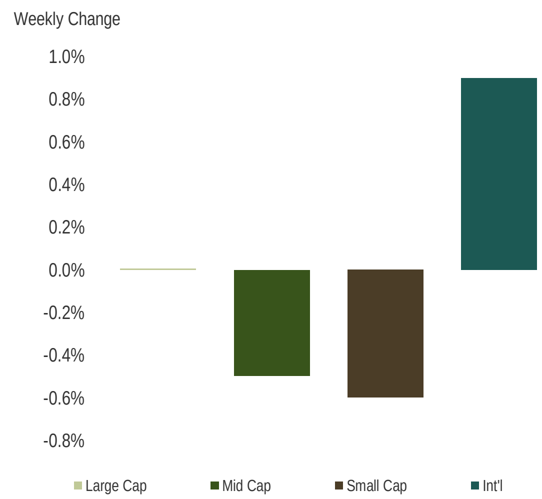
Stock Market Update

U.S. stocks were mixed this week as a mostly positive start to the earnings season has offset the unsettling geopolitical headlines that continue to raise concerns about global growth and stability. On Thursday, the S&P 500 hit an all-time high for the 27th time this year but the index pulled back on Friday to finish the week without a gain. The Dow Jones Industrial Average was down 0.8% for the week to close at 16,960.57. The broader S&P 500 was flat to end the week at 1978.34. The tech-heavy NASDAQ Composite Index posted a gain of 0.4% closing at 4449.56 on Friday.

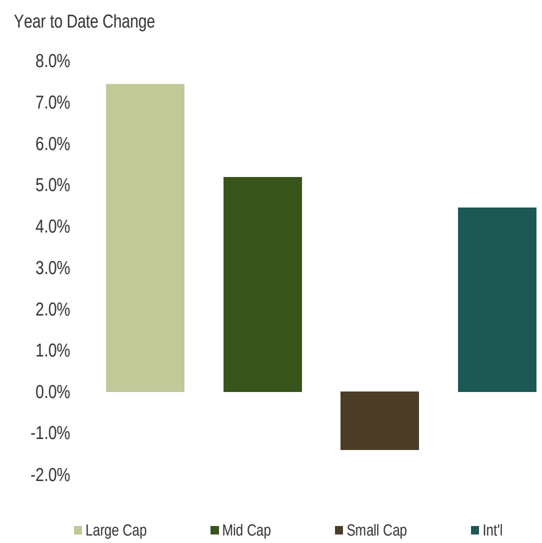
Japan's Nikkei Index rose 1.1% on Friday to close at its highest level in six months, boosted by a strong profit report from Fanuc Corp. The Nikkei Index ended at 15,457.87, its highest closing level since Jan. 23. For the week, it gained 1.6%. In China, the Shanghai Composite Index added 3.3% for the week, after the HSBC preliminary purchasing managers index (PMI), which measures Chinese manufacturing activity, jumped to an 18-month high. In Europe, the STOXX 600 Index was down on Friday due to a weaker-than-expected reading on German business confidence, but was able to hold on to a gain of 0.7% for the week.

With earnings season in full swing, the early results have been positive with the technology and health care sectors leading the way by posting solid year-over-year earnings and revenue growth. Just over 45% of S&P 500 companies have reported so far and 76% of companies have come in ahead of earnings expectations according to FactSet Research. Apple reported slightly better results with revenues 6% higher than a year ago, and earnings that were 20% higher than a year ago on higher gross margins and an aggressive stock buyback program. Despite increased R&D spending, Apple was able to add to its cash stockpile which now stands at $165 billion. Gilead reported revenues that beat expectations by 12%, and earnings that were over 20% better than expected. Sales of its hepatitis C drug, Solvaldi, came in way ahead of expectations at $3.48 billion. Disappointing reports from Amazon and Visa pulled down equity markets on Friday.

Name	Previous Week	Current[1]	Change
S&P 500	1,978.22	1,978.34	0.01%
S&P Mid Cap 400	1,412.73	1,405.72	-0.50%
Russell 2000	1,151.61	1,144.72	-0.60%
MSCI EAFE	1,951.66	1,969.22	0.90%
MSCI EM	1,062.59	1,080.85	1.72%
DJ Industrial Average	17,100.18	16,960.57	-0.82%
NASDAQ	4,432.15	4,449.56	0.39%



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



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

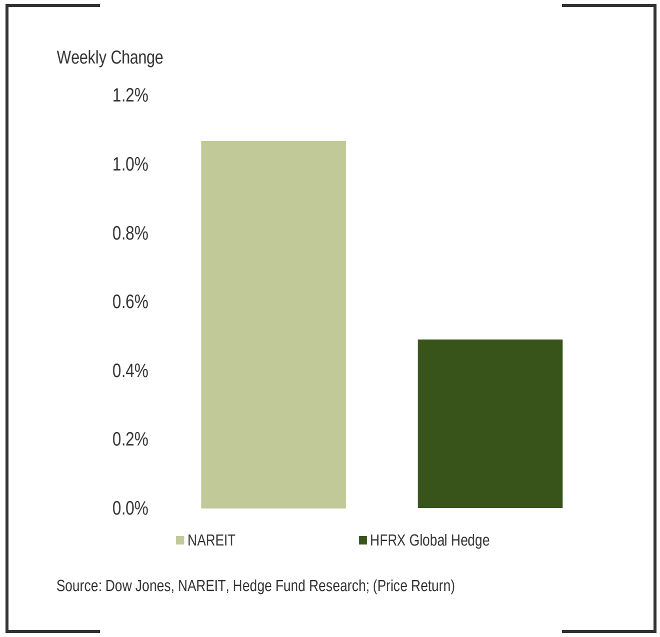
Gold edged up on Friday, but not far off a five-week low, and was headed for a second straight week of losses, as a strong dollar after robust economic data offset a fall in equities due to rising political tensions. Bullion has lost 1.3% of its value so far this week, following a 2% fall in the previous one, mostly on speculation that an improving employment sector in the U. S. could signal an early rate increase by the Federal Reserve. Higher interest rates would encourage investors to switch to assets that, unlike gold, pay interest.

West Texas Intermediate (WTI) crude endured its third weekly drop this month amid speculation that rising U.S. gasoline stockpiles signal reduced demand in the world's biggest oil consumer. Gasoline inventories climbed to the highest level since March, while crude supplies dropped for a fourth week, per data from the Energy Information Administration.

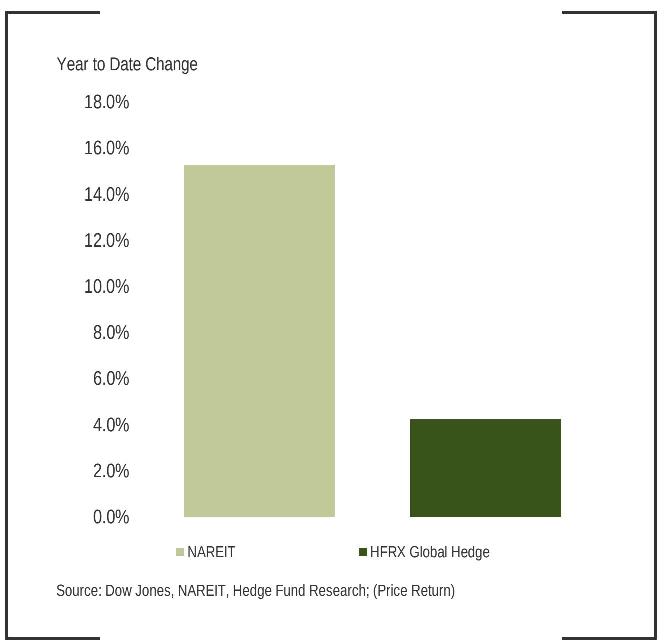
Soybeans and corn fell on Friday, extending weekly losses on signs that supplies from the next U.S. harvest will be ample as crops in the Midwest are developing in good condition. Yields in Iowa, historically the biggest U.S. producer of both crops, may rise to records this season as cool temperatures boosted plant development. Seventy-two percent of soybeans and 76% of corn in the main U.S. growing areas were in good or excellent condition as of July 20, according to the USDA. The agency estimated this month that U.S. farmers would harvest a record soybean crop at 3.8 billion bushels, while corn output at 13.86 billion bushels will be the second highest ever.

Investor redemptions from hedge funds fell sharply this month, after quarterly rebalancing induced a spike last month. The SS&C GlobeOp Forward Redemption Indicator, an index that measures redemption notices received by hedge funds administered on the firm's GlobeOp platform, dropped from 4.8% in June to 3.15% in July according to SS&C Technologies. The global hedge fund industry took in $30.5 billion in new money in Q2, pushing its asset base to a new record of $2.8 trillion, according to Hedge Fund Research (HFR). Q2's inflow is the eighth straight for the industry, and topped Q1's $26.3 billion. In fact, last quarter's was the largest infusion of new capital into hedge funds since Q1 2011.

Name	Previous Week	Current[1]	Change
FTSE/NAREIT All REIT Index	179.10	181.01	1.07%
HFRX Global Hedge Index	1,240.29	1,246.36	0.49%
Gold	1,311.40	1,307.53	-0.30%
Crude Oil Futures	103.00	101.96	-1.01%



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



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

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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