# MainStreet Advisors Financial Market Update

August 1, 2014

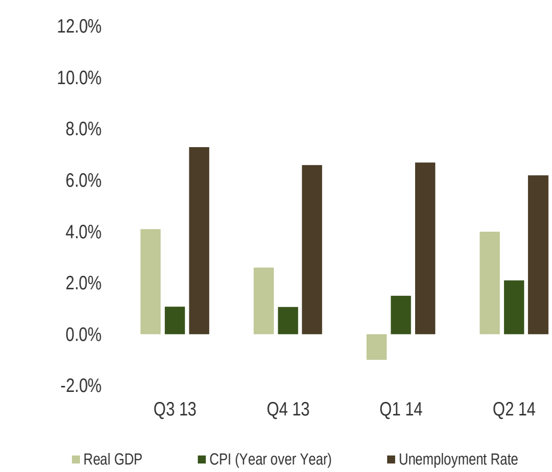

## Economic Update

FOMC concluded its meeting Wednesday, noting improvements in labor conditions and anticipation that progress towards full employment will continue, indicating its confidence in the growth trend of the economy. There is debate among the FOMC members about the best timing for a rate hike, but if the labor market and inflation data continues to be solid, it is possible that a rate increase could occur sooner than many market participants expect.

The job market improved again in July albeit at a slower pace. The payroll report released this month continued the positive trend by adding 209,000 new jobs, after 288,000 were created in June. This was a bit lower than analysts expected (233,000), and further reinforces the Fed opinion that the job market has room to improve. The unemployment rate nudged up to 6.2% from 6.1%, meeting analyst expectations, while average weekly earnings were flat. This trend suggests that the economy is stabilizing, and is capable of producing measured unemployment gains and earnings growth. The Conference Board's Consumer Confidence Index increased to 90.9, a recovery level high, after an already strong 86.4 in June. July's reading exceeded analysts' projections, and is the highest since December 2007.

Wednesday's GDP release estimate for Q2 was a robust 4.0%, beating analyst estimates of 3.1%. This follows a revised estimate for first quarter GDP at -2.1% (previously at -2.9%). The recovery in the second quarter was led by inventory growth, which bounced back after a slow first quarter. Despite improvements in other sectors, there is still weakness in the housing sector. Pending house sales declined 1.1% mo/mo in June, which reflects a dip in the South, but a gain in the Midwest. However, it looks like home prices are moderating as reflected in the Case-Shiller House Price Index, down significantly to 9.3% from the two prior month's readings at 10.8% and 12.4%. Overall, the economy seems to be stabilizing, and the slack mentioned by the Fed seems to be decreasing.

Economic Indicators, Quarterly Change



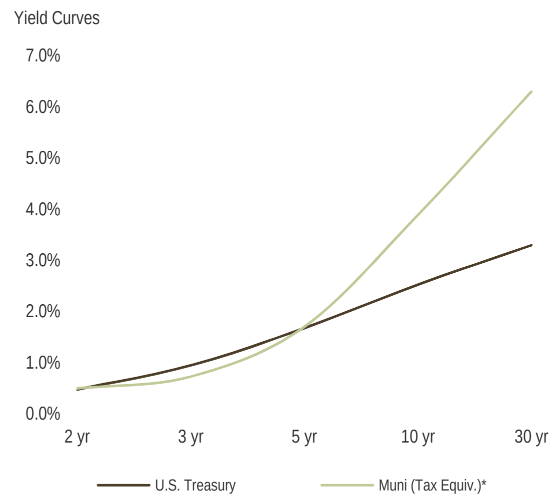

Source: Bureau of Economic Analysis, Bureau of Labor Statistics

| | | |
|---|---|---|
| July 29th | Consumer Confidence Index, July | 90.9 |
| July 30th | MBA Purchase Applications Index, Wkly. Chg. | 0.2% |
| July 30th | Real GDP, Q2 Quarterly Change SAAR* | 4.0% |
| July 30th | Initial Jobless Claims ( Week ending 7/26) | 302,000 |
| Aug 1st | Unemployment Rate, July | 6.2% |
| Aug 1st | Personal Income, June Monthly Chg. | 0.4% |
| Aug 1st | ISM Mfg. Index - Level, July | 57.1 |

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

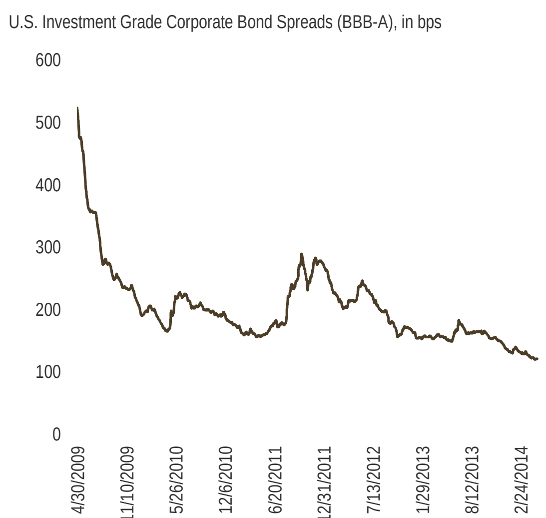
Amid mixed economic reports, U.S. Treasuries finished the week lower, with the 10-year note yield, a benchmark for global borrowing costs, climbing above the 2.50% level. For the month of July, most bond markets posted negative returns with the exception of long U.S. Treasuries and munis, a turnaround from the first six months of the year when riskier assets outperformed. Many strategists today feel as the Federal Reserve moves closer to curbing its stimulus programs, forecasts for returns in the bond market ought to be lowered. Meanwhile, Standard & Poor's declared Argentina in default after the government missed a deadline for paying interest on $13 billion of restructured bonds. In a sign of economic weakness, the country failed to get a $539 million payment to bondholders after a U.S. judge ruled the money could not be distributed unless a group of hedge funds holding already-defaulted debt was also paid. In default for the second time in 13 years, Argentina holds approximately $200 billion in foreign currency debt. This, along with comments from government officials suggesting a deal to resolve the crisis might take longer than previously expected, sent prices on the country's government debt sharply lower. From a global perspective, spillover effects into other areas of the bond market are likely to remain muted as most strategists expect the country to take ordered steps to restore its standing with international creditors.



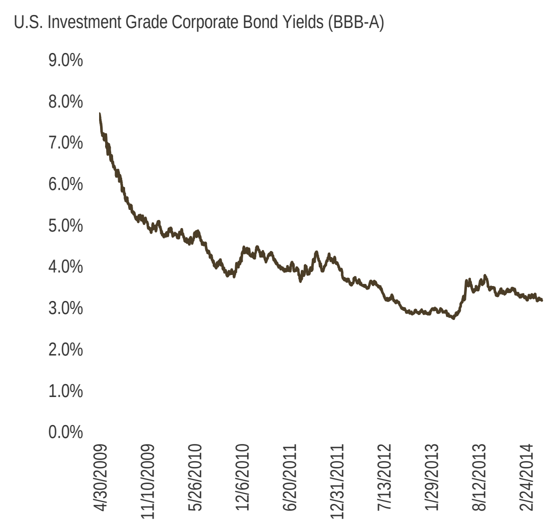

Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

| Issue | 7.25.14 | 8.1.14 | Change |
|---|---|---|---|
| 3 month T-Bill | 0.03% | 0.03% | 0.00% |
| 2-Year Treasury | 0.53% | 0.47% | -0.06% |
| 5-Year Treasury | 1.72% | 1.67% | -0.05% |
| 10-Year Treasury | 2.52% | 2.52% | 0.00% |
| 30-Year Treasury | 3.30% | 3.29% | -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

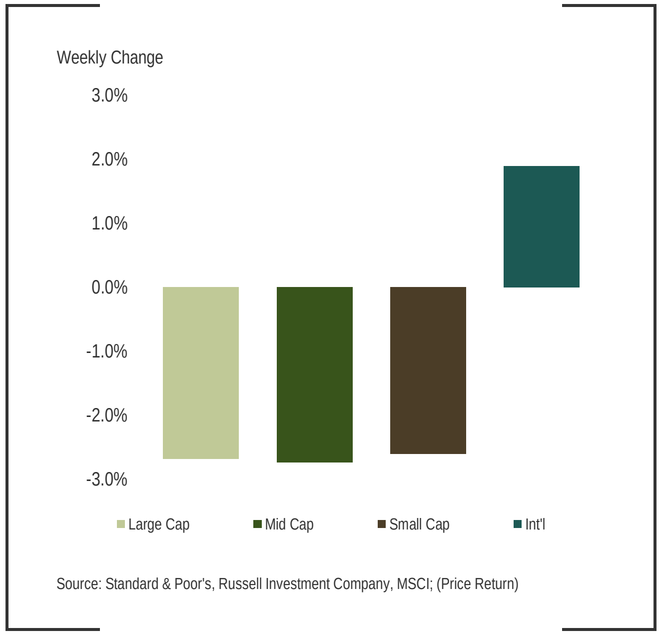
## Stock Market Update

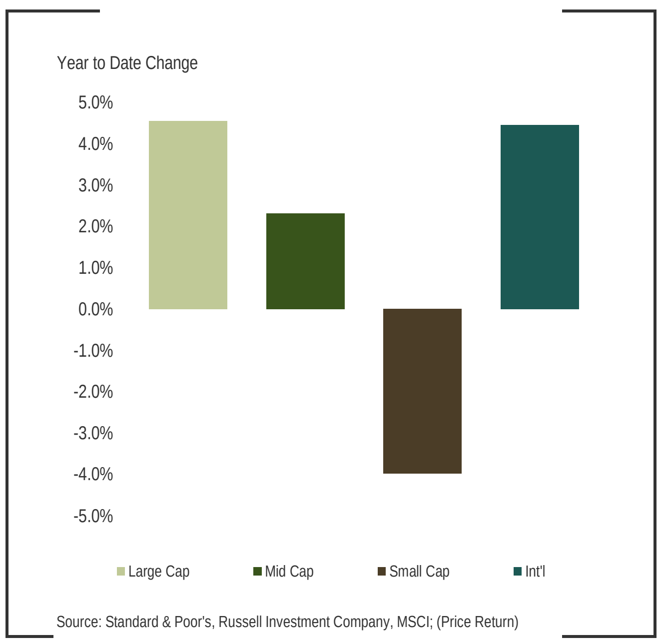
Equity markets were mixed across the globe this week. On Thursday the Dow fell 317 points, its worst day since February, on fears the Fed may need to raise interest rates sooner than expected, as well as concerns about Argentina's debt default and the ongoing Ukraine/Russia tensions. An upbeat jobs report helped stabilize the markets to some degree on Friday, but they were mostly down from last week's close. The Dow finished Friday at 16,493.37, lower by 2.8% for the week. The broader S&P 500 Index declined 2.7% to end the week at 1,925.15. The tech-heavy NASDAQ Composite Index fell 2.2% to close out the week at 4,352.64. For the month of July, the Dow, S&P 500, and the NASDAQ closed lower by 1.6%, 1.5%, and 0.9% respectively.

Stocks in Europe were also down this week. On Tuesday the European Union voted to extend economic sanctions on Russia. Then on Thursday, disappointing earnings from several blue chip European companies, as well as reports of a drop in euro zone inflation to just 0.4%, weighed on stocks. The Stoxx 600 Index closed down 2.6% for the week, and 1.7% for July. Bucking the trend were markets in Asia which finished in positive territory for the week and month. The Nikkei Index reached levels on Tuesday it had not seen since late January, closing up 0.4% for the week, and 3% for the month of July. The Shanghai Composite Index surged 7.5% in July, its biggest monthly advance since December 2012, amid optimism the government will achieve its 2014 economic-growth target after boosting railway spending, allowing cities to loosen property purchase restrictions, and cutting reserve requirement ratios for some lenders.

Companies of note that reported quarterly earnings results this week included pharmaceutical giants Merck and Pfizer. While both companies' earnings and sales were ahead of expectations, Pfizer lowered its full year sales outlook. Shares of Whole Foods sold off on Thursday after the company reported slower same store sales growth. Internet and social media companies Twitter, LinkedIn, and Expedia also announced quarterly results ahead of consensus estimates. While Twitter shares soared nearly 20% on better than expected user and ad growth, the stock is still down 29% year to date.

| Name | Previous Week | Current[1] | Change |
|---|---|---|---|
| S&P 500 | 1,978.34 | 1,925.15 | -2.69% |
| S&P Mid Cap 400 | 1,405.72 | 1,367.20 | -2.74% |
| Russell 2000 | 1,144.72 | 1,114.86 | -2.61% |
| MSCI EAFE | 1,932.59 | 1,969.22 | 1.89% |
| MSCI EM | 1,065.78 | 1,080.85 | 1.41% |
| DJ Industrial Average | 16,960.57 | 16,493.37 | -2.75% |
| NASDAQ | 4,449.56 | 4,352.64 | -2.18% |



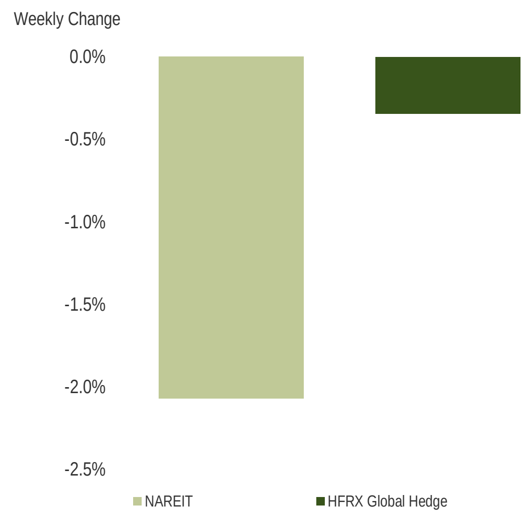


Prices reflect most recent data available at the time of publication
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Cornerstone, Morningstar

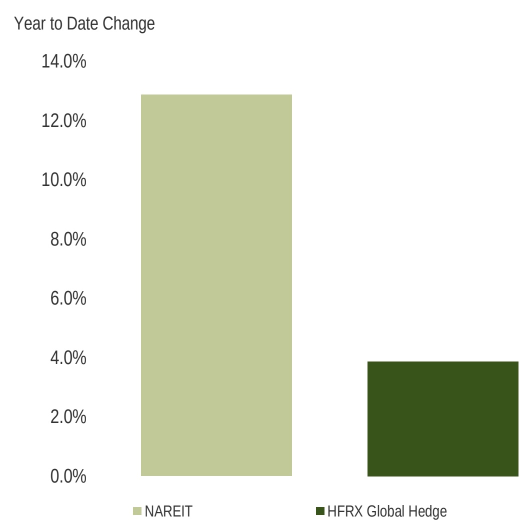
## Alternative Investments Market Update

Gold rose 1% on Friday, a day after touching a six-week low as U.S. payrolls data missed expectations, dampening talk of an early interest rate rise by the Federal Reserve and pressuring the dollar. A string of upbeat reports on the U.S. economy, including signs of an improving job market, helped the precious metal to its biggest monthly loss (3.4%) this year. Bullion managed to claw back lost ground, however, after data showed U.S. job growth slowed more than expected last month and the unemployment rate rose, pointing to some slack in the labor market that could give the Fed room to keep interest rates low. That would keep the opportunity cost of holding gold versus higher-yielding assets low. Also, demand for physical gold in Asia failed to pick up in a robust way despite the price drop this week. Metals consultancy GFMS, a division of Thomson Reuters, warned that buying in the main physical gold markets of China and India may not be strong enough to provide a floor for prices this year. Gold prices remain up 6.6% this year, but the bulk of these gains were made in Q1.

Oil futures extended losses for a second day on Friday in tandem with the broader market. Crude futures pared losses briefly in early trading after U.S. jobs data for July showed the unemployment rate ticked up to 6.2% from 6.1%, while payroll gains of 209,000 were lower than the average analysts' estimate of 230,000. The weaker-than-expected data was taken across the markets as a signal that the Federal Reserve could hold off on raising interest rates, extending easy-money policies that have fueled the long running rise in risk assets before Thursday's steep selloff. However, the slide in oil prices resumed as fundamental factors weighed. The market remains adequately supplied, and the unexpected shutdown of a Kansas refinery, which could last as long as a month, is expected to reduce demand for oil from the key delivery point for the U.S. benchmark contract at Cushing, Oklahoma. This may slow the trend of declining inventories there that has been one of the biggest bullish drivers for the market all year. Taken together, the factors have combined to drive bullish investors out of oil markets, where speculative levels have been hitting all-time highs.



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



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

| Name | Previous Week | Current[1] | Change |
|---|---|---|---|
| FTSE/NAREIT All REIT Index | 181.01 | 177.26 | -2.07% |
| HFRX Global Hedge Index | 1,246.36 | 1,242.06 | -0.35% |
| Gold | 1,307.53 | 1,293.90 | -1.04% |
| Crude Oil Futures | 101.96 | 97.62 | -4.26% |

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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