

# MainStreet Advisors Financial Market Update

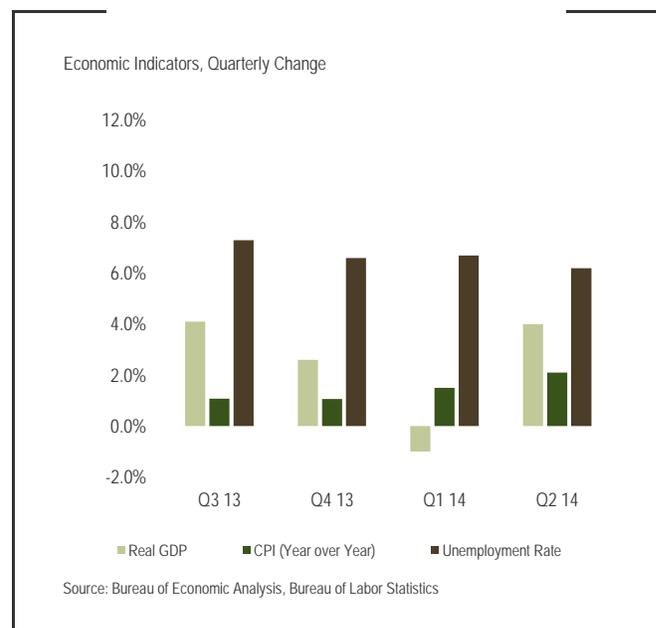
August 8, 2014  
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## Economic Update

The U.S. trade deficit in goods and services for June came in at \$41.5 billion, lower than analyst expectations for \$44.8 billion. This follows another month of narrowing deficits after May's number was revised down from \$44.7 billion to \$44.4 billion. Exports were up by \$0.3 billion, driven by civilian aircraft and pharmaceuticals, while imports declined \$2.9 billion, driven by cellphones, other household goods and petroleum products. The petroleum trade balance again declined to \$14.7 billion from \$15.2 billion in May. Eight years ago, the U.S. imported 10 times the amount of petroleum it exported; now, petroleum imports are only 2.2 times exports. If this trend continues, the U.S. could move to a trade balance or even a surplus of petroleum.

The ISM service report is at its strongest levels of the recovery, with strength led by the construction component. The July composite index came in at 58.7, up 2.7 points from June. Factory orders were up 1.1% in June following a downward revision of 0.6% for May. The durable goods component shows a 1.7% increase, while non-durable goods showed a 0.6% improvement over May's 0.2% decline. The ISM Manufacturing Index increased 57.1 in July, up from 55.3 in June, beating analyst estimates of 56. Levels above 50 signal expansion, while levels below 50 signal contraction, and the major components for July all came in higher than May and well above 50, indicating steady growth. July's reading for ISM's composite index is the highest in 3 years, while the new orders component of the index, which rose to 63.4, could be a sign of continuing acceleration in the sector.

Jobless claims fell again this week to 289,000, with the 4-week average hitting a new recovery low at 293,500. Although the weekly data has fluctuated, the 4-week average has contributed a downward trend that has continued over the past several months. The report, along with growth in services and manufacturing, points to steady employment gains carrying over into upcoming months.



|         |   |               |
|---------|---|---------------|
| Aug 5th | ICSC-Goldman Same Store Sales, Wkly. Chg.   | 0.2%          |
| Aug 5th | Factory Orders, June Monthly Chg.           | 1.1%          |
| Aug 5th | ISM Non-Mfg. Index, July                    | 58.7          |
| Aug 6th | MBA Purchase Applications Index, Wkly. Chg. | 1.6%          |
| Aug 6th | International Trade Balance Level, June     | -41.5B        |
| Aug 6th | EIA Petroleum Status Report, Wkly. Chg.     | -1.8M Barrels |
| Aug 7th | Initial Jobless Claims (week ending 8/2)    | 289000        |
| Aug 7th | Consumer Credit, June Monthly Change        | 17.3B         |
| Aug 8th | Wholesale Inventories, June Monthly Chg.    | 0.3%          |

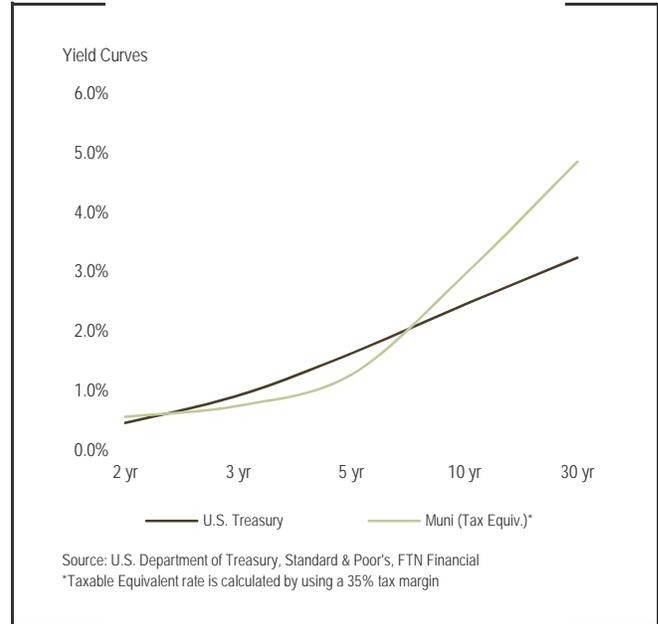
SEE IMPORTANT DISCLOSURES ON BACK PAGE.

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

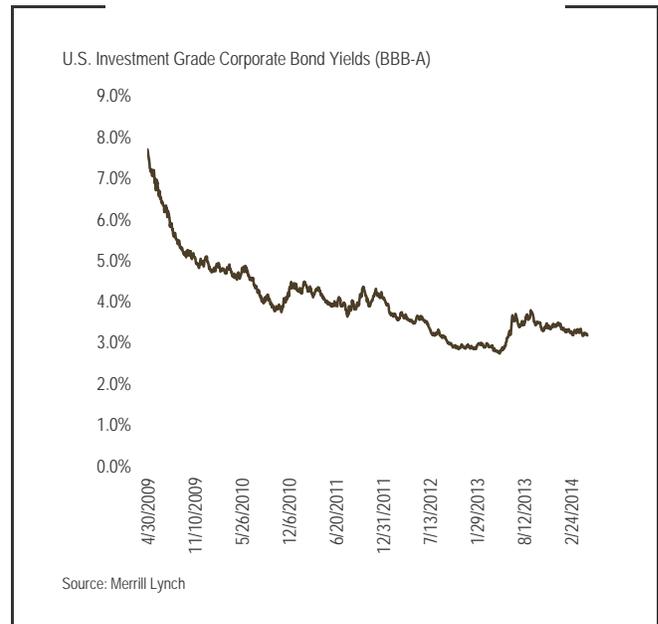
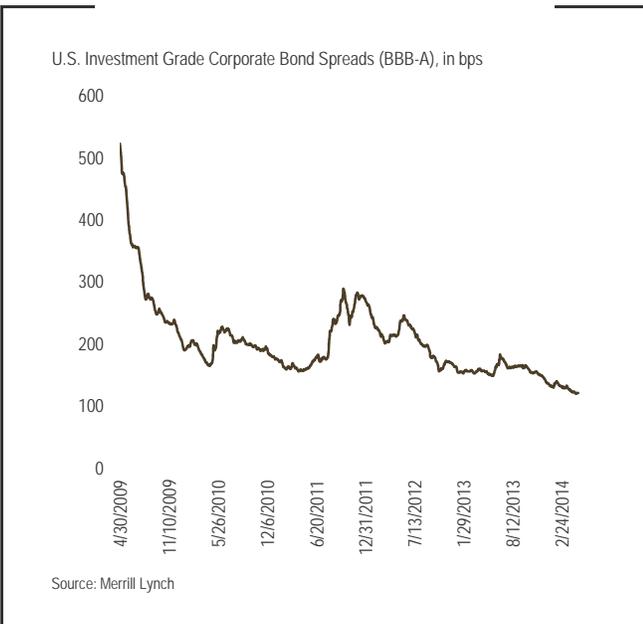
U.S. Treasuries finished the week considerably higher, which is largely attributable to geopolitical tensions increasing the allure of safe-haven securities. The yield on the 10-year note dropped below 2.4% for the first time this year, and traded at its lowest level since June 2013. Sovereign securities, including German and U.K. government bonds, also rallied in sympathy with U.S. bonds. While the U.S. economy has showed signs of gaining traction recently, concerns have escalated that economic prospects in Europe could be weakened by Russia's clash with the European Union and the U.S. over Ukraine.

After a long rally, concerns rose that valuations in riskier asset classes such as high-yield bonds are stretched, as investors withdrew a record \$7.1 billion from mutual funds in this sector of the market. Accelerating a flight from this asset class that started last week, the exodus followed the first monthly loss in high yield since August of last year. Investors also withdrew \$1.5 billion from funds invested in floating rate notes, the largest weekly outflow in almost three years. As sentiment wanes in this area of the market, we continue to focus on short-duration high yield as a means to mitigate risk.



| Issue            | 8.1.14 | 8.8.14 | Change |
|------------------|--------|--------|--------|
| 3 month T-Bill   | 0.03%  | 0.03%  | 0.00%  |
| 2-Year Treasury  | 0.47%  | 0.45%  | -0.02% |
| 5-Year Treasury  | 1.67%  | 1.62%  | -0.05% |
| 10-Year Treasury | 2.52%  | 2.44%  | -0.08% |
| 30-Year Treasury | 3.29%  | 3.23%  | -0.06% |

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



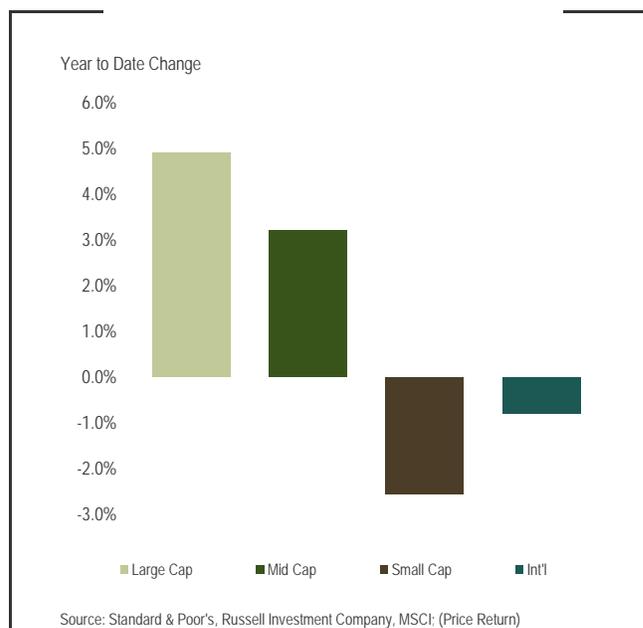
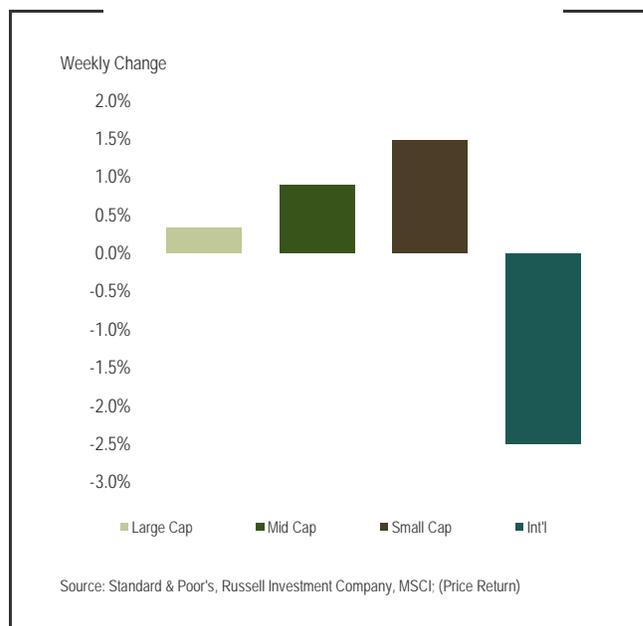
Stock Market Update

Geopolitical concerns, more than ongoing earnings reports, shaped global markets throughout the week. Mostly positive economic releases, such as a strong ISM Services Index reading of 58.7 on Tuesday and tumbling initial unemployment claims on Thursday, offset investors' concern over economic sanctions and military conflicts in Eastern Europe and Iraq, and a spate of frightening news reports about the spread of the Ebola virus. The S&P 500 index closed the week at 1,931.59, up 0.3%. The Dow Jones Industrial average finished the week 0.4% higher at 16,553.93.

Foreign stocks fell this week, with the MSCI EAFE index of developed market equities posting a 2.4% setback. Russia's announcement of a ban on food imports from those nations sanctioning it, and buildup of troops on the Ukrainian border, raised concerns about economic fallout on a still fragile recovery in Western Europe. In fact, Italy reported an unexpected decline in second quarter GDP, officially marking that the country has returned to recession. Emerging markets also dipped but not as severely, with the MSCI Emerging Markets index dropping almost one percent. Growth in China's service sector, while still positive, slipped in July to a six-month low.

Two high-profile corporate decisions to reverse previously announced actions garnered headlines this week. Investors cheered 21st Century Fox for withdrawing its \$80 billion offer for Time Warner. But the market slammed Walgreens for reversing its plan to execute a 'tax inversion' strategy in its acquisition of Alliance Boots. That is, Walgreens will not relocate its headquarters to England to lower its tax rate. The reconsideration was apparently driven by a fear of bad public relations, as well as the threat of the federal government using various levers to make the company miserable.

| Name                  | Previous Week | Current <sup>1</sup> | Change |
|-----------------------|---------------|----------------------|--------|
| S&P 500               | 1,925.15      | 1,931.59             | 0.33%  |
| S&P Mid Cap 400       | 1,367.20      | 1,379.30             | 0.89%  |
| Russell 2000          | 1,114.86      | 1,131.35             | 1.48%  |
| MSCI EAFE             | 1,918.08      | 1,870.10             | -2.50% |
| MSCI EM               | 1,080.85      | 1,051.22             | -2.74% |
| DJ Industrial Average | 16,493.37     | 16,553.93            | 0.37%  |
| NASDAQ                | 4,352.64      | 4,370.90             | 0.42%  |



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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

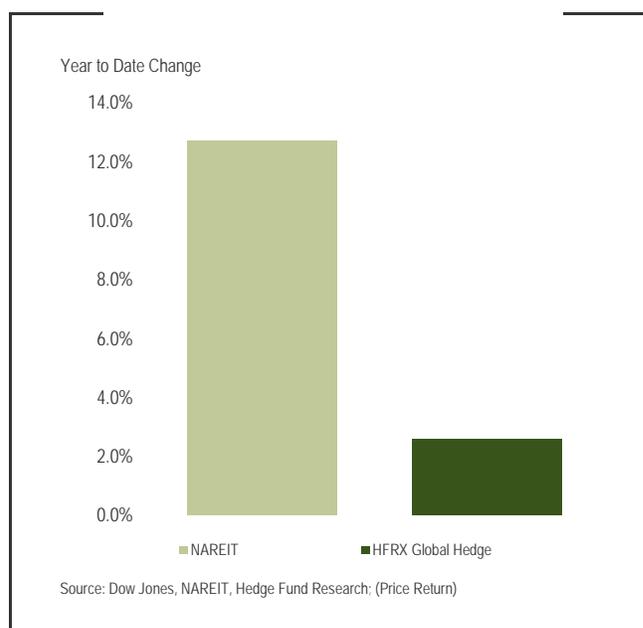
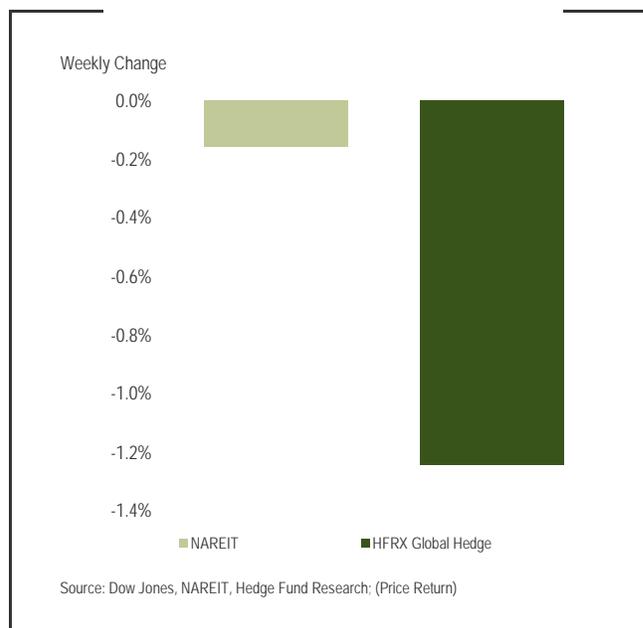
Alternative Investments Market Update

Gold advanced to three-week highs on Friday as unrest in the Middle East spurred demand for the metal as a safe-haven investment. Fighting in Ukraine and the Middle East have helped spark a near 10% rise in bullion so far this year, with prices up almost 2% for the week, heading for its first weekly gain in four. The precious metal is usually seen as insurance against political and financial risk, which burnishes its appeal as an alternative investment. Also aiding the metal was the dollar falling this week against a basket of currencies, with continued pressure weighing on the currency from a 14-month low in 10-year U.S. Treasury yields. A weaker U.S. currency makes dollar-denominated assets such as gold cheaper for other currency holders, while returns on bond yields are closely watched by traders, given that the metal pays no interest.

Crude oil prices slid to multi-month lows earlier this week, as traders continued to discount the risk of supply disruptions, though prices for refined petroleum products rose on unexpected U.S. inventory drawdowns. U.S. and global oil prices have fallen about \$10 a barrel since mid-June, when prices hit nine-month highs on concerns that an insurgency in Iraq would lead to production disruptions. West Texas Intermediate (WTI) prices rose on Friday as the U.S. conducted airstrikes against militants in Iraq, OPEC's second-largest producer. Crude-oil stockpiles fell by 1.8 million barrels to 365.6 million barrels in the week ended August 1, according to a U.S. Energy Information Administration (EIA) statement this week. It was the sixth weekly decline in a row, putting stockpiles at their lowest since February 28. Crude prices rose after that report was released, but the rally soon reversed course. Supplies in Cushing, Oklahoma, a key storage hub and the pricing point for the Nymex contract, rose for the first time in four weeks.

Argentina asked the international court of justice (ICJ) this week to take action against the U.S. over an alleged breach of its sovereignty as it defaulted on its debt. Argentina defaulted last week after losing a long legal battle with hedge funds that rejected the terms of debt restructurings in 2005 and 2010. Latin America's third-largest economy defaulted on about \$100 billion of sovereign bonds in 2002, though most holders of those bonds accepted less than 30 cents on the dollar in the 2005 and 2010 restructurings.

| Name                       | Previous Week | Current <sup>1</sup> | Change |
|----------------------------|---------------|----------------------|--------|
| FTSE/NAREIT All REIT Index | 177.26        | 176.98               | -0.16% |
| HFRX Global Hedge Index    | 1,242.06      | 1,226.61             | -1.24% |
| Gold                       | 1,293.90      | 1,311.60             | 1.37%  |
| Crude Oil Futures          | 97.62         | 97.60                | -0.02% |



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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