

MainStreet Advisors Financial Market Update

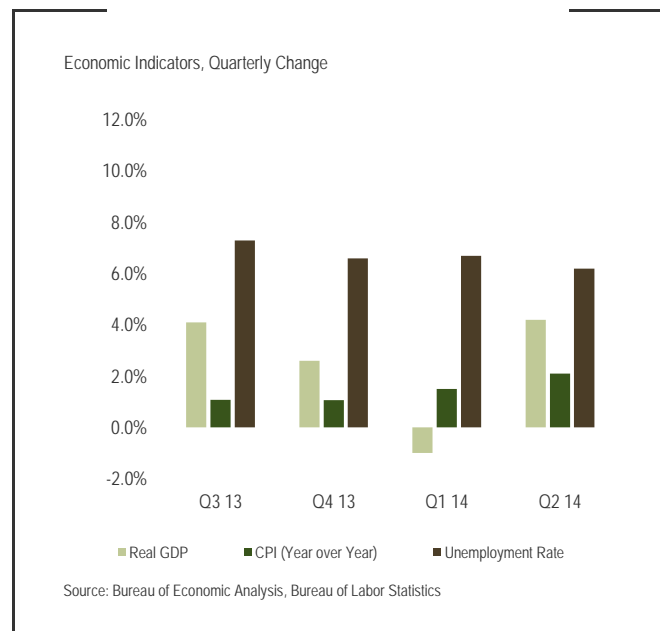
August 29, 2014
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Economic Update

Weaker new home sales for July depicted a different picture of the housing market compared to other recent data. New home sales fell 2.4% to an annual rate of 412,000. Sales of new homes have been limited due to higher home prices, slow wage growth, mortgage qualification standards, and competition from the elevated supply of less-expensive existing homes. Most of these headwinds will likely be short lived and may possibly develop into support for sales. First, the trend of rising home prices appears to have peaked as the S&P/Case Shiller home price index declined 0.2% in June, following May's 0.3% drop. Second, the improvement in employment is reducing slack in the job market, increasing pressure for wage growth to accelerate. Lastly, banks have been slowly softening their stringent mortgage qualification standards caused by the financial crisis. As these headwinds diminish, new home sales should converge with the other positive housing data.

On the surface durable goods orders for July were impressive, soaring past expectations with a 22.6% record gain. A deeper look into July's data reveals the root driver behind the record gain, Boeing aircraft orders. July's large gain was solely due to the 74.2% jump in transportation, which was caused by nondefense aircraft's 318% monthly gain. Boeing reported that July was a record month with an astounding 324 nondefense aircraft orders. Boeing's orders accounted for roughly \$70 billion of the month's \$300 billion durable goods orders. Excluding transportation, durable goods were down 0.8%. Motor vehicles were the only other bright spot outside transportation, rising 10.2%. The weakness in July, excluding transportation, indicates that business spending has slowed after the strong spring.

Consumer confidence continued its momentum by shattering the consensus forecasts for the month of August. The index posted a 92.4 vs. forecasts of 89.5, which made it the fourth consecutive monthly increase.



Aug 21st	Jobless Claims	298,000
Aug 22nd	Philadelphia Fed Survey	28.0
Aug 22nd	Existing Home Sales	2.4%
Aug 25th	New Home Sales, July	412,000
Aug 26th	Durable Goods Order, July	22.6%
Aug 27th	Revised GDP Q2	4.20%
Aug 28th	Jobless Claims	298,000
Aug 29th	Personal Income Monthly Chg	0.2%

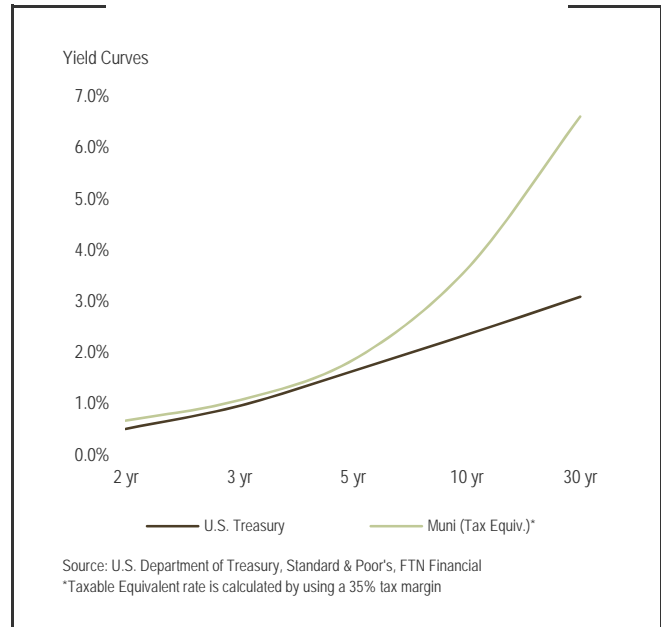
SEE IMPORTANT DISCLOSURES ON BACK PAGE.

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

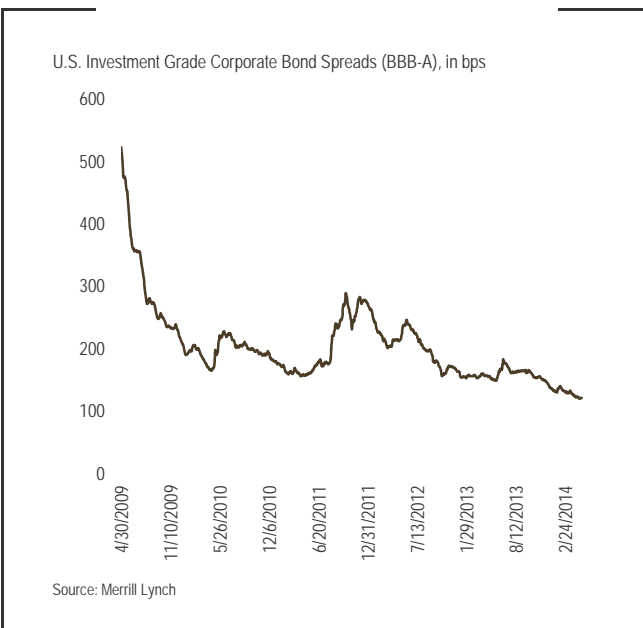
Largely attributable to the combination of rising tensions in Ukraine and speculation the ECB will begin quantitative easing, U.S. Treasuries gained for the week, pushing 30-year bond yields to a 15-month low. Many strategists feel geopolitical concerns are now the primary influence driving demand for Treasuries, overriding domestic economic data. As European bond yields fall to record lows, investors are incentivized to seek government securities elsewhere in search of higher interest rates.

In a speech at the Federal Reserve Bank of Kansas City's economics conference, European Central Bank president Mario Draghi said the central bank is prepared to add more stimulus to the euro zone. "We stand ready to adjust our policy stance further," Draghi said as a sharp drop in financial market expectations for future inflation rates have increased concerns about economic growth. Future inflation expectations have dropped to levels not seen since the euro zone debt crisis was at its most intense level. "The Governing Council will acknowledge these developments and within its mandate will use all the available instruments needed to ensure price stability over the medium term," he said, suggesting quantitative easing is likely going to happen. Against this backdrop, euro zone bonds extended their recent rally, with the yield on the two-year German government note dropping below zero.



Issue	8.22.14	8.29.14	Change
3 month T-Bill	0.03%	0.03%	0.00%
2-Year Treasury	0.53%	0.50%	-0.03%
5-Year Treasury	1.68%	1.63%	-0.05%
10-Year Treasury	2.40%	2.34%	-0.06%
30-Year Treasury	3.16%	3.08%	-0.08%

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

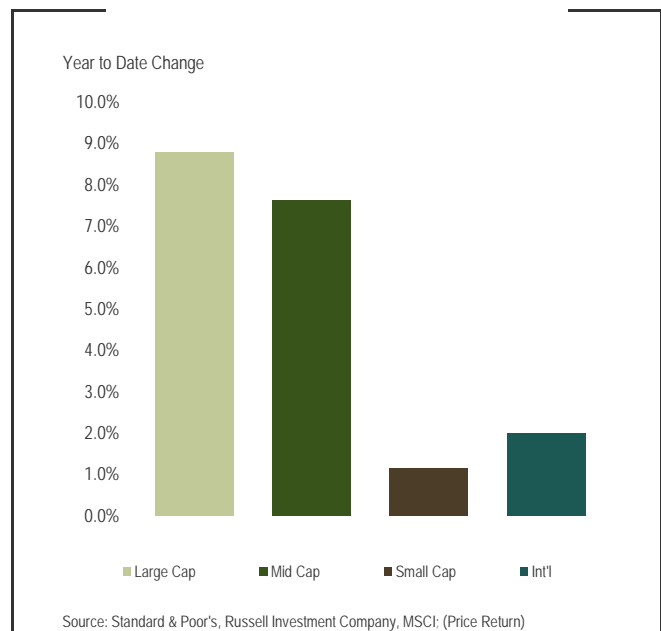
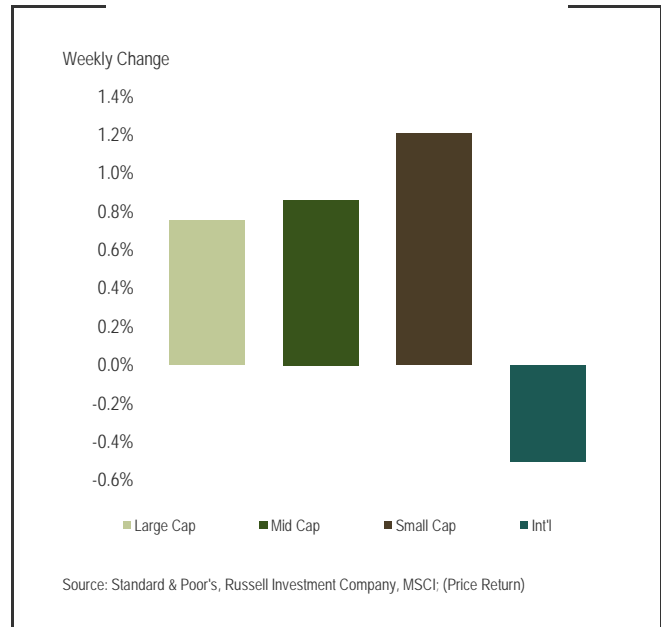


Stock Market Update

Stocks ended modestly higher in a pre-holiday week devoid of much impactful news. Several economic indicators in the second tier of importance confirmed earlier trends of a slowly improving economy. Acquisition news included Burger King's purchase of Canadian coffee chain operator Tim Hortons, and Amazon.com's buy of gaming company Twitch. Without much in the way of earnings news to focus on, equities continued their trend of drifting higher. The Dow Jones Industrial Index closed the week at 17,098.45, a rise of approximately 0.6%.

The broader S&P 500 index crested through the milestone 2,000 level, closing at a record 2,003.37, for a year-to-date gain of 8.4%. The index first closed above 1,000 in 1998, so it took 16 years to double from that level. On the other hand, since the depths of the bear market in 2009, the index has tripled, taking just over five years to accomplish that feat.

International developed markets also inched higher on the week, with the MSCI EAFE index gaining 0.6%. European markets are focused on the chances of the ECB to begin a process of quantitative easing if it sees indications of deflation, as well as the conflict in Ukraine, which flared anew this week. Emerging markets saw similar small gains, with the MSCI EM index adding 0.4%. Brazilian stocks surged this week on poll results ahead of the October 5th election showing that voters may turn out President Dilma Rousseff, whose policies are generally unpopular with investors.



Name	Previous Week	Current ¹	Change
S&P 500	1,988.41	2,003.37	0.75%
S&P Mid Cap 400	1,425.93	1,438.18	0.86%
Russell 2000	1,160.34	1,174.35	1.21%
MSCI EAFE	1,932.59	1,922.86	-0.50%
MSCI EM	1,065.78	1,086.98	1.99%
DJ Industrial Average	17,001.22	17,098.45	0.57%
NASDAQ	4,538.55	4,580.27	0.92%

SEE IMPORTANT DISCLOSURES ON BACK PAGE.

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

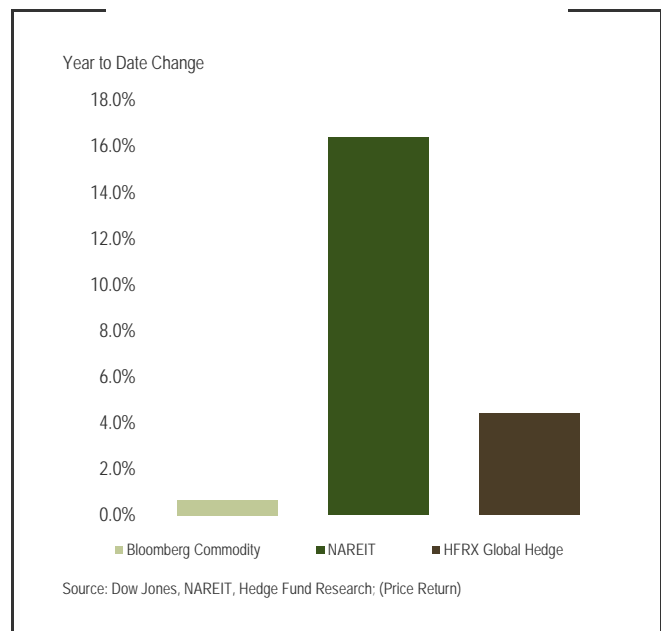
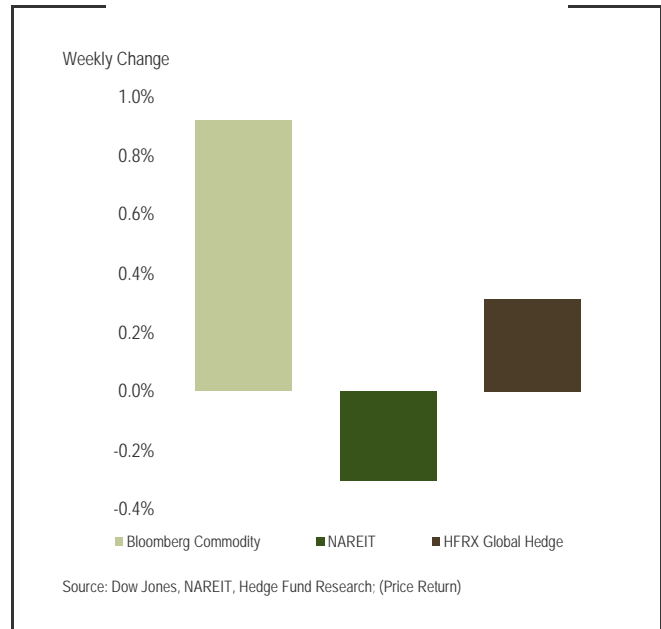
Crude rose this week as a result of various economic and geopolitical factors. West Texas Intermediate (WTI) rose for the first time in over a month as second quarter GDP was revised upward to a 4.2% annualized rate, from a previous estimate of 4.0%, raising expectations for a potential increase in demand. Brent rose to a nearly two-week high following reports of increased tension between Ukraine and Russia. Ukrainian President Petro Poroshenko said this week Russian troops are now fighting with separatist rebels in the Southeast region of Ukraine. This follows reports of witnesses who have seen armored Russian vehicles cross the border into the country and an escalation in fighting in the region in the past several days. Despite the rise this week in crude prices, prices at the pump are the lowest since 2010 for Labor Day holiday travelers. Prices at the pump for the upcoming weekend are expected to average around \$3.41 per gallon, \$0.18 cheaper than last year's holiday weekend, and \$0.42 less than the record set in 2012.

Also rising this week was gold. The metal is back up over 7% for the year as investors continue to worry about the situation in Ukraine and the Islamic State in the Middle East. With the current crises, investors are seeking a safe-haven investment in bullion. Gains in the metal were slightly offset by the positive Q2 GDP news, but not enough to offset the rally caused by the global geopolitical concerns.

Soybeans and corn continued their fall this week, as expectations for a bumper crop remained after surveys of fields continued following the Midwest's plentiful rain over the past week. Soybeans have tumbled about 20% already this year, and expectations are for a record harvest. Corn is also expected to produce a record harvest. Wheat rose to nearly a three-week high over concerns supplies would be disrupted following the escalating conflict between Ukraine and Russia. The USDA estimates that about 20% of global wheat exports come from the two countries.

Hedge Funds increased their assets held in emerging markets for an eighth consecutive quarter in the second quarter of 2014, according to a report by Hedge Fund Research released this week. Total capital invested by hedge funds in emerging markets surpassed \$184 billion, an increase of \$9 billion over the first quarter. The increase was nearly entirely performance based.

Name	Previous Week	Current ¹	Change
FTSE/NAREIT All REIT Index	183.32	182.76	-0.31%
HFRX Global Hedge Index	1,244.39	1,248.27	0.31%
Gold	1,281.20	1,288.50	0.57%
Crude Oil Futures	93.59	95.89	2.46%



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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