Financial Market Update

Friday, September 26, 2014

THE WEEK IN REVIEW

GDP for the second quarter was revised upwards once again this week to a 4.6% annual rate, versus 4.2% previously and right in line with expectations. Growth was boosted upwards by stronger exports and business investment than was previously calculated. Second quarter GDP was markedly higher than the decline seen in the first quarter as the economy rebounded from a tough winter that hit most parts of the country.

The housing recovery remains on course, despite mixed August data. New home sales for August surged 18% to 504,000, ahead of expectations of 430,000, the second monthly gain in a row after July data was revised to a 1.9% gain versus a 2.4% drop. U.S. existing home sales for August unexpectedly fell 1.8% month-over-month to an annual rate of 5.05 million units, the first decrease in four months. Economists had forecasted sales to increase to a 5.18 million unit annual rate. The decline comes as distressed home buyers stepped away from the market, and a shortage of first-time buyers persisted. The August new home sales number was the highest level since May 2008.

In other economic news this week, durable goods orders fell slightly more than economists were expecting, plunging a record 18.2% compared to outlook for a 17.1% fall. This compares to a revised 22.5% gain in July which was driven largely by a surge in aircraft orders. The hefty August decrease can be attributed to the volatile transportation orders, with a decline in aircraft orders being the main culprit. Excluding transportation, durables orders gained 0.7% for the month. Initial jobless claims rose 12,000 to 293,000 for the week ended September 20, but were below expectations of 300,000. Despite the rise, jobless claims remain near an eight-year low, and four-week average claims continued to fall. Continuing claims increased by 7,000 to 2.44 million.

Treasury yields fell this week after investors sought out the safer-haven investment following a selloff in the stock market Thursday, causing 10-year yield to drop the most in one day since July, and pushed short-term yields near zero.

Domestic equities fell this week, with no single driver causing the decline. Continuing uncertainty about the pace of the economic recovery was likely exacerbated by end of the quarter portfolio shuffling and thin trading volumes. Apple fell this week, despite announcing a record sales weekend for the iPhone 6. Customers are complaining of the larger phones bending in their pockets, and also of a botched update to fix system bugs. European markets finished lower for the week, dragged down by weakness in the U.S. and Asia.

INDEX	LEVEL	WEEK	YTD	12 MOS
DJ Industrial Average	17,113.15	-0.97%	3.24%	14.25%
NASDAQ	4,512.20	-1.47%	8.04%	22.40%
S&P 500 LargeCap	1,982.66	-1.45%	7.28%	19.05%
S&P 400 MidCap	1,385.44	-2.46%	3.21%	12.41%
S&P 600 SmallCap	639.53	-2.85%	-3.91%	6.25%
MSCI EAFE	1,866.41	-1.82%	-2.57%	5.45%
MSCI Emerging Markets	1,025.63	-2.68%	2.29%	5.11%
Barclays Agg		0.55%	4.19%	3.98%
Barclays Intermediate G/C		0.34%	2.26%	2.24%
Treasury Long		2.33%	14.93%	10.79%
Merrill High Yield		-0.87%	3.90%	7.24%
FTSE/NAREIT All REIT Index		-1.44%	10.37%	12.42%
Bloomberg Commodity Index		0.09%	-0.25%	-5.22%

KEY TREASURY RATES	CURRENT WEEK	1 MONTH AGO	1 YEAR AGO
3-Month T-Bill	0.01%	0.02%	0.00%
2-Year Treasury	0.58%	0.49%	0.34%
5-Year Treasury	1.80%	1.66%	1.44%
10-Year Treasury	2.53%	2.40%	2.65%
30-Year Treasury	3.22%	3.16%	3.70%
Municipal Bond Yields (10 Yr)	2.23%	2.18%	2.55%

UPCOMING WEEK

Personal income and consumer spending for August will be released Monday, a useful gauge for the strength of the consumer sector of the economy. Personal income for August is expected to modestly increase to 0.3% from 0.2% in July. Expectations are loftier for consumer spending, which is anticipated to show an increase of 0.4% versus a decline of 0.1% in July.

ISM Manufacturing Index for September will be released on Wednesday, with expectations for a small decline to 57.8% following a strong 59.0% in August.

Nonfarm payrolls along with the unemployment rate for September is due Friday. The expectation is for jobs to be added to increase back to over 200,000 following a weaker August.

MainStreet Advisors
120 N LaSalle
Suite 3700
Chicago Il, 60602