MAINSTREET
ADVISORS

FINANCIAL MARKET UPDATE

9/4/15

THE WEEK IN REVIEW

This week the International Monetary Fund said it believes global economic growth will be weaker than expected due to a slower recovery in advanced nations and a further slowdown in emerging nations. In July, the IMF forecasted global growth at 3.3% this year, a slight decline from the 3.4% growth in 2014. Current key risks to the global economic growth forecast included the slowdown in China, volatile financial markets, and tumbling raw material prices. Specifically the China slowdown, although long anticipated, has had larger repercussions in other countries than expected, particularly affecting commodity exporter nations like Brazil and Russia. In its report, the IMF urged wealthy countries to continue with easy-money policies, and cautioned the United States about the potential fallout if it decides to raise interest rates. An interest rate hike would likely drive the value of the U.S. dollar up further and squeeze emerging market economies, according to the IMF.

In August, United States manufacturing grew at the slowest pace in two years, with the ISM U.S. Manufacturing Index falling to 51.1 from 52.7 in July. Analysts were expecting a reading of 52.2, although anything over 50.0 shows growth. New orders fell to one of the slowest rates of monthly growth seen in the recovery, while backlog orders and new export orders each entered their third month of contraction. U.S. manufacturers are struggling to sell goods overseas, as the rising value of the dollar has made U.S. goods relatively more expensive. Slower global growth has also cut into the demand.

The trade deficit for July shrank by 7.4%, driven by lower imports of items such as cell phones and pharmaceuticals. Exports rose by 0.4%, the first rise in three months, led by strong U.S. auto sales and sales of industrial equipment. Exports were still lower than a year ago though, again impacted by a stronger dollar and weak global growth. However, the lower trade deficit could mean good news for third quarter GDP growth, as GDP is higher when the deficit is lower. GDP growth is currently forecasted at 2.8% for the third quarter.

The unemployment rate fell to 5.1% from 5.3%, the lowest level since April 2008, despite adding only 173,000 jobs in August. Economists were expecting 213,000 jobs to be added. August's gain was the second smallest gain of the year, and a slowdown from the upwardly revised 245,000 jobs added in July. A likely reason for the miss is the revision to both June and July, which were adjusted upward by 30,000 and 14,000, respectively. Following the jobs report release on Friday, stocks fell and the Treasury remained flat, suggesting investors believe a rate hike is still close on the horizon.

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	16,102.38	-3.61%	-9.65%	-6.02%
NASDAQ	4,683.92	-3.47%	-1.10%	2.16%
S&P 500 LargeCap	1,921.23	-3.87%	-6.69%	-4.29%
S&P 400 MidCap	1,386.25	-3.12%	-4.56%	-3.67%
S&P 600 SmallCap	660.68	-2.04%	-4.07%	-0.58%
MSCI EAFE	1,704.05	-2.51%	-3.99%	-11.83%
MSCI Emerging Markets	801.48	-2.29%	-16.19%	-27.15%
Barclays Aggregate US		0.09%	0.60%	2.14%
Bloomberg Non-US Govt Bond		-0.36%	-1.66%	-0.61%
Bloomberg US Treasury Index		0.05%	1.03%	3.04%
Bloomberg High Yield Index		0.25%	0.71%	-3.20%
FTSE/NAREIT All REIT Index		-4.73%	-10.72%	-7.10%
Bloomberg Commodity Index		-0.98%	-15.18%	-29.03%

KEY BOND RATES	WEEK	1 MO AGO	1 YR AGO
3-Month T-Bill	0.02%	0.08%	0.03%
2-Year Treasury	0.71%	0.74%	0.54%
5-Year Treasury	1.47%	1.60%	1.71%
10-Year Treasury	2.13%	2.23%	2.45%
30-Year Treasury	2.89%	2.90%	3.21%
Municipal Bond Yields (10 Yr)	2.24%	2.28%	2.17%

Price return as of the last available closing data. Source data: Bloomberg and Morningstar are believed to be correct but not verified.

UPCOMING WEEK

With the Labor Day holiday on Monday, next week will be relatively quiet in terms of economic data releases. On Wednesday the Job Openings and Labor Turnover Survey (JOLTS) will be released. The number of job openings was little changed at 5.2 million in last month's June report, with the quits rate remaining at 1.9% for the third month in a row, and the layoffs and discharges rate little changed at 1.3%. Preliminary estimates for the University of Michigan's Consumer Survey will be released on Friday, along with the final demand measurement of the Producer Price Index (PPI) for August.