MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE

10/23/15

THE WEEK IN REVIEW

The S&P 500 Index finished this week at 2075, an advance of nearly 2.1% from last Friday's close. With the gains the U.S. equity market has now clawed back much of the losses that began Aug. 20, when a four-day trading stretch saw the S&P decline by 11.0%. Since then it has risen 10.0% over the past 42 days. Comments yesterday from ECB president, Mario Draghi, sparked the rally after he announced that the ECB may provide additional stimulus. The stimulus plan could include additional bond purchases and a reduction in the already below-zero deposit rate.

Within fixed income, below-investment grade and investment grade bonds had a strong week. These sectors of the bond market typically have some sensitivity to equity markets and contributed to some of this week's strength. Year to date, interest rate sensitive sectors continue to perform the best. Specifically, Treasury and agency bond performance have carried the overall U.S. fixed income market, while credit-related sectors, below-investment grade and investment grade bonds have been relatively weaker.

Overall, it was a quiet week for economic reports. Highlights primarily included updates from the housing sector and jobless claims. Jobless claims continue to indicate the labor market is healthy. For the most recent week claims dropped by 2,000, which lowered the four-week moving average to 263,250, a level not reached since the week ending Dec. 15, 1973. The Fed is watching labor costs closely. Next week two closely watched indicators will be released: the employment cost index and the report on personal income.

Another report that garnered headlines this week was existing home sales, which indicated the current pace could produce the best year since 2007. Housing has been a source of strength as home sales rose 4.7% last month and are up 7.6% from a year ago. Inventory now stands at 4.8 months, which is down from 5.1 months in August. There is some concern that the decline in inventory may lead to an imbalance in supply and demand once the Spring selling season begins. Housing starts rose to an 8-year high in September, up 6.5% to a seasonally adjusted annual pace of 1.21 million units. This level was above expectations, with forecasted readings around 1.15 million units. Something to watch with housing is the continued slow permit levels, which haven't hindered housing numbers yet. Down 5.0% to 1.10 million, it was far below the consensus expectation of 1.17 million. The West was the strongest region for new homes, featuring a 25.4% increase from August.

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	17,646.70	2.05%	-0.99%	5.81%
NASDAQ	5,031.86	2.97%	6.25%	13.00%
S&P 500 LargeCap	2,075.15	2.07%	0.79%	6.37%
S&P 400 MidCap	1,439.84	0.38%	-0.87%	4.92%
S&P 600 SmallCap	690.75	0.70%	-0.62%	7.15%
MSCI EAFE	1,759.62	-0.20%	-0.86%	-0.95%
MSCI Emerging Markets	858.17	-0.82%	-10.26%	-12.59%
Barclays Aggregate US		0.12%	1.68%	2.29%
Bloomberg Non-US Govt Bond		-0.42%	-0.26%	0.50%
Bloomberg US Treasury Index		0.08%	2.14%	2.78%
Bloomberg High Yield Index		0.31%	0.80%	-1.85%
FTSE/NAREIT All REIT Index		1.11%	-1.03%	3.36%
Bloomberg Commodity Index		-2.60%	-16.18%	-25.41%

KEY BOND RATES	WEEK	1 MO AGO	1 YR AGO
3-Month T-Bill	0.01%	0.01%	0.01%
2-Year Treasury	0.66%	0.70%	0.41%
5-Year Treasury	1.43%	1.47%	1.52%
10-Year Treasury	2.09%	2.16%	2.29%
30-Year Treasury	2.90%	2.95%	3.05%
Municipal Bond Yields (10 Yr)	2.10%	2.19%	2.11%

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

UPCOMING WEEK

Next week is a busy one for economic reports. Aside from a few of the income and compensation reports, investors will get an update on home prices, consumer confidence, Q3 GDP, and inflation. Perhaps most importantly will be the FOMC rate decision on Wednesday. Many do not expect the Fed to raise interest rates at this meeting, but the Fed has not ruled it out in its previous comments. The resulting action in equity and fixed income markets will be important to watch.