MAINSTREET ADVISORS

# FINANCIAL MARKET UPDATE 10/30/15

## THE WEEK IN REVIEW

Federal Reserve officials explicitly said they might raise short-term interest rates in December, pushing back against investors who were betting the central bank would not move this year. On Wednesday, the Fed held its benchmark rate unchanged near zero, prolonging the wait for the first increase in nine years. In the Federal Open Market Committee's latest policy statement, it said the U.S. economy was expanding at a "moderate pace" as consumer spending and business capital investment rose at "solid rates." In the absence of a press conference and forecast updates, attention was squarely on the Fed's language. While most economists still expect the Fed to wait until next year, the statement outlined what it would take to raise rates in December. The difference between the September and October statements was a switch from determining how long to maintain low rates, to whether an increase would be appropriate. The Fed said in deciding whether to raise rates at its next meeting it would "assess progress—both realized and expected—toward its objectives of maximum employment and 2% inflation."

The U.S. economy slowed in the third quarter, with gross domestic product growing at 1.5% compared to 3.9% growth in the second quarter. Although the slowdown was anticipated, the reading was slightly weaker than consensus expectations for 1.7% growth. The largest drawdown of inventories in three years led the cool down as companies cut back on production, especially for goods destined for export, amid mounting global economic uncertainty. Consumer spending grew at a 3.2% annual pace, while business spending was more cautious. Consumers are spending heavily on durable goods, such as cars and trucks, a sign they are confident in the direction of the economy.

The pace of new home sales fell 11.5% in September from August to a seasonally adjusted annual rate of 468,000. The decline was unexpected as analysts were forecasting sales to increase to a rate of 550,000, up from a downwardly revised 529,000 in August. Contributing to the decline was a sharp drop-off in sales in the Northeast region, as well as an overall increase in home prices, which were 13.5% higher in September than one year ago. With the drop in sales, supply of homes surged, which could put downward pressure on prices and encourage more purchases going forward. The homeownership rate for the third quarter increased to 63.7% from 63.4%, but still remains well below highs seen before the recession. The homeownership rate for those under 35 was the only area to show a significant rise in the quarter, increasing to 35.8% from 34.8%, the biggest increase for this demographic in 11 years.

| INDEX | LEVEL | WEEK | YTD | 12 MO |
|---|---|---|---|---|
| DJ Industrial Average | 17,663.54 | 0.10% | -0.90% | 2.72% |
| NASDAQ | 5,053.75 | 0.43% | 6.71% | 10.68% |
| S&P 500 LargeCap | 2,079.36 | 0.20% | 0.99% | 4.25% |
| S&P 400 MidCap | 1,444.77 | 0.34% | -0.53% | 3.07% |
| S&P 600 SmallCap | 689.36 | -0.22% | -0.82% | 3.12% |
| MSCI EAFE | 1,759.41 | -1.01% | -0.87% | -2.18% |
| MSCI Emerging Markets | 846.14 | -2.58% | -11.52% | -16.02% |
| Barclays Aggregate US | | -0.43% | 1.03% | 1.73% |
| Bloomberg Non-US Govt Bond | | -0.34% | -0.42% | 0.59% |
| Bloomberg US Treasury Index | | -0.44% | 1.33% | 2.50% |
| Bloomberg High Yield Index | | 0.05% | 1.10% | -1.88% |
| FTSE/NAREIT All REIT Index | | -0.90% | -1.92% | 1.41% |
| Bloomberg Commodity Index | | -0.02% | -16.20% | -25.88% |

| KEY BOND RATES | WEEK | 1 MO AGO | 1 YR AGO |
|---|---|---|---|
| 3-Month T-Bill | 0.08% | 0.00% | 0.01% |
| 2-Year Treasury | 0.75% | 0.64% | 0.48% |
| 5-Year Treasury | 1.52% | 1.37% | 1.58% |
| 10-Year Treasury | 2.16% | 2.06% | 2.32% |
| 30-Year Treasury | 2.93% | 2.87% | 3.04% |
| Municipal Bond Yields (10 Yr) | 2.07% | 2.09% | 2.12% |

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 will be relatively quiet in terms of economic releases, with Friday being the most important day for data with the release of October employment numbers. The ISM Manufacturing Composite Index and construction spending will be released on Monday. Wednesday follows with the ISM non-manufacturing Composite Index.