MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE 12/18/15

THE WEEK IN REVIEW

On Wednesday the Federal Reserve announced its much anticipated decision to raise interest rates for the first time in nearly a decade. Members of the Federal Open Market Committee voted unanimously to raise the federal funds rate, setting the target range at 0.25% to 0.50%, up from 0.00% to 0.25%. The Fed set a forecast of 1.375% for the end of 2016, implying four quarter-point increases over the course of the next year. In comments following the announcement, Fed Chairwoman Janet Yellen stressed subsequent moves would be gradual and responsive to economic outlook, and expressed confidence that inflation would rise to the 2% Fed target over time. Yellen stated that while the economic recovery had come a long way, it was not yet complete, and the Fed expects that "with gradual adjustments in the stance of monetary policy, economic activity will continue to expand at a moderate pace and labor market indicators will continue to strengthen."

Following the Fed announcement, the market rallied with broad-based gains. The S&P finished the day up 1.5%, turning positive for the year, and nine of ten main sectors finished higher. Yields on the two-year Treasury note spiked to as high as 1.02%, the highest level since April 2010. The stock rally did not last, however, as the market fell on Thursday, led by the energy sector as oil briefly dipped below $35 a barrel. Oil prices have been driven lower as global inventories continue to increase and OPEC forecasts released this week show little chance of a meaningful increase in oil prices in 2016. The S&P 500 closed down for the second week in a row following a steep Friday afternoon selloff that erased all gains made earlier in the week.

Consumer prices were unchanged in November, although the report showed signs of accelerating inflation. While lower gasoline prices continue to hold inflation near historical lows, inflation pressure has risen in other areas, including housing prices and medical care services which are up 3.2% and 3.1% over the past year, respectively. This year, prices are up 0.5%, the largest 12-month increase since last December. Excluding the volatile food and energy categories, Core CPI rose 2% over the past year, a level not reached since February 2013. The acceleration in inflation is an encouraging sign for the Federal Reserve as low inflation has been one of their biggest concerns surrounding the decision to raise interest rates.

Housing starts surged 10.5% in November after falling 12.0% in October to a seven-month low. Single family homes led November's new home construction with a 7.6% gain, while multi-family homes rose 16.4%. Monthly starts have averaged an annualized pace of 1.1 million units this year, which could be the highest annual average since 2007 if December maintains that pace. Building permits, an indicator of future construction, rose 11.0% to a five-month high of 1.29 million units.

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	17,128.55	-0.79%	-3.90%	-3.65%
NASDAQ	4,923.08	-0.21%	3.95%	3.68%
S&P 500 LargeCap	2,005.52	-0.11%	-2.59%	-2.48%
S&P 400 MidCap	1,375.24	-0.86%	-5.32%	-4.69%
S&P 600 SmallCap	662.73	-0.49%	-4.65%	-3.23%
MSCI EAFE	1,699.97	0.58%	-4.22%	-3.81%
MSCI Emerging Markets	798.59	3.23%	-16.49%	-14.60%
Barclays Aggregate US		-0.50%	0.67%	0.98%
Bloomberg Non-US Govt Bond		0.39%	-2.28%	0.98%
Bloomberg US Treasury Index		-0.53%	1.06%	0.99%
Bloomberg High Yield Index		-0.57%	-3.62%	-1.50%
FTSE/NAREIT All REIT Index		1.76%	-3.53%	-3.54%
Bloomberg Commodity Index		-1.23%	-25.76%	-28.63%

KEY BOND RATES	WEEK	1 MO AGO	1 YR AGO
3-Month T-Bill	0.18%	0.11%	0.04%
2-Year Treasury	0.95%	0.88%	0.63%
5-Year Treasury	1.67%	1.69%	1.66%
10-Year Treasury	2.20%	2.27%	2.21%
30-Year Treasury	2.92%	3.04%	2.82%
Municipal Bond Yields (10 Yr)	2.04%	2.18%	2.09%

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

UPCOMING WEEK

Markets will close early next Thursday and remain closed Friday for the Christmas holiday. The final reading of third quarter GDP will be released next Tuesday. Economists are expecting GDP to be revised slightly lower to 1.9% from the previous reading of 2.1%. Other notable economic releases next week include existing home sales, new home sales, personal income and outlays, and durable goods orders.