MAINSTREET
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FINANCIAL MARKET UPDATE 1/29/16

THE WEEK IN REVIEW

Domestic stock markets had another positive week, with the S&P 500 finishing up 2.3%. Japan's move on Friday to reduce its policy rate to -0.1% from 0.1% was a catalyst for equity market gains. The Bank of Japan voted to ease policy further in an effort to stoke its flailing economy. In response to the move, the yen depreciated against the dollar while its domestic equity market, the Nikkei 225, rallied sharply higher. The surprise cut was welcomed by much of the global investment community, including the U.S., which saw its domestic indexes rally more than 2% on the news. The energy markets remained in the spotlight, but this time for reasons other than precipitous declines. Reports Thursday and early Friday indicated that Russia and Saudi Arabia may be in discussion to coordinate a reduction in oil supply. Doubt remains that an agreement will be reached, but economic and fiscal strains resulting from significantly lower oil prices continue to pressure both Russian and Saudi Arabian finances. A coordinated reduction targeted at bolstering crude oil prices would be a welcome reprieve from the headwinds that have buffeted both countries.

As was widely expected, the Fed maintained its current monetary policy at this month's meeting, with language from the minutes suggesting a rate hike in March is also unlikely. However, the Fed did not indicate it has plans to change its policy of gradually increasing rates throughout the rest of 2016 despite global volatility. Fed Chair Janet Yellen acknowledged the Committee is monitoring the global landscape and continues to assess the implications for U.S. labor markets and inflation.

The first estimate of Q4 GDP was released Friday and indicated the U.S. economy expanded 0.70%, slightly below the 0.90% consensus estimate. Based on these numbers, GDP growth registered 2.4% in 2015, the same as 2014. Weaker consumer spending, a decline in exports, and a modest build in inventories were the primary culprits for the weaker reading; there will be two additional updates to Q4 GDP which will be released Feb. 26 and March 25.

Durable goods orders came in well below expectations, with December's orders dropping 5.1%. However, Chicago PMI soared past expectations as the index posted a reading of 55.6 versus a 45.3 consensus estimate. The new orders component moved to the highest level in twelve months while production registered a double-digit gain. Lastly, the employment cost index and consumer sentiment were also released Friday. Compensation gains were muted as the year-over-year trend remains below 2%. Despite the improvement in the labor market there has yet to be a sustained increase in wage and compensation growth, but consumer sentiment held relatively steady this month, indicating that consumers have not been overly miffed by the recent equity market turmoil.

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	16,466.30	2.32%	-5.50%	-6.83%
NASDAQ	4,613.95	0.50%	-7.86%	-3.03%
S&P 500 LargeCap	1,940.24	1.57%	-5.07%	-5.44%
S&P 400 MidCap	1,317.74	2.33%	-5.78%	-9.48%
S&P 600 SmallCap	629.95	3.49%	-6.22%	-7.88%
MSCI EAFE	722.23	0.40%	-8.26%	-12.14%
MSCI Emerging Markets	1,033.22	1.62%	-9.06%	-25.79%
Barclays Aggregate US		0.25%	1.11%	-0.09%
Bloomberg Non-US Govt Bond		0.80%	0.68%	-3.92%
Bloomberg US Treasury Index		0.34%	1.81%	0.07%
Bloomberg High Yield Index		0.97%	-1.82%	-5.53%
FTSE/NAREIT All REIT Index		1.03%	-3.63%	-12.18%
Bloomberg Commodity Index		2.64%	-1.70%	-21.81%

KEY BOND RATES	WEEK	1 MO AGO	1 YR AGO
3-Month T-Bill	0.31%	0.23%	0.03%
2-Year Treasury	0.77%	1.09%	0.51%
5-Year Treasury	1.33%	1.81%	1.28%
10-Year Treasury	1.92%	2.32%	1.77%
30-Year Treasury	2.75%	3.04%	2.33%
Municipal Bond Yields (10 Yr)	1.74%	1.99%	1.83%

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 heavy on manufacturing news as the ISM Manufacturing Index and construction spending are both scheduled for release Monday, along with Personal Income and Outlays. ISM is expected to stay below the even par number of 50%, with consensus forecasts around 48%. The ISM Non-Manufacturing Index will be released Wednesday, and Thursday will have factory orders. Finally, the employment situation and international trade numbers will be released Friday, with the trade deficit currently at negative $42.4 billion.