MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE 2/5/16

THE WEEK IN REVIEW

Domestic stocks failed to extend their winning streak to a third week as mixed economic data and continued volatility in oil prices weighed on markets. Sharp drops in U.S. Treasury yields and the U.S. dollar this week suggest investors have reduced expectations for interest rate increases this year. The U.S. 10-year Treasury reached an intraday low of 1.797% on Wednesday after ending 2015 at 2.269%. At the Fed's December meeting, central bank officials estimated interest rates would be 1% higher in 2016, implying four 0.25% rate hikes. Recent financial market volatility, mixed economic data, and comments from Fed officials have pushed investor expectations for the next rate increase back from March to June. Federal Funds futures prices, a popular instrument for the market's views on rate hike probability, indicate an 11% chance for a rate hike in March, down from 17% at the start of February and 60% at the end of December.

The unemployment rate dropped to 4.9% as the U.S. economy added 151,000 jobs in January. Analysts were expecting 190,000 jobs to be added and the unemployment rate to remain unchanged. The labor force participation rate edged up one-tenth of one percent to 62.7%, indicating that as more people find employment, many people are re-entering the workforce. Additionally, wage growth was stronger than expected, as average hourly earnings rose 0.5% compared to the 0.3% expected by analysts, largely due to state-boosted minimum wage increases. While the stock market fell on the headline report, many believe the underlying trends in the report are encouraging and show the job market remains on solid footing, leaving companies feeling confident about their outlook.

The ISM Manufacturing Index showed contraction for January coming in at 48.2% (any reading below 50% signifies contraction). The reading was only slightly below consensus expectations of 48.3% and slightly above the prior month reading of 48.0%. January marked the fourth consecutive month of contraction for the manufacturing sector, but the pace of deterioration has slowed. Employment was the main detractor, as new orders and construction both came in above 50%. The ISM Non-Manufacturing Index fell slightly in January to 53.5% from 55.8% in December, well below consensus expectations of 55.5%. While the service sector of the economy is still growing, it is at its lowest level in one year. Both employment and output slowed last month, while new orders remained strong.

U.S. consumers increased savings and spending was flat in December. While consumer spending was unchanged in December, it increased 3.4% in 2015, slower than the 4.2% rise in 2014. The personal savings rate rose to 5.5%, the highest rate since December 2012. The gradual increase in savings and modest growth in spending suggests consumers are cautious, even though consumer sentiment and employment growth are at healthy levels.

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	16,204.97	-1.59%	-7.00%	-9.39%
NASDAQ	4,363.14	-5.44%	-12.87%	-8.44%
S&P 500 LargeCap	1,880.05	-3.21%	-8.02%	-8.85%
S&P 400 MidCap	1,279.32	-2.93%	-8.53%	-13.68%
S&P 600 SmallCap	605.16	-3.94%	-9.91%	-13.30%
MSCI EAFE	1,584.26	-0.45%	-7.69%	-12.99%
MSCI Emerging Markets	739.55	-0.38%	-6.87%	-24.71%
Barclays Aggregate US		0.20%	1.58%	0.53%
Bloomberg Non-US Govt Bond		0.05%	0.95%	-3.68%
Bloomberg US Treasury Index		0.43%	2.54%	1.05%
Bloomberg High Yield Index		-0.41%	-1.95%	-6.19%
FTSE/NAREIT All REIT Index		-2.30%	-5.85%	-13.64%
Bloomberg Commodity Index		-2.11%	-3.77%	-26.23%

KEY BOND RATES	WEEK	1 MO AGO	1 YR AGO
3-Month T-Bill	0.30%	0.20%	0.02%
2-Year Treasury	0.74%	1.04%	0.52%
5-Year Treasury	1.25%	1.73%	1.30%
10-Year Treasury	1.86%	2.25%	1.83%
30-Year Treasury	2.68%	3.01%	2.42%
Municipal Bond Yields (10 Yr)	1.67%	1.93%	1.87%

Price returns 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 light on economic releases. Up first on Tuesday is December's Job Openings and Labor Turnover Survey (JOLTS); job openings increased in the November release. Fed Chairwoman Janet Yellen is scheduled to speak Wednesday morning, and it is likely she will discuss the decision not to increase interest rates in January. Finally, retail sales for January and consumer sentiment for February are due out Friday.