MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE 2/12/16

THE WEEK IN REVIEW

Job openings increased by 5% in December to 5.61 million compared to November's revised reading of 5.35 million. This number represents the second-highest level on record (dating back to 2005), behind July 2015. Hires also rose to 5.36 million from 5.25 million. The closeness of these two numbers is important, as a job openings number greater than hires can signal too many workers without the required skills.

After another volatile week in the markets, the S&P 500 finished down 0.81% and 8.77% for the year. U.S. 10-Year Treasury yields also declined on the week, as investors looked for safe havens after the stock market selloff. Financial stocks and banks in particular have been hit hardest, but Friday's rally helped the markets back up. The market improved in after-hours trading on Thursday and pre-market trading on Friday as investors reacted to encouraging Retail Sales numbers, despite another week of dollar weakening. Finally, crude oil finished at $29/barrel after opening Monday above $31/barrel. Friday represented a more than 10.5% increase, almost recovering heavy losses earlier in the week, and further underscoring the volatility surrounding the markets.

In two days of congressional testimony, Federal Reserve Chair Janet Yellen reiterated her belief the U.S. economic slowdown would likely be temporary and she still expects a strong labor market to win out. Yellen acknowledged a lot has happened since the Fed indicated it would spend 2016 gradually raising rates. She recognized the possible dangers lurking beyond the persistently low inflation plaguing the Fed, including China's weakening economy and the upheaval in global markets. When asked about the risk of a recession, Yellen responded saying anything is possible but "expansions don't die of old age." She made clear Fed officials were still debating when, not whether, they should raise rates again. Yellen also stated on Thursday the Fed did not intend to cut rates back to zero. She continued to play down, but not completely rule out, the possibility the Fed would seek to provide new stimulus by imposing negative interest rates.

U.S. consumer spending appeared to regain momentum in January as households ramped up purchases of a variety of goods. According to the Commerce Department on Friday, retail sales, excluding automobiles, gasoline, building materials, and food services, increased 0.6% last month. Growth in consumer spending, which accounts for more than two-thirds of U.S. economic activity, moderated in the fourth quarter. Overall retail sales rose 0.2% in January as cheaper gasoline undercut receipts at service stations and harsh winter weather weighed on spending at restaurants and bars. Overall retail sales also increased by an upwardly revised 0.2% in December, up from the previously reported 0.1% gain.

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	15,973.84	-1.43%	-8.33%	-11.12%
NASDAQ	4,337.51	-0.59%	-13.30%	-10.71%
S&P 500 LargeCap	1,864.78	-0.81%	-8.77%	-10.71%
S&P 400 MidCap	1,261.89	-1.36%	-9.77%	-15.58%
S&P 600 SmallCap	598.52	-1.10%	-10.90%	-14.73%
MSCI EAFE	1,495.39	-4.55%	-12.87%	-17.96%
MSCI Emerging Markets	713.04	-3.59%	-10.21%	-26.58%
Barclays Aggregate US		0.62%	2.25%	1.83%
Bloomberg Non-US Govt Bond		-0.23%	0.81%	-2.06%
Bloomberg US Treasury Index		1.01%	3.63%	3.46%
Bloomberg High Yield Index		-2.13%	-4.21%	-8.92%
FTSE/NAREIT All REIT Index		-4.20%	-9.81%	-15.49%
Bloomberg Commodity Index		-0.21%	-3.97%	-26.77%

KEY BOND RATES	WEEK	1 MO AGO	1 YR AGO
3-Month T-Bill	0.30%	0.21%	0.02%
2-Year Treasury	0.71%	0.93%	0.61%
5-Year Treasury	1.20%	1.55%	1.50%
10-Year Treasury	1.74%	2.12%	1.99%
30-Year Treasury	2.60%	2.89%	2.58%
Municipal Bond Yields (10 Yr)	1.60%	1.82%	2.04%

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

UPCOMING WEEK

Despite a shortened week with the markets closed Monday for Presidents Day, there are still a number of significant data releases next week. The Housing Market Index is out Tuesday, followed by January's PPI, Housing Starts, industrial production and capacity utilization, as well as the FOMC minutes on Wednesday. Industrial production is expected to increase 0.2% after a disappointing drop of 0.4% in December, while capacity utilization is forecasted to increase from 76.5% to 76.6%. On Friday both CPI and Core CPI, key measures of inflation, will be released, with January's CPI expected to decrease 0.1%, the same change as December.