MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE 3/18/16

THE WEEK IN REVIEW

The markets received two updates on inflation this week, the Producer Price Index (PPI) and the Consumer Price Index (CPI). While the headline figures are still relatively weak due to energy related issues, the underlying core trends are more positive. Year-over-year, the PPI is roughly unchanged while the core reading is up 0.9%, the largest year-over-year change since July 2015. Meanwhile, the CPI report showed that the all-items index rose 1.0% year-over-year and the core component advanced 2.3%, the largest increase since May 2012. Several important categories that impact day-to-day consumers continued their year-over-year declines. Gasoline, electricity, piped gas service, meats, poultry, fish, and dairy all posted negative year-over-year growth.

The Federal Reserve released a statement Wednesday following its latest policy meeting. The committee decided to leave rates unchanged and reiterated that while several pockets of the economy have been doing well, inflation continues to run below its 2% target objective. The Committee projects the federal funds rate to be roughly 0.9% by year end, which would imply there could be two rate hikes in 2016. In reaction, the dollar hit the lowest level in four months.

Buoyed by a rally in oil prices, U.S. stocks climbed this week with both the S&P 500 and the Dow Jones Industrial Average closing at 2016 highs. The Dow turned positive for 2016 on Thursday, erasing a start to the year that at one point had the index down as much as 1,974 points. Marking the fifth straight week of gains, the S&P 500 rose 1.35%, ending at 2,049, while the Dow Jones Industrial Average gained 2.26% to 17,602.

U.S. retail sales dropped in February and the prior month's gain was revised to a decline, suggesting that consumers remain cautious about spending despite steady hiring. Sales at retail stores and restaurants fell 0.1% from the month prior to a seasonally adjusted $447.31 billion in February, according to Commerce Department data released this week. January retail sales dropped 0.4%, versus the initially reported 0.2% increase. The decrease in purchases showed Americans' reluctance in opening up their wallets with the money saved at the gas pump amid recent volatility.

Housing starts rose significantly on a year-over-year basis on the strength of single-family home construction, a housing report indicated Wednesday. February housing starts rose 5.2% to a seasonally adjusted, annual rate of 1.178 million from January's downwardly revised rate of 1.12 million, according to the Commerce Department. February's rate was 30.9% above the housing starts pace one year earlier. Single-family housing starts rose 7.2% to a seasonally adjusted annual rate of 822,000 in February. On a year-over-year basis, single-family starts were up 37%.

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	17,602.30	2.26%	1.02%	-2.62%
NASDAQ	4,795.65	0.99%	-4.23%	-3.76%
S&P 500 LargeCap	2,049.58	1.35%	0.28%	-2.38%
S&P 400 MidCap	1,429.80	1.60%	2.23%	-6.36%
S&P 600 SmallCap	678.79	0.54%	1.05%	-6.32%
MSCI EAFE	1,663.75	1.14%	-3.06%	-9.82%
MSCI Emerging Markets	816.90	2.00%	2.87%	-14.62%
Barclays Aggregate US		0.59%	2.25%	1.41%
Bloomberg Non-US Govt Bond		0.84%	4.41%	2.33%
Bloomberg US Treasury Index		0.51%	2.41%	2.28%
Bloomberg High Yield Index		0.46%	3.23%	-2.03%
FTSE/NAREIT All REIT Index		1.99%	3.18%	-2.62%
Bloomberg Commodity Index		1.01%	2.80%	-17.75%

KEY BOND RATES	WEEK	1 MO AGO	1 YR AGO
3-Month T-Bill	0.30%	0.30%	0.03%
2-Year Treasury	0.84%	0.71%	0.57%
5-Year Treasury	1.34%	1.21%	1.41%
10-Year Treasury	1.88%	1.75%	1.93%
30-Year Treasury	2.68%	2.62%	2.51%
Municipal Bond Yields (10 Yr)	1.83%	1.67%	2.14%

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 another busy week on the economic front. Existing and new home sales will be closely watched for signs of continued improvement in housing activity. Also, durable goods orders will give us another look at the health of orders for US manufactured goods and an indication of business spending plans. Lastly, the third estimate of Q4 2015 GDP will be released.