MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE

5/27/16

THE WEEK IN REVIEW

The market rallied early in the week supported by rising crude prices and increasing expectations for a Fed rate hike. The rally was led by financials, suggesting investors are betting on increased profitability in financials driven by increased yield from a rate hike.

Oil continued to rise throughout the week, topping $50 a barrel at the end of Wednesday as U.S. inventories decline. U.S. production dropped for the 11th straight week to 8.77 million barrels a day.

The possibility of a Fed rate increase as early as June will drive the direction of the markets in the coming weeks. Weekly jobless claims were down 10,000 to a lower-than-expected 268,000. U.S. first quarter GDP growth was revised higher to a seasonally adjusted annual rate of 0.8% from a previous estimate of 0.5%. This data, released by the Commerce Department, trailed economists' estimates of a revised 0.9% figure. The improved data was driven by an increased level of inventories and a smaller-than-expected widening of the trade deficit. U.S. GDP Growth is expected to pick up significantly in the second quarter, with estimates ranging from 2.5% to 2.9%.

New home sales, spurred by strong demand and low inventory, increased at their fastest rate in more than eight years. Purchases of new homes posted an increase of 16.6% from a month prior, with median home prices continuing to tick upward to a record level of $321,000. Pending sales of previously owned homes added to the positive sentiment in the housing market, rising 5.1% in April to reach the highest level in nearly a decade. The low level of inventory has left economists worried that continued improvement in the housing market could slow. Home builders are on pace to begin construction on 778,000 new single-family homes, which could quell concern on the supply side.

U.S. Durable Goods orders rose 3.4% in April, beating estimates by 2.7%, driven primarily by the highly volatile civilian aircraft category. Overall growth in capital investment, excluding defense and aircraft, has been lackluster, retreating 0.8% from the month prior. If businesses continue their reluctance to purchase long lasting goods, this could prove to be a headwind constraining the economy.

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	17,873.22	2.13%	2.57%	1.06%
NASDAQ	4,933.50	3.44%	-1.48%	-2.07%
S&P 500 LargeCap	2,099.06	2.25%	2.70%	1.02%
S&P 400 MidCap	1,492.07	2.84%	6.68%	-1.36%
S&P 600 SmallCap	702.84	3.22%	4.63%	-1.41%
MSCI EAFE	1,669.84	2.18%	-2.71%	-9.80%
MSCI Emerging Markets	802.93	2.25%	1.11%	-19.01%
Barclays Aggregate US		0.20%	3.45%	3.20%
Bloomberg Non-US Govt Bond		0.35%	5.58%	1.63%
Bloomberg US Treasury Index		0.14%	3.10%	3.39%
Bloomberg High Yield Index		0.66%	8.19%	-0.33%
FTSE/NAREIT All REIT Index		1.86%	5.14%	8.82%
Bloomberg Commodity Index		0.71%	8.79%	-14.53%

KEY BOND RATES	WEEK	1 MO AGO	1 YR AGO
3-Month T-Bill	0.32%	0.24%	0.01%
2-Year Treasury	0.90%	0.83%	0.64%
5-Year Treasury	1.39%	1.33%	1.53%
10-Year Treasury	1.85%	1.87%	2.14%
30-Year Treasury	2.65%	2.71%	2.88%
Municipal Bond Yields (10 Yr)	1.63%	1.69%	2.32%

Price returns as of the last available closing data. Source data: Bloomberg and Morningstar are believed to be correct but not verified. Returns include reinvestment of dividends, if any and there is no guarantee they will continue.

UPCOMING WEEK

Next Friday the employment situation report will be released. The report will contain key data, such as unemployment, wage trends, and wage inflation. Data from this report will influence the Fed's course of action moving forward. A strong report will further increase the likelihood of a Fed rate increase this summer. The Institute of Supply Management is set to release May data on the manufacturing and service industries next week. Both the manufacturing and services indexes are expected to decline while holding values above the 50.0 threshold, signaling continued expansion within both industries. Other notable economic data releases next week include the U.S. International Trade Balance, scheduled to be released next Friday.