MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE 6/3/16

THE WEEK IN REVIEW

The Institute of Supply Management released its report on economic activity in the manufacturing sector this week. The closely watched index showed continued signs of strength as it rose to 51.3 from 50.8. Readings above 50 generally signal an expanding economy. The index rose for the third straight month, which helped mitigate some fears that the manufacturing sector was struggling to gain traction. A few sub-components of the index, including supplier deliveries and prices paid, increased sharply. This is notable because these two categories are typically associated with inflationary pressures, which may be building as the economy continues to grow.

Also this week the markets received an update on employment. The first report was the ADP employment report, which measures private sector payrolls. The report showed that 173,000 jobs were added in May, slightly higher than the consensus estimate of 165,000. The overall reading implies that private sector hiring remains strong. However, Friday's Bureau of Labor Statistics report on non-farm payrolls, another closely watched economic indicator, painted a significantly different picture. Job gains sharply missed expectations after the report showed that only 38,000 net new jobs were added; economists expected 158,000. Further, job gains in the previous two months were revised lower by a combined 59,000. The overall unemployment rate declined 0.3% to 4.7%, which is now solidly below the Fed's 5% target. Some of that decline can be explained by the fact that the labor participation rate declined 0.2%.

The Personal Income and Spending report was also released this week. Both income and spending showed decent monthly gains, with personal income falling in line with consensus expectations at 0.4% in April, while the PCE price index also hit expectations at 0.3%. Consumer spending beat expectations with a monthly gain of 1%, marking the largest gain in seven years. This gain was mostly driven by higher gas prices and spending on new cars and trucks. PCE, the Federal Reserve's preferred measure of inflation, is up 1.1% over April of last year. In another sign of an improving economy, the Case-Shiller Home Price Index for March 2016 beat the high end of consensus expectations by jumping 0.9% over February and 5.4% over March of 2015. Of the 20 cities comprising the index, 19 showed gains, with Minneapolis leading the way at 1.3%.

Consumer confidence in May fell far below consensus expectations of 96.7 and last month's revised level of 94.7, to a reading of 92.6. Income expectations showed modest improvement, up 0.4% from April. In a shortened and volatile week for the markets, the S&P 500 finished basically flat on the week, as disappointment over Friday's jobs report and comments from Fed Chair Janet Yellen last week loomed over investors. In particular, following Friday's jobs report, 10-year U.S. Treasury yields dropped below 1.7% at one point on Friday, one of the lowest levels of 2016.

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	17,807.06	-0.37%	2.19%	-0.24%
NASDAQ	4,942.52	0.18%	-1.30%	-2.48%
S&P 500 LargeCap	2,099.13	0.00%	2.70%	0.30%
S&P 400 MidCap	1,500.90	0.59%	7.32%	-1.68%
S&P 600 SmallCap	709.55	0.95%	5.63%	-1.74%
MSCI EAFE	1,652.98	-0.95%	-3.69%	-13.78%
MSCI Emerging Markets	809.34	0.13%	1.91%	-18.73%
Barclays Aggregate US		0.17%	3.57%	4.37%
Bloomberg Non-US Govt Bond		0.44%	6.13%	2.94%
Bloomberg US Treasury Index		0.21%	3.24%	4.12%
Bloomberg High Yield Index		0.06%	8.31%	-0.15%
FTSE/NAREIT All REIT Index		0.92%	6.10%	7.57%
Bloomberg Commodity Index		1.96%	10.92%	-13.71%

KEY BOND RATES	WEEK	1 MO AGO	1 YR AGO
3-Month T-Bill	0.30%	0.21%	0.02%
2-Year Treasury	0.78%	0.75%	0.69%
5-Year Treasury	1.23%	1.25%	1.69%
10-Year Treasury	1.71%	1.81%	2.38%
30-Year Treasury	2.52%	2.66%	3.11%
Municipal Bond Yields (10 Yr)	1.59%	1.61%	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 week will be a lighter one for data releases, with productivity and labor costs for Q1 released on Tuesday, followed by the JOLTS report on Wednesday. Productivity is expected to drop by 0.7%, which would be an improvement over the initial release of -1%. Jobless claims on Thursday will be the first week excluding Verizon workers on strike, and thus should be watched closely. Finally, consumer sentiment will be released on Friday, with the forecasts coming in around 94.5.