MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE 6/10/16

THE WEEK IN REVIEW

The probability of a rate hike in June looks lower after conservative remarks by Janet Yellen Monday at the World Affairs Council. She conceded that the economic outlook remains uncertain, citing U.S. and global growth and uncertainty over the Brexit poll later this month. Yellen said she expects inflation to move back to the 2% Fed target rate over the next 1 to 2 years, and stated she remains “cautiously optimistic” about the state of the economy.

Global fixed income indexes have decreased throughout the week driven by disappointing global data and sinking sovereign bond yields. In U.S. Treasury markets the spread between U.S. Treasury yields has continued to narrow, with the spread between the 2-year and 10-year narrowing to 90 basis points. Overall bond yields experienced slight downside volatility from recent data and Yellen’s speech on Monday. The U.S. 10-year was down 5 basis points to 1.64%, and the 2-year down 2 basis points to 0.75%.

Wednesday’s job openings report was something of a mixed bag, as openings rose in April to 5.788 million, up from March’s 5.67 million revised level. This equates to a job openings rate increase of 0.1% to 3.9%. While those are favorable levels, the hiring rate did drop by two-tenths to 3.5%, possibly reaffirming sentiment in the workplace that employers are having difficulty finding qualified candidates for skilled positions. The quits rate fell to 2%, perhaps signaling that employees are not shopping themselves to other employers, while the layoff rate fell to 1.1%, a very low level. Weekly jobless claims came in at 264,000 on Thursday, the lowest level in six weeks. Combined with the slower rate of hiring, this suggests that the low layoff rate is acting as an offsetting force.

Consumer sentiment remains strong for the month, coming in at 94.3, slightly below May’s 94.7 which was the best level since June of last year. The current conditions component was up almost two points to 111.7, although expectations dropped 1.7 points to 83.2. Aside from May, this is still the highest since August 2015. Inflation expectations were the glaring weakness in the report, with one-year expectations unchanged at 2.4%, and 5-year expectations down two tenths to 2.3%

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	17,865.34	0.33%	2.53%	-0.19%
NASDAQ	4,894.55	-0.97%	-2.25%	-3.10%
S&P 500 LargeCap	2,096.07	-0.14%	2.55%	0.09%
S&P 400 MidCap	1,499.07	-0.08%	7.19%	-2.08%
S&P 600 SmallCap	712.58	0.43%	6.08%	-1.84%
MSCI EAFE	1,675.32	0.27%	-2.39%	-11.48%
MSCI Emerging Markets	837.03	2.55%	5.40%	-14.40%
Barclays Aggregate US		0.23%	4.33%	5.68%
Bloomberg Non-US Govt Bond		0.63%	7.47%	6.07%
Bloomberg US Treasury Index		0.21%	4.07%	5.77%
Bloomberg High Yield Index		1.06%	9.65%	2.01%
FTSE/NAREIT All REIT Index		0.35%	6.39%	9.57%
Bloomberg Commodity Index		2.07%	13.22%	-13.41%

KEY BOND RATES	WEEK	1 MO AGO	1 YR AGO
3-Month T-Bill	0.26%	0.24%	0.02%
2-Year Treasury	0.73%	0.72%	0.75%
5-Year Treasury	1.17%	1.20%	1.80%
10-Year Treasury	1.64%	1.77%	2.50%
30-Year Treasury	2.44%	2.61%	3.22%
Municipal Bond Yields (10 Yr)	1.51%	1.58%	2.38%

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

All eyes will be on the FOMC as they hold their June meeting in the upcoming week. FOMC forecasts for the economy are set to be released on Wednesday afternoon, followed by a Fed Chair Press conference. The FOMC is expected to hold interest rates steady following weak jobs data and dovish remarks made by Janet Yellen. May data for the Consumer Price Index, the most closely watched indicator of inflation, is scheduled to be released this Thursday. Housing starts in May are also to be released on Friday. Economists are expecting a seasonally adjusted annual figure of 1.15 million units, a slight downward revision downward from 1.172 million units in April.