MAINSTREET ADVISORS

# FINANCIAL MARKET UPDATE

7/1/16

## THE WEEK IN REVIEW

This week's focus was on the effects of the United Kingdom's decision to leave the European Union. Prime Minister David Cameron announced he will resign, and his predecessor will be responsible for starting the process of negotiating an exit from the EU. Since the vote, both S&P and Moody's have downgraded the UK credit rating.

Treasury yields moved to record lows early Friday. The U.S. 30-year sank to 2.21%, the lowest since the 1950s, while the 10-year was 1.44%. Sinking and negative international yields have led to a flight to quality in U.S. Treasuries. This increased buying of U.S. Treasuries has continued to drag U.S. yields lower. The uncertainty from Brexit has caused the U.S. dollar to rise and postponed the possibility of a Fed rate hike.

U.S. equity markets rallied late in the week, with the S&P 500 nearly recovering to pre-Brexit levels. The S&P 500 closed the week up 3.22%, the best four-day stretch in nine months and the best one week since October 2014. Developed and emerging markets were up 4.03% and 6.23%, respectively, as well. These levels represent near intra-year highs and effectively the same levels as prior to Brexit. These returns represent three consecutive quarterly gains for domestic indexes. While U.S. markets were quick to recover, Brexit does represent an introduction of uncertainty and volatility back into the markets.

Other notable events for the week include the final reading for Q1 GDP released on Tuesday morning by the Bureau of Economic Analysis. The data showed a revised figure of 1.1% growth, beating estimates and a previous reading of .8%. This uptick in Q1 real GDP was driven by contributions from residential fixed investment, a decrease in imports, as well as an increased level in state and local government spending. The 1.1% figure still represents a deceleration from the fourth quarter of 2015 which posted real GDP growth of 1.4%. This was primarily due to a decrease in nonresidential fixed investment as well as a reduction in personal consumption.

| INDEX | LEVEL | WEEK | YTD | 12 MO |
|---|---|---|---|---|
| DJ Industrial Average | 17,949.37 | 3.15% | 3.01% | 1.08% |
| NASDAQ | 4,862.57 | 3.28% | -2.89% | -2.93% |
| S&P 500 LargeCap | 2,102.95 | 3.22% | 2.89% | 1.23% |
| S&P 400 MidCap | 1,500.20 | 2.92% | 7.27% | -0.56% |
| S&P 600 SmallCap | 710.17 | 2.62% | 5.72% | -1.03% |
| iShares MSCI EAFE | 55.82 | 4.03% | -2.99% | -10.19% |
| iShares MSCI Emerging Markets | 34.69 | 6.23% | 8.59% | -10.74% |
| Barclays Aggregate US | | 0.55% | 5.31% | 6.41% |
| Bloomberg Non-US Govt Bond | | 1.91% | 9.43% | 7.60% |
| Bloomberg US Treasury Index | | 0.58% | 5.35% | 6.49% |
| Bloomberg High Yield Index | | 0.29% | 9.58% | 2.39% |
| FTSE/NAREIT All REIT Index | | 4.26% | 11.51% | 16.10% |
| Bloomberg Commodity Index | | 3.13% | 14.16% | -11.74% |

| KEY BOND RATES | WEEK | 1 MO AGO | 1 YR AGO |
|---|---|---|---|
| 3-Month T-Bill | 0.27% | 0.35% | 0.01% |
| 2-Year Treasury | 0.70% | 0.92% | 0.68% |
| 5-Year Treasury | 1.13% | 1.41% | 1.69% |
| 10-Year Treasury | 1.62% | 1.86% | 2.38% |
| 30-Year Treasury | 2.43% | 2.65% | 3.16% |
| Municipal Bond Yields (10 Yr) | 1.43% | 1.61% | 2.39% |

Source data: Bloomberg and Morningstar are believed to be correct but not verified.

## UPCOMING WEEK

Next week's release of several indicative pieces of economic data begins on Tuesday with the Factory Orders Report and the Federal Open Market Committee Minutes, which will provide details regarding Fed interest rate plans. Wednesday, the International Trade Report will provide insight on the trade deficit and Thursday will bring the Petroleum Status Report, a major determinant in oil prices. Focus will also be on American employment Thursday, when the Jobless Claims report is released. This focus will continue when the Nonfarm Payrolls, Unemployment Rate, Average Hourly Earnings, and Consumer Credit Reports are reported on Friday.