MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE 7/29/16

THE WEEK IN REVIEW

The U.S. stock market continued to trade in a very narrow range this week. The S&P 500 index traded inside a 1% range for 12 days. This was the first time that has ever happened, according to LPL Financial Senior Market Strategist, Ryan Detrick. Since July 14 the S&P 500 has traded roughly between 2,155 and 2,175. Investors have been cautious ahead of U.S. and Japan central bank meetings and economic data including second quarter GDP in the U.S. and Euro area. Investors have also been focusing on oil and earnings. Oil prices re-entered a technical bear market this week as WTI crude oil hit a three-month low near $40 per barrel on Friday. The price of oil declined this week after U.S. government data showed a large increase in crude oil inventories.

The U.S. economy grew an annualized 1.2% in the second quarter, well below estimates of 2.6% growth. The headline number looks weak, but the details of the GDP report have some positive signs. Consumer spending was very strong with a growth of 4.2%, marking the strongest growth since 2014 and more than double the first quarter's 1.6% growth. High amounts of inventory continue to weigh heavily on economic activity as businesses spend less. The change in inventories subtracted 1.2% from GDP. Lean inventories indicate that businesses will likely need to increase spending in the near future to accumulate sufficient inventory.

Two of the world's most prominent central banks, the U.S. Federal Reserve and the Bank of Japan (BOJ), held policy meetings this week. The Federal Open Market Committee (FOMC) left the target range for the federal funds rates unchanged. Importantly, the FOMC statement noted that the U.S. "labor market had strengthened" and that "household spending has been growing strongly," since its last meeting in June. With the statement also noting that "near-term risks to the economic outlook have diminished," Federal Reserve Bank of Kansas City President Esther George dissented, favoring a 0.25% increase in the target range for the federal funds rate. Following today's GDP report, the probability of a rate hike in 2016 is just 37%, according to market-based estimates.

Even as the Japanese government said it was compiling "a large-scale stimulus package," many market participants were looking for the BOJ to aggressively intensify its easing of monetary policy. While the bank announced an increase in its purchases of ETFs, it did nothing else to improve upon its previously established monetary policy measures, underwhelming investors. Since the BOJ's announcement the yen has appreciated against the U.S. dollar, with traders unconvinced that the country will be able to escape its decades-long bout with deflation. The BOJ and the Japanese government are battling a formidable opponent in demographics as they pursue these fiscal and monetary policy actions in an attempt to push the country's inflation rate higher.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
S&P Case-Shiller HPI	-0.1%	0.7%	▼
New Home Sales (Thousands)	592	537	▲
Consumer Confidence	97.3	94.2	▲
Durable Goods Orders	-4.0%	2.0%	▼
GDP	1.2%	2.0%	▼
Consumer Sentiment	90	89	▲

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	18432.24	-0.75%	5.78%	3.84%
NASDAQ	5162.13	1.22%	3.09%	0.99%
S&P 500 LargeCap	2173.60	-0.24%	6.34%	3.13%
MSCI EAFE	1658.16	0.48%	-3.39%	-10.95%
Barclays Aggregate US		0.21%	5.70%	6.01%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	0.28%	0.26%	0.07%
10-Year Treasury	1.46%	1.49%	2.28%

REPORTS DUE NEXT WEEK	LATEST
ISM Manufacturing Index	53.2
ISM Non-manufacturing Index	56.5
Nonfarm Payrolls (Thousands)	287
Unemployment Rate	4.9%
PCE Price Index	0.2%

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.