MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE 8/5/16

THE WEEK IN REVIEW

U.S. employment increased more than expected last month with wages picking up, which could boost expectations of accelerating economic growth and raise the probability of a Federal Reserve interest rate hike this year. Nonfarm payrolls rose by 255,000 jobs in July as hiring increased after an upwardly revised 292,000 surge in June, according to the Labor Department on Friday. Job gains were fairly broad based, occurring in professional and business services, health care, and financial activities. Because of the depressed price of oil, employment in the Bureau of Labor Statistics "mining" category continued to trend down. The overall unemployment rate was unchanged at 4.9% as more people entered the labor market. Highlighting labor market strength, average hourly wages increased a healthy eight cents and workers put in more hours. May's payrolls were also revised up to 24,000 from the previously reported 11,000. With these revisions, employment gains in May and June combined were 18,000 more than previously reported. Over the past three months, job gains have averaged 190,000 per month. July's strong job growth should reinforce the Fed's confidence in a labor market that officials view as at or near full employment. Fed Chair Janet Yellen has said the economy needs to create just under 100,000 jobs a month to keep up with population growth. The second straight month of robust job gains is a boost to the economy after growth averaged a tepid 1.0% annual rate in the last three quarters. After a policy meeting last month, the Fed described the labor market as having "strengthened" and said it appeared it was still tightening.

Treasuries were slammed on Monday as New York Fed President, William Dudley, cautioned that investors should not discount the likelihood of more rate hikes over the next eighteen months. Yields on the 10-year jumped from 1.454% to close on Monday at 1.525%, and rose again to 1.557% the following day. Yields came down again on Thursday as investors feared a poor jobs report, but when that number surprised massively to the upside, it was once again "risk-on" as the yield jumped from 1.5% to 1.59% and stocks rallied. Ethan Harris, head of global economic research at BofAML, said that December is the most likely time for the Fed to do a rate hike while having a phone interview on Friday, August 5.

Crude oil fell into bear market on Tuesday as the price of oil fell below $40 for the first time since April; dropping to as low as $39.30, it quickly rebounded to around $42.00. The selloff was sparked by a number of factors, including the Baker Hughes rig count increasing for a fifth straight week and Saudi Arabia cutting prices to Asian customers. Fear of a global surplus reemerged, while energy companies took the brunt of the force.

Renewed strength in the U.S. labor market threatened to derail the gold rally that sent futures to the best first half in almost four decades. With employment jumping for a second month and wages climbing, boosting bets that the Fed may raise rates soon, gold logged its worst daily loss in ten weeks. Low rates had been a boon for gold because they keep the metal more competitive against assets like bonds that pay interest.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
ISM Manufacturing Index	53	51	▼
ISM Non-manufacturing Index	56	56	▲
Nonfarm Payrolls (Thousands)	255	144	▲
Unemployment Rate	4.9%	5.0%	▼
PCE Price Index	0.1%	0.1%	▼

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	18543.53	0.60%	6.42%	5.72%
NASDAQ	5221.12	1.14%	4.27%	1.58%
S&P 500 LargeCap	2182.87	0.43%	6.80%	3.95%
MSCI EAFE	1665.32	-1.52%	-3.08%	-11.45%
Barclays Aggregate US		8.00%	5.78%	5.81%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	0.28%	0.28%	8.00%
10-Year Treasury	1.59%	1.37%	2.28%

REPORTS DUE NEXT WEEK	LATEST
JOLTS	5.500M
Retail Sales	0.6%
PPI	0.5%
Business Inventories	0.2%
Consumer Sentiment	90.0

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.