MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE

8/19/16

THE WEEK IN REVIEW

Equity and bond markets alike were relatively flat this week. Equities were down slightly, with the S&P 500 finishing down 0.01% and MSCI EAFE down less than 1%. Markets did seem to dip ahead of the Fed releasing minutes from their latest meeting on Wednesday, but recovered to previous levels Thursday and Friday. U.S. Treasury yields moved up slightly, with the 10-year Treasury yielding 1.58%, mostly due to a slight sell off on Friday morning. San Francisco Fed president John Williams also commented on Thursday afternoon that September's FOMC meeting is "in play" for an interest rate hike. Crude oil was one of the biggest movers of the week, up more than 7% from Monday's opening, finishing above $48 per barrel, likely in response to better-than-expected industrial production results.

Most of the economic data reports released this week surprised to the upside. Notably, housing starts, industrial production, and capacity utilization all posted better-than-expected growth though industrial production's increase in the prior month was revised lower. The four-week moving average of initial jobless claims remained near post-crisis lows, reflecting continued labor market strength. Additionally, the core Consumer Price Index (CPI), a measure that excludes volatile food and energy prices, advanced 2.2% on a year-over-year basis, exceeding the Federal Reserve (Fed) target for inflation. While investors follow core CPI as a measure of inflation to help inform their investment decisions, the Fed's preferred measure of inflation is actually the core Personal Consumption Expenditures (PCE) measure, which advanced 1.7% in the second quarter, slightly below the Fed's 2% target. That statistic, not labor market conditions, appeared to drive the Fed's recent decision to leave the fed funds rate unchanged at its latest meeting. The minutes of the last Federal Open Market Committee noted that "many judged that it was appropriate to wait for additional information" to allow them to evaluate whether or not the economy can sustain its current momentum before tightening policy. Some participants expressed concern that low interest rates could intensify "incentives for investors to reach for yield and could lead to the misallocation of capital and mispricing of risk." The release of the minutes has not materially altered the market's expectation for a Fed rate hike by the end of 2016, which remains a fifty-fifty chance.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
CPI	0.0%	0.4%	▼
Housing Starts (Million)	1.211	1.155	▲
Building Permits (Million)	1.152	1.130	▲
Industrial Production	0.7%	0.6%	▲

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	18552.57	-0.13%	6.47%	6.94%
NASDAQ	5238.38	0.10%	4.61%	4.37%
S&P 500 LargeCap	2183.87	-0.01%	6.85%	5.01%
MSCI EAFE	58.79	-0.03%	0.12%	-6.44%
Barclays Aggregate US	2038.69	0.02%	5.88%	5.58%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	0.30%	0.31%	0.05%
10-Year Treasury	1.58%	1.55%	2.13%

REPORTS DUE NEXT WEEK	LATEST
New Home Sales (Thousand)	592
Existing Home Sales (Million)	5.57
Durable Goods Orders	-3.9%
GDP	1.2%

Price returns as of the last available closing data. Source data: Bloomberg and Morningstar are believed to be correct but not verified.