MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE

8/29/16

THE WEEK IN REVIEW

The case for raising U.S. interest rates has strengthened in recent months due to improvements in the labor market and expectations for moderate economic growth, Federal Reserve Chair Janet Yellen said on Friday. In her much anticipated speech at the central bank's annual Jackson Hole summit, Yellen issued some cautionary remarks, but pointed to more increases on the horizon. She noted the Federal Open Market Committee "continues to anticipate that gradual increases in the federal funds rate will be appropriate over time to achieve and sustain employment and inflation near our statutory objectives." Yellen did not indicate when the U.S. central bank might raise rates, but her comments reinforced the view that such a move could come later this year with the Fed having scheduled policy meetings in September, November and December. She dedicated much of her talk to examining how the Fed might behave in future downturns and indicated the Fed might return to tools used in the recent past, including purchasing bonds to bring down long-term interest rates and promises of low rates far into the future. She stated the Fed may also explore other options, including broadening the range of assets it can purchase, raising the inflation target or targeting nominal GDP.

GDP was revised down from 1.2% to 1.1% in the second round Q2 GDP report. Personal consumption remained strong, and was revised up from 4.2% to 4.4%, with a 7.1% rise in goods consumption and a 3.1% gain in service consumption; both were revised up from 6.8% and 3% respectively. Investment remained a drag on the GDP numbers with gross private investment at -9.7% (unchanged); while fixed investment, however, was revised upward from -3.2% to -2.5%, but is still the third consecutive quarter of decline. Government spending was revised down to -1.5% in the second-round Q2 GDP report, the first quarterly decline since Q4 2014. While the downward revision in headline GDP is small, the effects are much larger when you look at a more granular level. These numbers show that the consumer is pulling more than their fair share of the weight.

Orders for durable or long lasting goods made in the U.S. rebounded last month, a sign that the manufacturing sector could continue to stabilize in the second half of the year. Much of the rise was due to civilian aircraft orders, but orders for capital goods posted their largest gain since January, suggesting firms may finally be comfortable making large-scale investments that signal confidence in future demand. New orders for durable goods rose a seasonally adjusted 4.4% in July from the prior month, according to the Commerce Department, the largest monthly jump since October.

The release of the consumer sentiment index showed that while the outlook of the economy was improved slightly, the index fell to 89.8 from 90 with higher-than-expected expenses and lower-than-anticipated income gains cited as reasons of concern among younger households. On the plus side; the demand for investment is there at the moment, and we can potentially see some pickup in Q3 or Q4, which would support the growth in consumption.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
New Home Sales (Thousand)	654	619	▲
Existing Home Sales (Million)	5.39	5.45	▼
Durable Goods Orders	4.4%	3.4%	▲
GDP	1.1%	1.1%	▲

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	18395.40	-0.72%	5.87%	12.96%
NASDAQ	5218.92	-0.49%	4.09%	11.10%
S&P 500 LargeCap	2169.04	-0.61%	6.29%	11.78%
MSCI EAFE	1702.17	0.14%	-0.82%	-0.71%
Barclays Aggregate US		0.00%	5.80%	5.94%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	0.33%	0.32%	0.70%
10-Year Treasury	1.58%	1.58%	2.12%

REPORTS DUE NEXT WEEK	LATEST
Consumer Confidence	97.3
PMI Manufacturing Index	52.9
ISM Mfg Index	52.6
Nonfarm Payrolls M/M change	255,000
Unemployment Rate	4.9%

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