MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE 10/14/16

THE WEEK IN REVIEW

U.S. policymakers, debating the advantages of raising interest rates last month, described the decision as a close call. Minutes from the September meeting showed several members felt a rate hike was needed "relatively soon." According to the September meeting minutes, "several members judged that it would be appropriate to increase the target range for the federal funds rate relatively soon if economic developments unfolded about as the committee expected." The FOMC left the benchmark lending rate unchanged for the sixth straight meeting last month, even as a majority of the 17 participants still forecast at least one hike this year. However, there is further indication that the Federal Reserve will be inclined to let inflation run hot for a while. In a speech at the Boston Fed, Fed Chair Janet Yellen pointed out that with the economy seeing an unusual tendency of weak demand against strong supply, it is reasonable to ask whether it might be possible to reverse adverse supply-side effects by temporarily running a "high-pressure economy," with robust aggregate demand and a tight labor market. Fed officials next meet November 1-2, just before the U.S. election on November 8.

This has been a tumultuous week for markets. The S&P 500 Index started the week with disappointing corporate earnings results lowering hopes of a rebound while speculation the Fed would raise interest rates picked up. This double whammy caused negative price movement early in the week. Volatility jumped this week, driven by the release of the Fed minutes, coupled with an intense Presidential debate from Sunday night. Following that, just as traders had a chance to breathe, news from China was released indicating exports dropped 10% in September. Stocks traded at one-month lows early Thursday but quickly rebounded over 1.5% going into Friday; ultimately, that upward movement turned around and markets fell into negative territory to close a a highly volatile week for equity investors.

U.S. employers posted the fewest jobs in eight months in August, a sign job gains will likely remain modest in the coming months. On Wednesday, the Labor Department announced job openings dropped by 388,000 in August, or nearly 7%, to 5.4 million, down from a record high 5.8 million in July. This data adds to recent evidence that hiring may be slowing a bit from the robust pace of the previous two years, despite the economy generating enough jobs to lower the unemployment rate over that time. The JOLTS report is one of the job market metrics on Yellen's "dashboard" as Fed officials view the labor market as being at or near full employment.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Job Openings (Millions)	5,443	5,514	▼
Consumer Sentiment	87.9	90.0	▼
Retail Sales	0.6%	0.7%	▼
Producer Price Inflation YoY	0.8%	0.7%	▲

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	18138.38	-0.56%	4.09%	7.17%
NASDAQ	5214.16	-1.48%	4.13%	9.02%
S&P 500 LargeCap	2132.98	-0.96%	4.36%	6.96%
MSCI EAFE	1654.37	-2.02%	-3.61%	-4.47%
Barclays Aggregate US		0.07%	5.33%	4.09%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	0.32%	0.32%	-0.01%
10-Year Treasury	1.72%	1.70%	1.97%

REPORTS DUE NEXT WEEK	LATEST
Industrial Production	-0.4%
CPI YoY	1.1%
Core CPI YoY	2.3%
Home Builders Index	65
Leading Indicators	-0.2%

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