MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE 10/21/16

THE WEEK IN REVIEW

The U.S. equity market traded in a narrow range this week as investors digested third quarter earnings results, the European Central Bank's (ECB) decision to leave its stimulus program unchanged, and the final U.S. presidential debate. Third quarter earnings results were mixed, as several large banks reported better than-expected results earlier in the week, while several industry groups including rail operators reported unexpectedly weak results. Generally, investors seemed cautious amid little earnings growth and the possibility of interest rates moving higher.

U.S. housing starts fell for the second straight month in September. Starts dropped 9% to 1.05 million annualized units, the lowest level since March 2015. The fall was due to a volatile multi-family component, dropping 38% in the month. The single-family component, which accounts for the largest share of the residential housing market, was up 8.1%. Building permits for future construction rose 6.3% last month to their highest level since last November. Permits are above housing starts, suggesting home builders may be planning for more growth. The National Association of Home Builders survey of home builders suggested increased confidence in future sales.

Rising gasoline and rent prices boosted consumer prices to their largest gain in five months. With the biggest year over year increase since October 2014, U.S. consumer prices rose 0.3% last month and are 1.5% higher year over year. Core consumer prices, which exclude the volatile energy and food categories, rose 0.1% last month, and have risen 2.3% from September 2015.The improvement in headline inflation will most likely increase support for the Fed to raise interest rates in December.

Thursday the market awaited comments from the ECB's Mario Draghi to see if the central bank would continue to boost its stimulus policy in an effort to spur inflation and growth. The ECB's current bond purchase program provides €80 billion in monthly stimulus and is due to end in five months. Draghi stated the ECB's next policy meeting in December would outline the plan going forward. He remarked that the ECB is, "committed to preserving the very substantial degree of monetary [stimulus] which is necessary." It appears unlikely the ECB would end bond purchases abruptly, favoring a gradual tapering. Draghi clarified, "My perception is that a sudden stop is not in anybody's mind."

On Tuesday, China announced an annual growth rate of 6.7% in the third quarter, in line with the first and second quarters of 2016. Many are concerned that the number has been inflated by growing corporate debt and elevated property markets. In an effort to improve financial risk, the Chinese government released guidelines last week to reduce corporate debt. Beijing stated that companies would be responsible for their borrowing without support from the government.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Industrial Production	0.1%	0.5%	▼
CPI YoY	1.5%	1.0%	▲
Housing Starts (Million)	1.05	1.20	▼
Existing Home Sales (Million)	5.47	5.57	▼

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	18145.71	0.04%	4.14%	5.69%
NASDAQ	5257.40	0.83%	4.99%	8.62%
S&P 500 LargeCap	2141.16	0.38%	4.76%	6.05%
MSCI EAFE	1679.83	0.91%	-2.12%	-4.48%
Barclays Aggregate US		0.31%	5.41%	4.34%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	0.29%	0.20%	0.00%
10-Year Treasury	1.80%	1.65%	2.02%

REPORTS DUE NEXT WEEK	LATEST
Consumer Confidence	104.1
New Home Sales (Thousands)	609
GDP	1.4%
Consumer Sentiment	87.9

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