MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE

11/4/16

THE WEEK IN REVIEW

U.S. stocks took a step backwards in the first week of November. After closing in negative territory on Friday, the S&P 500 Index extended its losing streak to nine consecutive days – the longest string of negative days since 2008. All three major U.S. stock averages declined between 1.5% and 2.5% as election polls indicated a much closer U.S. presidential election than was expected just several weeks ago. U.S. Treasury bond yields declined and prices advanced amid increased uncertainty. U.S. crude oil prices suffered their largest weekly decline since January to below $45 a barrel following reports suggesting disharmony amongst OPEC member nations related to production quotas.

The last heavy week of third quarter corporate earnings season saw 132 (or 26%) of S&P 500 companies report third quarter results, with 92 (or 70%) of those surpassing Bloomberg consensus earnings estimates. About 80% through earnings season (404 S&P 500 Index companies have reported as of Friday, November 4), 75% of companies have reported better-than-expected earnings per share, while 55% of companies have reported better-than-expected sales.

U.S. employers added 161,000 jobs to the economy in October according the Bureau of Labor Statistics, which fell slightly short of economists' expectations of 175,000 jobs. The October miss was offset by more jobs added in August and September than earlier estimates indicated. These "upward revisions" totaled 44,000 between August and September, bringing the 3-month average to 176,000. This level has historically been associated with modest economic growth. The devil is in the details, however, as the October numbers showed a loss of 9,000 manufacturing jobs which brings the total number of U.S. manufacturing jobs lost in 2016 to 66,000 according to Bloomberg. Highlighting the losses of U.S. manufacturing jobs has been a key topic for Trump candidacy; a Trump aide announced that it was a "disastrous report" following the release. Hillary Clinton, on the other hand, is pointing to the continued growth of the overall economy following the release, as the unemployment rate declined to 4.9% in October.

Perhaps the highlight of Friday's labor market data release was the acceleration of wage growth. Average hourly wages are up 2.8% year over year, which is the largest jump in seven years. This is indicative of a more competitive labor market, which may give the recent jobs report more validity. Many economists point to this data as a clear path for the fed funds rate hike in December as it was viewed as a positive by most. According to Bloomberg, traders place a 74% probability that the U.S. Federal Reserve will hike benchmark interest rates in December. This reading has increased from 69% since October 28.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
ISM Manufacturing	51.9	52.6	▼
ISM non-manufacturing	54.8	55.5	▼
Unemployment rate	4.9%	4.9%	-
Average Hourly Earnings	2.8%	2.7%	▲
Non-Farm Payrolls	161,000	252,000	▼

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	17888.28	-1.50%	2.66%	0.12%
NASDAQ	5046.37	-2.77%	0.78%	-1.87%
S&P 500 LargeCap	2085.18	-1.94%	2.02%	-0.81%
MSCI EAFE	1652.61	-0.78%	-3.71%	-6.17%
Barclays Aggregate US		0.12%	5.03%	4.76%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	0.37%	0.32%	0.04%
10-Year Treasury	1.78%	1.69%	2.23%

REPORTS DUE NEXT WEEK	LATEST
Mortgage Applications	-1.2%
Initial Jobless Claims	256K
Bloomberg Consumer Comfort	44.6
Consumer Credit	$25.873B
JOLTS Job Openings	5,443

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