MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE 11/18/16

THE WEEK IN REVIEW

In the first full week following the U.S. presidential election, U.S. equity markets came close to all-time highs, with the S&P 500 up 0.8%. Some of this increase can be attributed to positive reactions to Federal Reserve Chair Janet Yellen indicating the Fed was ready for a rate hike in December along with positive economic data releases. The S&P 500 came within four points of finishing at an all-time high on Thursday, while the Dow Jones closed at a record on Tuesday. Meanwhile, bond markets continued to sell off, with the U.S. 10-year Treasury note yield ending at 2.34%, the highest level of the year. The 10-year note yields had risen by 41 basis points in three days ending Tuesday, the steepest move in more than seven years. The dollar also continued its strong run, reaching a nine-month high on the Bloomberg Dollar Spot Index. This also comes on the back of Janet Yellen's testimony and the implied probability of a rate hike reaching 94%, the highest level in 2016. Anticipated stimulus from President-elect Donald Trump has also supported the dollar in recent days. Oil rose about 2.0% for the week, including having its strongest day in seven months on Tuesday. Renewed optimism of a cut or freeze in production from Venezuela, Qatar, and Algeria further contributed to gains.

The data-dependent Fed appears poised to raise rates at its December meeting as the improvement in economic data reports since their last meeting supports such a move. The labor market continues to demonstrate strength as Thursday's report on initial jobless claims revealed that only 235,000 U.S. workers applied for unemployment insurance in the week ending November 11, marking the lowest number of claims in a week since October 1973. Additionally, it brought the four-week moving average of initial jobless claims down to 253,500. That was just 4,000 claims more than the lowest four-week moving average since the financial crisis.

With a robust job market fulfilling one part of the Fed's mandate, investors and policymakers must then turn their focus to inflation. The Consumer Price Index (CPI) climbed 0.4% in October, driven largely by rising rents and gasoline prices. That marked the inflation measure's largest increase in six months, and led to its 1.6% year-over-year increase. Core CPI, which excludes food and energy prices, also advanced on both a month-over-month and year-over-year basis.

Beyond the boundaries of the Fed's mandate, other parts of the economy also exhibited signs of improvement this week. Most notably, new housing starts rose to a nine-year high in October. It was the largest month-over-month increase in the gauge since July 1982. Finally, the retail sector displayed signs of life in October as both headline and core measures of U.S. retail sales showed better-than-expected growth.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Retail Sales	0.8	0.1	▲
Producer Prices YoY	0.8	-0.2	▲
Housing Starts	1,323	1,218	▲
Consumer Prices YoY	1.6	0.8	▲

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	18867.93	0.11%	8.28%	6.38%
NASDAQ	5321.51	1.61%	6.27%	4.85%
S&P 500 LargeCap	2181.91	0.81%	6.75%	4.72%
MSCI EAFE	1632.66	-0.45%	-4.87%	-5.69%
Barclays Aggregate US		-0.70%	2.87%	2.79%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	0.44%	0.33%	0.11%
10-Year Treasury	2.34%	1.74%	2.27%

REPORTS DUE NEXT WEEK	LATEST
Existing Home Sales	5.47M
New Home Sales	593k
Durable Goods Orders	-0.3%
Consumer Sentiment	91.6

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