MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE 12/30/16

THE WEEK IN REVIEW

The final trading week of 2016 saw U.S. stocks give back a small portion of their post-election gains, while prices of U.S. government bonds and oil moved higher. Despite a quiet final week, the Dow Jones Industrial Average and S&P 500 Index posted robust total returns (including dividends) in 2016 of 16.5% and 12.0%, respectively. About two-thirds of those total returns materialized in the eight weeks following the election of President-elect Donald Trump. Equity investors seem to be encouraged by the incoming administration's proposed economic policy platform of corporate tax cuts, infrastructure spending and reduced regulations.

Across U.S. equity sectors, cyclical industries finished 2016 on a very strong note, catapulting to the top of the performance leaderboard. Compared to the broad S&P 500's 12.0% total return in 2016, the Energy and Financial sectors posted total returns of 27.4% and 22.8%, respectively. Consumer-oriented sectors and healthcare were among the worst performing S&P 500 sectors of the year. Notably, the S&P 500 Healthcare sector posted a disappointing -2.7% total return in 2016. As we look forward to the New Year, weather may play a significant role in the markets during the first half of January. Frigid temperatures are expected to envelop the western two-thirds of the continental U.S. in early January, perhaps curtailing consumer activity and causing demand for and prices of heating oil and natural gas to increase.

Turning to some of the headline economic data released this week, the Case-Shiller 20-City index indicated a month-over-month 0.6% growth rate in home prices, compared to a consensus range of 0.5% to 0.8%. The year over year increase in home prices was 5.1%, falling within the analyst range of 4.8% to 5.3%. The growth was far from evenly spread; West Coast cities like Portland and Seattle have been experiencing double digit growth, while cities further east like Cleveland and Washington D.C. have been experiencing around 1% growth rates. David M. Blitzer, managing director of the index committee at S&P Dow Jones Indices, feels that although the numbers are strong, they cannot last forever; mortgage rates are expected to continue to rise and home prices have been appreciating faster than wages and personal income. Additionally, Blitzer noted that measures of affordability have fallen 20-30% since home prices bottomed in 2012.

Meanwhile, U.S. consumer confidence continued to march ahead in November. Analysts' consensus as compiled by Bloomberg for the consumer confidence index was 108.5, while the actual number was 113.7, which was the highest reading since August 2001. Lynn Franco, director of economic indicators at The Conference Board, argued that the gains were due to expectations; current conditions actually began to decline moderately. The decline in current conditions was modest, so the consumer portion of the U.S. economy appears to remain on strong footing. The gain in expectations was led by a sharp increase in optimism from older Americans. These expectations might be the key in 2017 to sustaining high levels of consumer confidence.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Consumer Confidence	113.7	103.5	▲
S&P CS Housing Price Index (YoY)	5.1%	4.9%	▲
Chicago PMI	54.6	54.3	▲
Trade Balance	-$65.3B	-$59B	▼

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	19762.60	-0.86%	13.42%	13.42%
NASDAQ	5383.12	-1.46%	7.50%	7.50%
S&P 500 LargeCap	2238.83	-1.10%	9.54%	9.54%
MSCI EAFE	1675.30	0.04%	-2.39%	-2.39%
Barclays Aggregate US		0.41%	2.39%	2.39%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	0.50%	0.48%	0.14%
10-Year Treasury	2.44%	2.38%	2.29%

REPORTS DUE NEXT WEEK	LATEST
Markit US Manufacturing PMI	54.2
MBA Mortgage Application	2.5%
Initial Jobless Claims	265,000
Unemployment Rate	4.6%
Nonfarm Payrolls Net Additions	178,000

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