MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE 3/13/17

THE WEEK IN REVIEW

U.S. equities experienced a slight pullback this week after touching all-time highs during the previous week. Both the S&P 500 Index and Dow Jones Industrial Average finished down roughly 0.4%. Meanwhile, amid rising inflation expectations ten-year U.S. Treasury rates rose roughly 26 basis points, or 0.26% to close at 2.57%.

U.S. employers hired workers at a strong pace in February, as non-farm payrolls increased by 235,000 jobs beating expectations of 200,000 jobs. The construction sector recorded its largest gain in roughly 10 years due to unseasonably warm weather. Manufacturing jobs added 28,000 while retail was a drag declining 26,000. Additionally, the December and January job reports were revised upward by 9,000. Job gains have now averaged 209,000 per month for the past three months. Year-over-year wage growth rose to 2.8% driven by tight labor markets and minimum wage increases. With the labor market close to full employment, wage growth could be pushed higher in coming months and quarters as companies attempt to retain employees and attract skilled workers. Economists believe wage growth between 3.0%-3.5% could lift inflation to the Fed's preferred 2% target.

The official unemployment rate in February declined to 4.7%, from 4.8% in January, even as more people entered the labor market. The labor force participation rate, representing the share of working age Americans who are currently employed or looking for employment, increased to 63.0%. Initial jobless claims rose 20,000 this week to 243,000. The weekly rise, which comes after a low of 223,000 in the prior week, brings the four-week average to 236,500.

The solid U.S. jobs report most likely will clear the way for the Federal Reserve to raise interest rates at its meeting next week. This is after Fed Chair Janet Yellen stated last week a March rate hike would "likely be appropriate" if employment and inflation continued to evolve in line with their expectations. Rising inflation, a tightening labor market, stock market gains, and a stronger global economy all appear to be positive indicators for future Fed rate hikes. A Bloomberg report released Wednesday stated the odds for a rate hike next week had risen to 100%.

Turning to commodities markets, an approximate 9% decline in oil prices over the past week has tested the OPEC agreement to cut production in order to erode a crude inventory surplus. Oil inventories spiked by 8.2 million barrels for the week of March 3 as U.S. drillers ramped up production. The U.S. surge in production will most likely influence whether or not OPEC chooses to extend production cuts introduced last November. Inventories were up 1.5 million barrels over the prior week and up 7.7% from last year over the same period.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Durable Goods Orders	2.0%	-0.5%	▲
Nonfarm Payrolls (in thousands)	235	156	▲
Unemployment Rate	4.7%	4.7%	0
Trade Balance (in billions)	-48.5	-42.6	▼

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	20902.98	-0.49%	5.77%	22.99%
NASDAQ	5861.73	-0.15%	8.89%	25.73%
S&P 500 LargeCap	2372.60	-0.44%	5.97%	19.25%
MSCI EAFE	1747.86	-0.53%	3.79%	8.42%
Barclays Aggregate US		-0.64%	-0.44%	0.44%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	0.74%	0.53%	0.31%
10-Year Treasury	2.57%	2.41%	1.93%

REPORTS DUE NEXT WEEK	LATEST
CPI	2.5%
Retail Sales (month over month)	0.4%
Housing Starts (in millions)	1.246
Industrial Production (month over month)	-0.3%

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