MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE

4/7/17

THE WEEK IN REVIEW

FOMC minutes released this week showed that most Federal Reserve officials backed a policy change that would begin shrinking the central bank's $4.5 trillion balance sheet later this year. While no decisions about the bond holdings were made at last month's meeting, at which the Fed announced a modest increase to its benchmark short-term rate, most participants anticipated "gradual increases in the federal funds rate would continue and judged that a change to the committee's reinvestment policy would likely be appropriate later this year." The minutes revealed that Fed officials mostly preferred to tie any prospective change in the central bank's balance sheet reinvestment policy to the strength of the economy. FOMC members also expressed continued uncertainty about how White House policies would affect the economy, with only about half of the voting members incorporating assumptions about fiscal policy into their economic projections.

U.S. job growth slowed sharply in March amid continued layoffs in the retail sector, but a drop in the unemployment rate to a near 10-year low of 4.5% suggested labor market strength remained intact. Nonfarm payrolls increased by 98,000 jobs last month, the fewest since last May, according to the Labor Department. Job gains, which had exceeded 200,000 in January and February, were held back last month by a slowdown in hiring at construction sites, factories, and leisure and hospitality businesses; all which had been boosted by unusually warm temperatures earlier in the year.

The Institute for Supply Management (ISM) index of manufacturing activity retreated slightly in March from a two-and-a-half year high in February. The components of the index suggest manufacturing's uptrend in recent months will likely continue. The new orders and employment components are very strong and are near multi-year highs. Inflation continues to rise as the cost for raw materials reached its highest level since May 2011. ISM's index for non-manufacturing activity also slowed in March, but continues to display solid growth. New export orders, the best component of the report, reached the highest level since May 2007.

Vehicle sales declined 5.7% in March to a two-year low. Through March, light vehicle sales are on pace to decline about 2.0% this year from 2016's record sales. This would be the first annual decline in vehicle sales since 2009. Weaker sales this year will likely have a material negative impact on first quarter economic growth.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
ISM Manufacturing	57.2	54.5	▲
ISM Non-Manufacturing	55.2	56.6	▼
Non-Farm Payrolls	98,000	155,000	▼
Unemployment Rate	4.5%	4.7%	▼

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	20656.10	-0.03%	4.52%	17.75%
NASDAQ	5877.81	-0.57%	9.19%	21.23%
S&P 500 LargeCap	2355.54	-0.30%	5.21%	15.36%
MSCI EAFE	1780.45	-0.70%	5.73%	10.74%
Barclays Aggregate US		0.32%	1.14%	0.28%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	0.81%	0.74%	0.23%
10-Year Treasury	2.38%	2.52%	1.69%

REPORTS DUE NEXT WEEK	LATEST
JOLTS (Millions)	5.63
Producer Price Index (YoY)	2.2%
U. of Mich. Consumer Sentiment	96.9
Consumer Price Index (YoY)	2.7%
Retail Sales (MoM)	0.1%

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