MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE

6/30/17

THE WEEK IN REVIEW

A bit of volatility emerged in equity markets in the final week of the second quarter, as the S&P 500 Index levels gained or lost at least 0.8% on Monday, Tuesday and Wednesday. The CBOE Volatility Index (VIX), often cited as the U.S. stock market's "fear gauge" saw its largest intraday jump on Thursday since last summer's U.K. vote to exit the European Union. In a turnaround from last week, the technology sector was among the largest laggards this week, dragged down by the European Union's announcement of a $2.7 billion fine against Google parent Alphabet, Inc. for alleged anticompetitive activities. U.S. Senate Republicans' announcement of a delay on the GOP healthcare vote and Federal regulators' approval of the largest U.S. banks' capital return plans were several other notable headlines which added to this week's bumpiness.

In fixed income markets, U.S. bond prices declined and yields on the benchmark ten-year U.S. Treasury bond increased approximately 0.16% (or 16 basis points) to close at 2.30%. Market commentators have suggested this was in part driven by increased expectations for "reflation" (an increase in inflation from low levels) despite recent indications of a weakening U.S. inflation backdrop. Meanwhile, the U.S. economy grew at a slightly faster annualized rate of 1.4% in the first quarter compared to the 1.2% clip announced last month. The upward revision in U.S. gross domestic product during the period was spurred by a higher level of consumer spending than previously reported.

On Tuesday, we heard from the president of the European Central Bank, Mario Draghi, discussing the Bank's monetary outlook. Draghi stressed the need for prudence when considering easing monetary stimulus. He noted that as the economy continues to improve policy changes will need to be gradual to ensure the recovery continues "amid lingering uncertainties." Draghi avoided formal discussion of stimulus tapering and stressed the need for persistence in maintaining monetary accommodation. Notably, Draghi expressed concern that inflation remained low despite the economic upswing, citing "extended price shocks, slack in the labor market, and a changing relationship slack and inflation."

We also heard concern about softening inflation from Janet Yellen during her speech this week. She noted that inflationary expectations have been slipping and productivity growth has been slow at about 1.0%. Yellen also acknowledged that asset valuations are rich, though she stated the Fed does not target asset prices in policy discussions.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Durable Goods Orders	-1.1%	14.0%	▼
Conf. Board Consumer Confidence	118.9	124.9	▼
Real GDP (QoQ Annualized)	1.4%	2.1%	▼
Personal Income	0.4%	0.5%	▼
Personal Spending	0.1%	0.1%	-
U. of Mich. Consumer Sentiment	95.1	96.9	▼

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	21349.63	-0.21%	8.03%	19.07%
NASDAQ	6140.42	-1.99%	14.07%	26.80%
S&P 500 LargeCap	2423.41	-0.61%	8.24%	15.46%
MSCI EAFE	1895.75	0.35%	12.57%	17.86%
Barclays Aggregate US	2024.24	-0.43%	2.42%	-0.17%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	1.01%	0.93%	0.26%
10-Year Treasury	2.30%	2.21%	1.47%

REPORTS DUE NEXT WEEK	LATEST
ISM Manufacturing	54.9
ISM Non-Manufacturing	56.9
Non-Farm Payrolls (M/M change)	138,000
Unemployment Rate	4.3%

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