MAINSTREET ADVISORS

FINANCIAL MARKET UPDATE

7/7/17

THE WEEK IN REVIEW

U.S. economic data surprised to the upside this week, driving equities slightly higher in the process. The U.S. 10-year Treasury yield climbed roughly eight basis points since the end of last week, and has now climbed roughly 25 basis points over the last two trading weeks. Soybean prices were up sharply during the week amid unfavorable weather conditions and a report from the USDA that showed a record 89.5 million acres were planted, which was lower than the average trade estimate. The drought conditions also sent corn prices higher over the last trading week. Broadly speaking, most developed countries saw their bond yields rise over the last week as the market experienced some follow-through from comments made by European Central Bank (ECB) president Mario Draghi about the "strengthening and broadening recovery in the euro area."

Across the board, U.S. economic data beat economists' estimates this week. The Citi U.S. Economic Surprise Index went from -72.6 at the end of last week to -58.5 at the end of this week. Of particular note, was Friday's June nonfarm payrolls report, which showed the U.S. economy added 222,000 jobs, far greater than the 178,000 economists had expected. Additionally, both of the prior two reports were revised higher, resulting in a net revision of another 47,000 jobs added during the months of April and May. The index of aggregate weekly hours has now grown from 106.2 at the end of 2016 to 107.4 at the end of June, suggesting healthy growth in the labor market.

Another sign that the economy remains strong was the ISM manufacturing report released on Monday. The report showed manufacturing in the U.S. continued to expand in June, and did so at a faster clip than economists had expected. Compared to May, both the new orders component and the employment component displayed improved levels, while the prices paid component fell over the same period. In addition to the manufacturing sector expanding, the services sector, as measured by the ISM non-manufacturing composite index, exhibited improved signs of expansion in June, besting both the median economists' estimate and the May reading.

The minutes from the latest Federal Open Market Committee (FOMC) meeting that were released on Wednesday showed the committee remained divided on when to begin the process of unwinding the Fed's balance sheet, though September seems to be the most likely time as of now. The FOMC was not too concerned about the transitory softness in inflation numbers, but did express concerns about financial stability. Fed Chair Janet Yellen will testify in front of Congress next week, but she will likely reiterate what was revealed in the minutes. While recent data reports seem to support the notion of a relatively strong domestic economy, they are less supportive on the inflation front. If inflation trends do not cooperate, the Fed may need to reconsider the pace of future interest rate hikes.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
ISM Manufacturing	57.8	57.2	▲
ISM Non-Manufacturing	57.4	55.2	▲
Unemployment Rate	4.4%	4.5%	▼
Non-Farm Payrolls	222,000	50,000	▲

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	21414.34	0.30%	8.36%	19.66%
NASDAQ	6153.08	0.21%	14.30%	26.17%
S&P 500 LargeCap	2425.18	0.07%	8.32%	15.60%
MSCI EAFE	1882.57	-0.03%	11.79%	18.92%
Barclays Aggregate US	2015.95	-0.27%	2.00%	-1.24%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	1.03%	0.99%	0.28%
10-Year Treasury	2.38%	2.17%	1.39%

REPORTS DUE NEXT WEEK	LATEST
JOLTS (Millions)	6.0
Producer Price Index (YoY)	2.4%
Core Consumer Price Index (YoY)	1.7%
U. of Mich. Consumer Sentiment	95.1

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