THE PROBANK AUSTIN ADVISOR

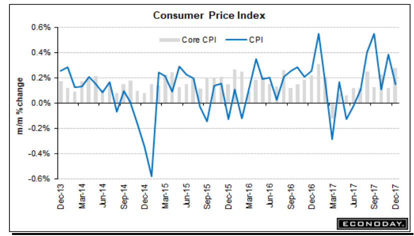
February 12, 2018

Markets	5-Feb	6-Feb	7-Feb	8-Feb	9-Feb	YTD%	29-Dec-17
DJIA	24,345.75	24,912.77	24,893.35	23,860.46	24,190.90	-2.14%	24,719.22
S&P 500	2,648.94	2,695.14	2,681.66	2,581.00	2,619.55	-2.02%	2,673.61
NASDAQ	6,967.53	7,115.88	7,051.98	6,777.16	6,874.49	-0.42%	6,903.39
SNL Bank Index	620.51	630.24	632.80	606.77	618.24	0.09%	617.68
Fed Funds Rate	1.42%	1.42%	1.42%	1.42%	1.42%		1.42%
1 Month LIBOR	1.58%	1.58%	1.58%	1.58%	1.58%		1.56%
3 Month LIBOR	1.79%	1.79%	1.80%	1.81%	1.82%		1.69%
3 Month T-Bill	1.51%	1.52%	1.55%	1.55%	1.55%		1.39%
1 Year Treasury	1.85%	1.87%	1.91%	1.91%	1.89%		1.76%
2 Year Treasury	2.08%	2.10%	2.15%	2.13%	2.05%		1.89%
3 Year Treasury	2.25%	2.30%	2.33%	2.32%	2.26%		1.98%
5 Year Treasury	2.50%	2.52%	2.57%	2.57%	2.52%		2.20%
10 Year Treasury	2.77%	2.79%	2.84%	2.85%	2.83%		2.40%
30 Year Treasury	3.04%	3.06%	3.12%	3.14%	3.14%		2.74%

WEEKLY HIGHLIGHT

Equity markets are not reflecting the fundamentals while bond markets are.

CONSUMER PRICE INDEX



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Economy	Week of February 5, 2018	
Trade Deficit	-$53.1 Billion	The December trade deficit widened more than expected and means 4th quarter Real GDP will not be revised up to 3%
JOLTS	5.811 million	The number of posted but unfilled job openings dropped from over $6 M as further signs of a tight labor market are reported
Consumer Credit	$18.4 Billion	Less than expected and down from revised $31 B but credit card balances increased by $5.1 B signaling strong final demand growth

ON THIS DAY IN HISTORY

1924 - Calvin Coolidge became the first U.S. president to deliver an address by radio.

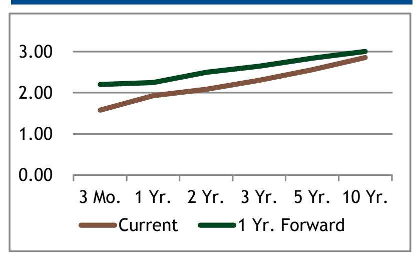
2006 - A powerful winter storm blankets the Northeastern U. S., including a record 26.9 inches of snow in New York's Central Park.

2011 - Archaeologists find the ship that belonged to Captain George Pollard who inspired Herman Melville's novel 'Moby Dick.'

2014 - A sinkhole opened up under a classic Corvette museum in Bowling Green, Kentucky.

Calendar	Release	Covering	Week of February 12, 2018
Consumer Price Index	Wednesday	January	Consensus forecast calls for a rise of 0.3% for the month, up from 0.1% reported from December
Retail Sales	Wednesday	January	Another solid month of growth in final demand is expected at +0.3% and +0.5% excluding volatile auto sales
Producer Price Index	Thursday	January	An increase of 0.4% following the drop of 0.1% would contribute to rising inflation risks affecting all financial markets
Industrial Production	Thursday	January	Growth of 0.2% is expected following the surge of 0.9% reported for December as manufacturing continues to improve
Capacity Utilization	Thursday	January	Rising output is driving the operating rate up with 78.1% expected but this is still below inflationary levels
Housing Starts	Friday	January	Expect a strong rebound from the weakness reported for December at 1.23 million vs. 1.192 M

U.S. TREASURY FORWARD CURVE



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Commentary

I spent most of last week trying to come up with a reason for the stock market pricing process. I have listened to many equity market experts offer their opinion. In the end, there does not appear to be a fundamental reason for the volatility that has been experienced. My bigger concern is whether the 10% downside correction in equity prices will have an impact on economic fundamentals. There are concerns the decline will have a negative impact on **consumer and business confidence** and reduce consumption going forward. There is a negative impact on the wealth effect of equity markets. Consumers feel wealthier when the values of their retirement plans are high. Businesses are more optimistic when the stock price is high for their company. Will the volatility cause the **Fed** to hold off on raising managed rates at their March **FOMC** meeting? The answer to these concerns depends on what happens over the next month. If stock prices stabilize even at these lower levels, we do not believe the experience of the last two weeks will have an impact on economic fundamentals or **monetary policy** decisions. The fundamentals remain strong.

Corporate earnings reported in the last month have been than expected with 80% of the reporting companies beating estimates. Guidance for this year has been revised upward by those companies. Economic data is getting stronger not weaker and we expect that to continue. **Housing starts** due out this week are a good example. There was a sharp drop reported for December which was driven by single family housing starts. Even as starts dropped, building permits remained high which should lead to a strong rebound in starts in coming months. **Retail sales** due this week are expected to be lower than the strong 0.4% reported for December but are forecast to be a solid 0.3% overall and a +0.5% when the volatile **auto sales** are excluded. The single reason given by most observers for the equity market drop was **rising inflation risks**. Normally equities are a hedge against higher inflation given the ability of companies to raise dividends at a pace faster than inflation. It is bonds that suffer in rising inflation environments. The rise in long-term market rates is consistent with higher inflation risks while the stock market decline is not. Rising interest rates does create competition for capital for stocks but the gradual rise in rates executed by the Fed does not create a reason for the huge drop in stock prices we have experienced. We cannot find a fundamental reason for the pricing action in stocks over the past two weeks. The surge in program computer driven trading and the huge surge in ETF's has increased institutional trading that occurs when preset price objectives are hit. While we cannot be confident about the short run in the equity market since investors and traders usually drive prices to excess before beginning to reflect fundamentals, we do believe the strength in the economy and corporate earnings growth will result in solid returns in equities in 2018.

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