THE AUSTIN ADVISOR

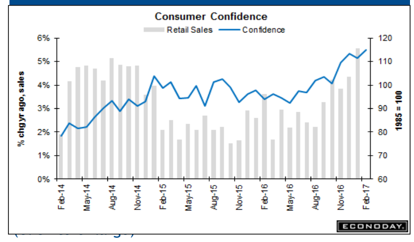
March 27, 2017

Markets	20-Mar	21-Mar	22-Mar	23-Mar	24-Mar	YTD%	30-Dec-16
DJIA	20,905.86	20,668.01	20,661.30	20,656.58	20,596.72	4.22%	19,762.60
S&P 500	2,373.47	2,344.02	2,348.45	2,345.96	2,343.98	4.70%	2,238.83
NASDAQ	5,901.53	5,793.83	5,821.64	5,817.69	5,828.74	8.28%	5,383.12
SNL Bank Index	548.70	527.00	525.27	527.13	528.15	-0.84%	532.65
Fed Funds Rate	0.91%	0.91%	0.91%	0.91%	0.91%		0.55%
1 Month LIBOR	0.98%	0.98%	0.98%	0.98%	0.98%		0.77%
3 Month LIBOR	1.16%	1.16%	1.16%	1.15%	1.15%		1.00%
3 Month T-Bill	0.76%	0.77%	0.77%	0.76%	0.78%		0.51%
1 Year Treasury	1.01%	1.00%	0.99%	0.99%	1.00%		0.85%
2 Year Treasury	1.30%	1.27%	1.27%	1.26%	1.26%		1.20%
3 Year Treasury	1.57%	1.54%	1.52%	1.52%	1.52%		1.47%
5 Year Treasury	2.00%	1.96%	1.95%	1.95%	1.93%		1.93%
10 Year Treasury	2.47%	2.43%	2.40%	2.41%	2.40%		2.45%
30 Year Treasury	3.08%	3.04%	3.02%	3.02%	3.00%		3.06%

WEEKLY HIGHLIGHT

Expectations for new fiscal stimulus programs took a hit last week and affected financial markets

CONSUMER CONFIDENCE



Economy	Week of March 20, 2017	
Existing Home Sales	5.480 Million	Sales were less than expected for the month, but are up 5.4% year-over-year and the inventory continues to decline
New Home Sales	592,000	Unlike existing homes, new home sales jumped 6.1% for the month but the year-over-year fell to a negative 4.9%
Durable Goods Orders	1.7%	This number came in as expected but, excluding volatile aircraft, was up only 0.4% as capex remains soft

Calendar	Release	Covering	Week of March 27, 2017
Consumer Confidence	Tuesday	March	Only a small pullback from 15 year highs is expected at 113.5, down from 114.8 in February
Real GDP-Final	Thursday	4th Qtr	The final revision to Real GDP is usually small, with the consensus expecting a 2.0% reading, up from 1.9% in last report
Personal Income	Friday	February	Income in total has been growing at a 3.25% rate over the past year, with forecasts of 0.4% for February
Personal Spending	Friday	February	Spending has been accelerating at a modest pace of 4%, with expectations of another monthly increase of 0.2%
Core PCE Price Index	Friday	February	This widely watched measure of inflation has risen at a 1.7% rate YOY, with a 0.2% increase for the month expected

MONDAY MUSING

I always look for evidence I am on the right track with my economic forecasts. I keep saying it is a tight labor market with companies having to attract employees from other companies to meet their needs. Last week, one of our new analysts came in to tell me we were going to need to give him a raise. He told me he had three other companies after him. After a long discussion, we agreed on a 5% raise. He thanked me and as he was leaving, I asked him which three companies were after him. He told me the electric company, the cable company and the student loan company. This kid has a real future in the consulting business.

THE AUSTIN ADVISOR

Commentary

There is little doubt factors other than fundamentals can drive financial asset pricing for short periods of time. Currently it is not the economic fundamentals driving market interest rates and equity prices. The inability to get a health care bill through Congress calls into question the remainder of the proposals to provide new **fiscal stimulus,** including tax cuts and infrastructure spending. Investors have priced in the expectation of these stimulus programs adding to economic growth. As a result, market interest rates have dropped below the upper end of the trading range established since the first part of this year. Equity prices have declined as confidence in additional fiscal stimulus getting done has waned. The economic data continues to reflect better growth going forward.

The **housing data** last week was mixed, with the lack of inventory of houses for sale the limiting factor. This should cause new home construction to accelerate in order to meet the rising level of demand. The data due out this week is highlighted by **consumer confidence** and the **PCE price index**. Consumer confidence has reached highs not experienced since 2001. This is being driven by the strong **labor market** data. Incomes have not increased at a rate consistent with the rise in jobs and the tight market conditions. We do expect incomes to rise at a faster pace going forward. The PCE core price index is the measure most often mentioned by **the Fed** as the one to watch. It is expected to be reported as having increased by 0.2% for February. This would keep the trailing twelve month increase at 1.7%.

The concern the Fed has expressed is that **inflation** is moving more and sooner than they had expected. They believe they must raise managed rates now in order to avoid having to make larger moves more frequently than is safe to keep the expansion from turning down. The Fed has said they have not factored in any of the fiscal stimulus programs in their forecasts for both the economy or future rate changes, but they are aware of the potential these could have on economic growth. Reducing expectations about these proposals will give the Fed greater room to move gradually in getting monetary policy to a neutral position. The events of the past week have not changed our forecasts for the economy or interest rates. They may have delayed the time frame for our forecasted condition to develop.