THE AUSTIN ADVISOR

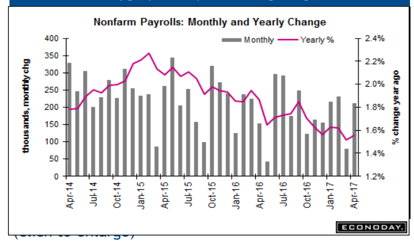
May 30, 2017

Markets	22-May	23-May	24-May	25-May	26-May	YTD%	30-Dec-16
DJIA	20,894.83	20,937.91	21,012.42	21,082.95	21,080.28	6.67%	19,762.60
S&P 500	2,394.02	2,398.42	2,404.39	2,415.07	2,415.82	7.91%	2,238.83
NASDAQ	6,133.62	6,138.71	6,163.02	6,205.26	6,210.19	15.36%	5,383.12
SNL Bank Index	521.87	528.14	526.97	525.71	524.33	-1.56%	532.65
Fed Funds Rate	0.91%	0.91%	0.91%	0.91%	0.91%		0.55%
1 Month LIBOR	1.03%	1.02%	1.03%	1.04%	1.04%		0.77%
3 Month LIBOR	1.19%	1.19%	1.20%	1.20%	1.20%		1.00%
3 Month T-Bill	0.93%	0.92%	0.93%	0.94%	0.94%		0.51%
1 Year Treasury	1.12%	1.14%	1.18%	1.16%	1.17%		0.85%
2 Year Treasury	1.29%	1.31%	1.29%	1.30%	1.30%		1.20%
3 Year Treasury	1.45%	1.49%	1.46%	1.46%	1.46%		1.47%
5 Year Treasury	1.80%	1.84%	1.79%	1.78%	1.79%		1.93%
10 Year Treasury	2.25%	2.29%	2.26%	2.25%	2.25%		2.45%
30 Year Treasury	2.91%	2.95%	2.92%	2.92%	2.92%		3.06%

WEEKLY HIGHLIGHT

The data due out this week will provide evidence as to the Fed's intentions in two weeks

NONFARM PAYROLLS



Economy		Week of May 22, 2017
New Home Sales	569,000	This data is highly volatile, so the drop in April and the upward revision for February and March is still a strong growth picture
Existing Home Sales	5.570 Million	While sales declined by 2.3% from the March data, it is still near record levels following the crash in 2007-09
Durable Goods Orders	-0.7%	After a huge 2.3% jump in March, the decline in April is another indication of the uneven growth in the first part of the year
Real GDP - Final Revision	1.2%	An upward revision from 0.7% as consumer spending was up 0.6% instead of the 0.3% in prior reports

MONDAY MUSING

Three of my high school friends and I have getting together every ten years for dinner and to catch up with what is going on in our lives. The first time we met we had dinner at the Gausthof Inn because the waitresses wore short skirts and low cut tops. Ten year later we met at the Gausthof Inn because the food was great and they had a great wine list. Ten years after that we met again at the Gausthof because it was quiet and we could have a great conversation. This year we are going to the Gausthof because the other guys have never been there before.

Calendar	Release	Covering	Week of May 29, 2017
Memorial Day	Monday		All financial Markets Closed
Personal Income	Tuesday	April	Income growth is expected to accelerate as a tight labor market drives wages up with a consensus forecast of 0.4% for April
Personal Spending	Tuesday	April	With higher incomes, spending is expected to move higher with a 0.4% rise expected for April after no growth in March
PCE Core Price Index	Tuesday	April	Inflation remains well contained with only 0.1% expected for the month, bringing the YOY increase down to 1.5% from 1.6%
Consumer Confidence	Tuesday	May	While a decline from 120.3 to 119.0 is expected, confidence levels remain near record highs
Motor Vehicle Sales	Thursday	May	At 16.9 million forecast, sales growth has stopped but remain at a strong level
ISM Index	Thursday	May	The consensus calls for 54.6, little changed from the 54.8 reading for April, indicating continued expansion of manufacturing
Unemployment Rate	Friday	May	No change in the 4.4% rate is expected as the labor market continues to be tight
Nonfarm Payrolls	Friday	May	Growth of 185,000 for May would be at the average monthly rate of the first five months of the year
Avg. Hourly Earnings	Friday	May	Only 0.2% is expected as the tight labor market is not driving wage rates higher as yet
Trade Deficit	Friday	April	The dollar has declined but has not as yet affected the trade deficit as expectations are for -$46.1, up from -$43.7 B for March

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Commentary

This week will provide the data needed for **the Fed** to make a decision about the timing of their next move. The most important is the **employment report** on Friday. **Job growth** jumped in April, with the 211,000 increase in **nonfarm payrolls** offsetting the weak report for March. Job growth has averaged 187,000 per month in the first four months of the year. Expectations are for a month with about the average growth experienced this year. That level of job growth would be enough to allow the Fed to raise the Funds rate another 25 basis points at the **FOMC** meeting in two weeks.

The other important data is the **inflation** report contained in the **personal income and spending** report due out today. The core rate for the **Personal Consumption Expenditure** index has only increased by 1.6% over the last twelve months. The Fed's target is 2%. With inflation running below the target, they may believe they have time to wait before continuing the process of **normalizing monetary policy**. The consensus forecast only calls for an increase of 0.1% for the month, which would drop the YOY increase down to 1.5%. The risk of getting behind the inflation curve and having to raise rates by larger increments and more often is what is causing the Fed to move gradually now. To date, inflation pressures have been muted. The bond market has kept intermediate and long-term rates low since investors do not see inflation risks as being very large. The short end of **the curve** has moved higher this year as investors expect the Fed to move managed rates up at least two more times this year and continue to raise rates through 2018.

The flattening the yield curve is normally not good for net interest margins in the banking industry. However, banks have raised loan rates in the last six months while they have not moved posted deposit rates. Depositors at banks have not moved balances from these low non-maturity accounts into alternatives at much higher yields even as these alternatives offer yields as much as 1%. That would be more than triple the yield being offered on existing balances at most banks. The result is an expansion of net interest margins for banks in the first quarter of the year which should continue into the second quarter. As long as banks can avoid raising the rates on existing deposit balances and can generate higher loan rates, revenues will expand. In this case, the flattening yield curve has not been a negative for bank earnings. It is now a matter of consumers willingness to accept the low yields being offered on deposits or will they begin to move balances to the higher yielding alternatives. At some point, we believe they will seek higher returns for the liquidity they are holding and margins will come under pressure. Removing some of the current accommodative monetary policy could have an adverse impact on banks.