THE AUSTIN ADVISOR

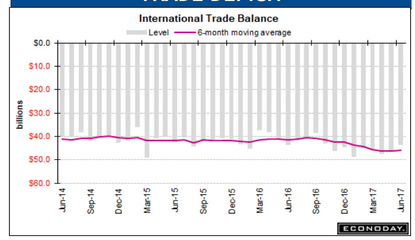
September 5, 2017

Markets	28-Aug	29-Aug	30-Aug	31-Aug	1-Sep	YTD%	30-Dec-16
DJIA	21,808.40	21,865.37	21,892.43	21,948.10	21,987.56	11.26%	19,762.60
S&P 500	2,444.24	2,446.30	2,457.59	2,471.65	2,476.55	10.62%	2,238.83
NASDAQ	6,283.02	6,301.89	6,368.31	6,428.66	6,435.33	19.55%	5,383.12
SNL Bank Index	539.11	535.81	537.86	536.50	539.99	1.38%	532.65
Fed Funds Rate	1.16%	1.16%	1.16%	1.07%	1.07%		0.55%
1 Month LIBOR	N / A	1.24%	1.24%	1.23%	1.23%		0.77%
3 Month LIBOR	N / A	1.32%	1.32%	1.32%	1.32%		1.00%
3 Month T-Bill	0.98%	1.03%	1.03%	1.01%	1.02%		0.51%
1 Year Treasury	1.24%	1.23%	1.23%	1.23%	1.24%		0.85%
2 Year Treasury	1.33%	1.33%	1.33%	1.33%	1.35%		1.20%
3 Year Treasury	1.46%	1.43%	1.44%	1.44%	1.46%		1.47%
5 Year Treasury	1.74%	1.70%	1.72%	1.70%	1.73%		1.93%
10 Year Treasury	2.16%	2.13%	2.15%	2.12%	2.16%		2.45%
30 Year Treasury	2.76%	2.74%	2.75%	2.73%	2.77%		3.06%

WEEKLY HIGHLIGHT

The data released last week did not change the outlook of better growth and no inflation

TRADE DEFICIT



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Economy	Week of August 28, 2017	
Consumer Confidence	122.9	Confidence improved more than expected, reaching the second highest reading in the past 18 years
Real GDP-Revised	3.0%	Revised up from 2.6%, with personal consumer spending and business fixed investments leading the economy higher
Personal Income	0.4%	A very strong income report, with wages and salaries up a solid 0.5% for the second consecutive month
Personal Spending	0.3%	Less than expected, with the third quarter off to only a moderate pace after a much stronger second quarter
Core PCE Index	0.1%	The lack of inflation continues to raise questions about the future course of monetary policy by the Fed
Motor Vehicle Sales	16.1 Million	Auto sales remain at levels well below the pace of the prior two years, Hurricane Harvey means a surge as cars are replaced
Unemployment	4.4%	The rate rose from 4.3%, which reflects the lower job growth numbers for August and downward revisions for June and July
Nonfarm Payrolls	156,000	Job growth was well below expectations and beginning to reflect the lack of qualified employees for the jobs available
Avg. Hourly Earnings	0.1%	The low rate of growth for average hourly earnings keeps inflation pressures low and may keep the Fed on hold going forward
ISM Index	58.8	Up more than 2 points from July, the strongest level in more than six years, indicating manufacturing will continue to expand

ON THIS DAY IN HISTORY

1666 - Great Fire of London ends

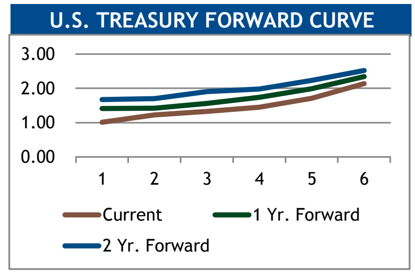
1698 - Russian Tsar Peter the Great imposes a tax on beards

1836 - Sam Houston elected President of the Republic of Texas

1906 - First legal forward pass completed in a game of football

Calendar	Release	Covering	Week of September 4, 2017
Labor Day	0.00	Monday	All financial markets closed
Trade Deficit	Wednesday	July	A small rise in the deficit is expected, caused by a slowdown in auto exports and other consumer goods
Consumer Credit	Friday	July	The consensus expects a jump to $15.7 billion, after a very small rise in June, as credit card debt is beginning to increase

U.S. TREASURY FORWARD CURVE



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Commentary

The wealth of data released last week continued the pattern of the last three years. The economic environment of modest growth and low **inflation** remains in place. Growth did improve in the second quarter, with **Real GDP** revised upward to 3% from 2.6% in the **Advance Report,** with the higher number due to better **consumption spending**. Both **personal consumption expenditures** and business fixed investments were revised higher. The beginning of the third quarter appears to be following this same condition, with **personal spending** up 0.3% for July. The Conference Board's **consumer confidence index** rose to 122 for the second highest reading in ten years and the **ISM index** jumped. These two indicators of future spending and manufacturing potential would indicate even better growth going forward.

Offsetting these was the employment report for August. **Job growth** was less than expected, and well below the better than 200,000 average of the prior two months. It came in at 156,000. June and July were revised downward by a total of 40,000, which drops the monthly average for this year to 175,000, from 187,000. The **unemployment rate** increased to 4.4% from 4.3%. To some extent, this report is affected by seasonal adjustment factors with August being model change over for the auto industry and back to school job reductions. We also believe it is more difficult for companies to find qualified workers and job growth suffers. The near record level of the **JOLTS data** would indicate jobs are available but are not being filled. The one sector of data which will have the biggest impact on the Fed's decision on monetary policy continues to remain stuck. Inflation is running well below the Fed's target of 2%. The **core PCE price index** was up only 0.1% for July and leaves the trailing twelve month increase at 1.4%. Average hourly earnings were also up only 0.1% for August, which means **labor costs** are not rising at a rate which would create inflationary pressures.

The result of all this data was another drop in the yield on long-term market interest rates. The yield on the ten-year treasury dropped to 2.12%, as investors have all but discounted any inflation risk. The issue is whether this slightly stronger economic growth and no inflation will cause **the Fed** to delay the expected plan to allow their balance sheet to shrink by not replacing all of the cash flow from their portfolio. The Fed meets in two weeks and markets have been expecting the Fed to announce the beginning of this process in October. The futures are still pricing a better than 50-50 chance of another Fed hike in managed rates in December, but the probability of this has been declining in the last two months since the last Fed move. There is little reason to believe market interest rates will move up, unless inflation data begins to move higher. The better consumption data and tight labor markets are not producing the normal pressure on prices we have experienced in the past. The Fed believes this is temporary and they should be normalizing monetary policy now and not wait for inflation to begin to move. The issue is whether the Fed will remain in this position long enough to be right.