THE PROBANK AUSTIN ADVISOR

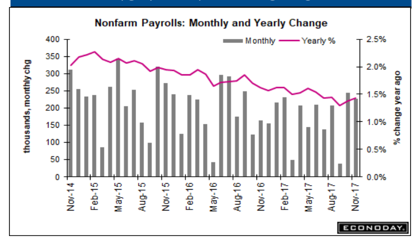
January 2, 2018

Markets	25-Dec	26-Dec	27-Dec	28-Dec	29-Dec	YTD%	30-Dec-16
DJIA	N / A	24,746.21	24,774.30	24,837.51	24,719.22	25.08%	19,762.60
S&P 500	N / A	2,680.50	2,682.62	2,687.54	2,673.61	19.42%	2,238.83
NASDAQ	N / A	6,936.25	6,939.34	6,950.16	6,903.39	28.24%	5,383.12
SNL Bank Index	N / A	621.50	620.66	623.30	617.68	15.96%	532.65
Fed Funds Rate	N / A	1.42%	1.42%	1.42%	1.42%		0.55%
1 Month LIBOR	N / A	N / A	1.57%	1.57%	1.56%		0.77%
3 Month LIBOR	N / A	N / A	1.69%	1.69%	1.69%		1.00%
3 Month T-Bill	1.33%	1.47%	1.44%	1.39%	1.39%		0.51%
1 Year Treasury	1.73%	1.75%	1.75%	1.76%	1.76%		0.85%
2 Year Treasury	1.91%	1.92%	1.89%	1.91%	1.89%		1.20%
3 Year Treasury	2.01%	2.02%	1.99%	2.00%	1.98%		1.47%
5 Year Treasury	2.26%	2.25%	2.22%	2.23%	2.20%		1.93%
10 Year Treasury	2.48%	2.47%	2.42%	2.43%	2.40%		2.45%
30 Year Treasury	2.83%	2.82%	2.75%	2.75%	2.74%		3.06%

WEEKLY HIGHLIGHT

The yield curve remains very flat with the TED spread now down to 50 basis points

NONFARM PAYROLLS



(click to enlarge)

Economy	Week of December 25, 2017	
Consumer Confidence	122.1	After two months of seventeen year highs the index pulled back from 129.5, but still remains at a strong level

ON THIS DAY IN HISTORY

1776 - 1st revolutionary flag displayed

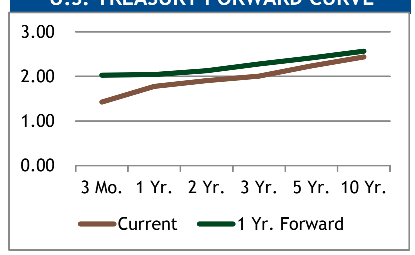
1839 - 1st photo of the Moon

1906 - Willis Carrier receives patent for first air conditioner

1966 - Packers beat the Browns in the NFL championship game

Calendar	Release	Covering	Week of January 1. 2018
New Years Day	0.00		All financial markets closed.
Motor Vehicle Sales	Wednesday	December	After running above $18 M in Sept. and Oct from hurricane replacement, sales are expected to post another strong $17.5 M result
ISM Index	Wednesday	December	The index peaked at 60.8 in September and has remained strong at 58 or above since; we expect a reading of 58.1 for December
Trade Deficit	Friday	November	The deficit has surged to more than a -$48 B and is expected to remain at that level, with -$48.3 B for the month
Unemployment	Friday	December	No change in the 4.1% rate reported for the last two months is expected for December
Nonfarm Payrolls	Friday	December	Job growth is expected to remain strong at 190,000 for the month, which is slower than the surge early in the quarter
Avg. Hourly Earnings	Friday	December	Wage rate growth has not kept pace with job growth, but expectations are incomes will begin to rise at a faster pace at 0.3%

U.S. TREASURY FORWARD CURVE



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Commentary

2017 started with the yield on the two-year treasury at 1.22%. The year ended with the two-year at 1.90% or 68 basis points higher. The ten-year was 2.45% at the beginning of the year and ended at 2.40%. The spread between the two was 123 basis points at the beginning of the year and was 50 basis points by year-end. **The Fed** raised managed rates four times, for a total of 100 basis points, in thirteen months ending in December. They believed it was appropriate to "normalize" monetary policy in an effort to make sure **inflation** does not surge as the economy continues to accelerate. The Fed has been concerned the **tight labor market** would cause wage rates to jump and lead to higher inflation. This concern was unfounded in 2017. Average hourly earnings have only risen by 2.5% over the last twelve months, the same rate of growth recorded for 2016. Companies have found ways to maintain output without having to raise wages to retail or attract the employees they need. It remains a question as to whether this will continue in 2018.

Our forecast calls for rising incomes from higher wages and continued job growth. The December labor report, due this Friday, is expected to reflect job growth of just under 200,000 and wage growth slightly higher at 0.3% for the month. Next year will be impacted by the tax reform act in many ways. For example, the lower corporate tax on cash returned to the U.S. of 15% and the overall reduction of the corporate tax rate to 21% will have a huge impact on the trade deficit. Companies will no longer need to shelter income by reporting it as earned in foreign subsidiaries. This should reduce imports and increase exports as foreign economies continue to grow at better rates and sales are reported for domestic activity. The increase in after tax, disposable income will support continued growth in consumption. The boost to corporate profits will allow business fixed investments to increase at a better pace. Finally, lower taxes have already allowed some companies to increase wages and pay bonuses to employees. That adds to personal income growth and supports faster growth in personal consumption expenditures.

We are not expecting inflation to move above the Fed's target of 2% until the second half of this year. The bond market does not expect any surge in prices until 2019 or later since **the curve** remains flat. The issue for banks in 2018 is whether depositors will continue to keep balances in low yielding, non-maturity accounts or will they begin to demand higher returns as the Fed continues to raise managed rates. To date, banks have benefited from depositors apathy toward rates paid on these accounts when alternatives such as short term CD's offer much higher rates. A decline in balances in these accounts combined with a decline in total deposits is required to increase competitive rates to match the higher rates available in national markets. Banks will also need to become disciplined in loan pricing. A stronger economy will create loan demand. Rates on these new loan opportunities need to be higher than those of the last three years.

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