THE AUSTIN ADVISOR

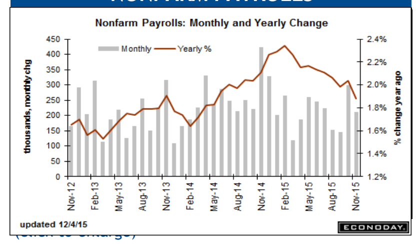
January 4, 2016

Markets	28-Dec	29-Dec	30-Dec	31-Dec	1-Jan	YTD%	31-Dec-14
DJIA	17,528.27	17,720.98	17,603.87	17,425.03	N/A	-2.23%	17,823.07
S&P 500	2,056.50	2,078.36	2,063.36	2,043.94	N/A	-0.73%	2,058.90
NASDAQ	5,040.99	5,107.94	5,065.85	5,007.41	N/A	5.73%	4,736.05
SNL Bank Index	435.65	440.21	435.81	431.48	N/A	-0.29%	432.75
Fed Funds Rate	0.36%	0.36%	0.35%	0.35%	N/A		0.06%
1 Month LIBOR	N/A	0.42%	0.43%	0.43%	N/A		0.17%
3 Month LIBOR	N/A	0.61%	0.61%	0.61%	N/A		0.26%
3 Month T-Bill	0.23%	0.23%	0.21%	0.16%	0.16%		0.04%
1 Year Treasury	0.66%	0.67%	0.64%	0.65%	0.65%		0.25%
2 Year Treasury	1.05%	1.09%	1.08%	1.06%	1.06%		0.67%
3 Year Treasury	1.33%	1.38%	1.36%	1.31%	1.31%		1.10%
5 Year Treasury	1.73%	1.81%	1.80%	1.76%	1.76%		1.65%
10 Year Treasury	2.24%	2.32%	2.31%	2.27%	2.27%		2.17%
30 Year Treasury	2.95%	3.04%	3.04%	3.01%	3.01%		2.75%

WEEKLY HIGHLIGHT

Financial markets are in turmoil globally and we can expect huge volatility to start the year.

NONFARM PAYROLLS



Economy	Week of December 28, 2015	
Consumer Confidence	96.5	Well above expectations and last month's reading of 90.4, with the outlook for job growth the major factor

Calendar	Release	Covering	Week of January 4, 2016
ISM Index	Monday	December	This index dropped below 50 in November, and is expected to remain below the breakeven point for December
Motor Vehicle Sales	Tuesday	December	December is normally a slow month for auto sales with consumers spending in other areas, expect only 14.5 million
Trade Deficit	Wednesday	November	A strong currency and weak foreign demand keeps the deficit high, with forecasts at -$44.5B expected, up from -$43.9B
Unemployment	Friday	December	No change in the 5.0% unemployment rate is expected, but the risk is that it could drop again as we move lower this year
Nonfarm Payrolls	Friday	December	The consensus forecast calls for +200,000, or about the monthly average of the last four months
Avg. Hourly Earnings	Friday	December	Another +0.2% is expected, which is not reflective of the rise in wages we are expecting this year as the labor market tightens
Consumer Credit	Friday	November	A large increase of $19.3 Billion is the consensus forecast, as credit card debt rises on higher confidence

MONDAY MUSING

With this last Christmas my sons have completed all three stages of life. Those are: I believe in Santa Claus, I do not believe there is a Santa Claus, I am Santa Claus. I just hope next year Santa does not get things backwards like he did this year. I had asked for a large bank account and a smaller body.

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Commentary

As I write this commentary early on Monday morning, it appears **global stock markets** are going to start the year with a large decline. The selloff started in **China** with their market down more than 7% for the day. It has been followed by **Europe**, and is expected to drive our stock market down today. The issues causing this decline include slowing economic growth in China and increased tensions in the Middle East. The relations between **Iran** and **Saudi Arabia** took a hit over the weekend with Saudi Arabia ending diplomatic relations with Iran. These issues have implications for the price of oil. The drop in equity prices does drive capital into the safe haven of the **U.S. debt market,** driving bond prices up and yields down. None of this has anything to do with the fundamental economic conditions in the U.S.

The data continues to reflect a slowing **manufacturing sector**, a solid **housing sector** and increasing levels of **consumer final demand**. These factors will keep **inflation pressures** lower than normally would be the case when **final demand** and **job growth** is getting better. Low inflation expectations are keeping intermediate and long-term market rates from moving higher, even as shorter term rates rise in reaction to expected Fed action. This week should provide some conflicting data. The **ISM index** is expected to remain below 50, the level of expansion. Manufacturing led the recovery in 2010-14, but has slowed as **export markets** softened and the U.S. currency strength made imports less costly. The drop in **auto sales** expected to be reported on Tuesday is a seasonal issue as auto sales slow in December. They are expected to rebound in January. The **employment report** due out on Friday is expected to be consistent with the growth in jobs of the last four months. The **unemployment rate** is expected to be unchanged at 5%, but could be lower depending on the estimate of the size of the labor force. Finally, **consumer credit** is expected to have increased by more than $19 billion in November, also reflecting strength in consumer final demand.

The engine of economic growth continues to move from manufacturing to consumer spending. The drag on growth from an expanded **trade deficit** will continue to be an issue in the next six months. We have reached a new level for the trade deficit and low oil prices. It is the change from these new levels that will affect future growth data. We expect those changes to be less of a drag this year than last and **U.S. economic growth** to be better this year than last. The risk to this forecast is greater instability in the Middle East, and further slowing in foreign economies. These conditions could spread to the U.S. and limit consumer demand growth and keep inflation at very low levels.

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