THE AUSTIN ADVISOR

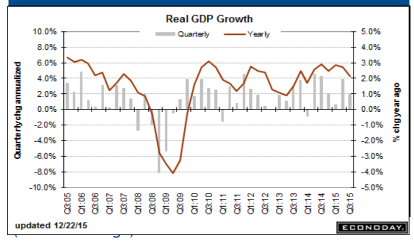
January 25, 2016

Markets	18-Jan	19-Jan	20-Jan	21-Jan	22-Jan	YTD%	31-Dec-15
DJIA	N/A	16,016.02	15,766.74	15,882.68	16,093.51	-7.64%	17,425.03
S&P 500	N/A	1,881.33	1,859.33	1,868.99	1,906.90	-6.70%	2,043.94
NASDAQ	N/A	4,476.95	4,471.69	4,472.06	4,591.18	-8.31%	5,007.41
SNL Bank Index	N/A	374.21	367.48	363.80	370.78	-14.07%	431.48
Fed Funds Rate	N/A	0.36%	0.37%	0.37%	0.37%		0.35%
1 Month LIBOR	0.43%	0.43%	0.43%	0.43%	0.43%		0.43%
3 Month LIBOR	0.62%	0.62%	0.62%	0.62%	0.62%		0.61%
3 Month T-Bill	0.24%	0.26%	0.26%	0.28%	0.31%		0.16%
1 Year Treasury	0.49%	0.48%	0.43%	0.44%	0.47%		0.65%
2 Year Treasury	0.85%	0.88%	0.85%	0.84%	0.88%		1.06%
3 Year Treasury	1.08%	1.11%	1.06%	1.06%	1.11%		1.31%
5 Year Treasury	1.46%	1.49%	1.44%	1.44%	1.49%		1.76%
10 Year Treasury	2.03%	2.06%	2.01%	2.02%	2.07%		2.27%
30 Year Treasury	2.81%	2.82%	2.77%	2.79%	2.83%		3.01%

WEEKLY HIGHLIGHT

A rebound in stock prices late last week was driven by the prospect the ECB is ready to add liquidity

REAL GDP ADVANCE



Economy		Week of January 18, 2016
Consumer Price Index	-0.1%	The headline number remains very low, while the core rate is up 2.1% on a year-over-year basis
Housing Starts	1.149 Million	Starts and permits dropped in December following the big gain in November as concerns about sustainability is raised
Existing Home Sales	5.460 Million	The recovery in sales was even bigger than expected, driven by changes in mortgage closing requirements
Leading Indicators	-0.2%	This index has flattened in the past six months, with decline in December following the large 0.4% jump in November

MONDAY MUSING

I had a problem with my computer last week when it was infected with a virus. I had to start over installing everything. I found I spent more time trying to find acceptable user ID's for various apps that I could remember than I spent coming up with the names for our children. I have concluded Microsoft Works is an oxymoron.

Calendar	Release	Covering	Week of January 25, 2016
Consumer Confidence	Tuesday	January	This measure of consumer attitudes is little changed in the past year, with monthly volatility around the 96.0 level
New Home Sales	Wednesday	December	Expect 500k for the month, which is about the average monthly level in the past six months with inventories still low
FOMC Meeting	Wednesday		No change in monetary policy is expected, but the issue will be whether the Fed still believes risks are balanced
Durable Goods Orders	Thursday	December	Weak foreign demand, a strong dollar and slowing manufacturing cause this to be stagnant expecting only 0.2%
Real GDP Advance	Friday	4th Quarter	Consensus forecasts have been cut due to higher trade deficits, lower inventory build and slower spending and stands at only 0.9%

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Commentary

This will be a big week for data to be digested by investors. The most important will be the language in the statement issued by the **FOMC** following their meeting on Wednesday. The statement issued in December said **the Fed** believes risks to the economy were balanced, with no clear signal of a change in the direction of the **U.S. economy**. Since then, stock markets have melded down and market interest rates have dropped. This volatility has been driven by risks in countries that have commodity based economies and by a slowdown in growth in **China**. The Fed passed on a rate move last September based on these same conditions. No one expects the Fed to make a second move on managed rates this week. The consensus forecast had been the next increase by the Fed would come in March. The language in the statement this week should give some indication of whether the Fed will stay on course to raise rates four times this year, or whether current fears driving financial asset pricing will keep them on hold in March.

The FOMC meeting is before the release of the advance estimate for fourth quarter **Real GDP** data. This data is expected to be weak, at less than 1% for the quarter. The major factors keeping growth low are the larger **trade deficit** from weak exports, and a much lower **inventory build** as compared to the middle two quarters of 2015. The key component will be **personal consumption expenditure** growth. This spending sector accounts for 68% of total Real GDP. It has been growing at better than 3% consistently. Should it drop to well under that growth, the risks to the economy may not be balanced in the Fed's view. It might be enough to keep the Fed on the sidelines in March. The **advance report** is always subject to large revisions since the trade deficit and personal spending for December have not be released as of yet and are estimated in this report.

We continue to expect the Fed to raise rates by 100 basis points in 2016, even if they pass on a move in March. Our basis for this is the need to **normalize rates** in order to reduce the incentive for risk on trades. The Fed is concerned the very low **interest rates** are driving capital into higher risk sectors in order to find returns. One example is the lower underwriting standards being used in commercial real estate lending at many banks. The Fed has said they view the increase in commercial real estate prices as an indication of a **speculative bubble** being built. They would like to cool the market without causing large declines. They must normalize interest rates gradually to accomplish this difficult objective. We forecast the **U.S. economy** can absorb higher interest rates and still grow at close to 3% for the full year 2016. **Consumer confidence** and spending will be driven by continued **job growth** and rising wages in what is already a tight labor market. A wise old man once said you make money when you buy when nobody wants something and you sell when everybody wants something. This is a time when is seems nobody wants stocks and everybody wants bonds

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