THE PROBANK AUSTIN ADVISOR

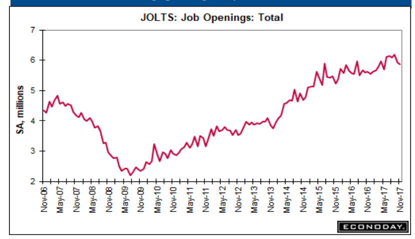
February 5, 2018

Markets	29-Jan	30-Jan	31-Jan	1-Feb	2-Feb	YTD%	29-Dec-17
DJIA	26,439.48	26,076.89	26,149.39	26,186.71	25,520.96	3.24%	24,719.22
S&P 500	2,853.53	2,822.43	2,823.81	2,821.98	2,762.13	3.31%	2,673.61
NASDAQ	7,466.50	7,402.48	7,411.48	7,385.86	7,240.95	4.89%	6,903.39
SNL Bank Index	665.38	658.96	660.28	666.63	654.68	5.99%	617.68
Fed Funds Rate	1.42%	N / A	N / A	N / A	N / A		1.42%
1 Month LIBOR	1.57%	1.57%	1.58%	1.58%	1.58%		1.56%
3 Month LIBOR	1.77%	1.77%	1.78%	1.79%	1.79%		1.69%
3 Month T-Bill	1.44%	1.44%	1.46%	1.48%	1.48%		1.39%
1 Year Treasury	1.80%	1.88%	1.90%	1.89%	1.88%		1.76%
2 Year Treasury	2.11%	2.13%	2.14%	2.16%	2.15%		1.89%
3 Year Treasury	2.26%	2.27%	2.29%	2.33%	2.33%		1.98%
5 Year Treasury	2.49%	2.51%	2.52%	2.56%	2.58%		2.20%
10 Year Treasury	2.70%	2.73%	2.72%	2.78%	2.84%		2.40%
30 Year Treasury	2.94%	2.98%	2.95%	3.01%	3.08%		2.74%

WEEKLY HIGHLIGHT

Financial market volatility can have a short-term impact, but the economic growth rate is improving

JOLTS INDEX



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Economy	Week of January 29, 2018	
Personal Income	0.4%	As expected with even faster growth going forward as the impact of tax reform causes incomes to rise faster
Personal Spending	0.4%	Consumer final demand has rebounded from the slowing in the third quarter of last year with two solid months in a row
Core PCE Price Index	0.2%	The core rate of inflation was only slightly higher in January, while the bond market is beginning to price in higher expectations
Consumer Confidence	125.4	A rebound from a revised 123.1 reported for December, with future expectations rising 5 points bringing, index close to 17 year high
ISM Index	59.1	This data is the best indication future manufacturing activity is being maintained at very high levels
Unemployment Rate	4.1%	No change in the rate even as jobs grew at a above average rate indicating the pool of qualified workers is an issue
Nonfarm Payrolls	200,000	Above expectations and December's growth was revised upward by 12K providing further proof of a very tight labor market
Avg. Hourly Earnings	0.3%	This increase, combined with December's revised +0.4%, is causing investors to rethink inflation pressures

ON THIS DAY IN HISTORY

1556 - Henry II of France and Philip of Spain sign the truce of Vaucelles

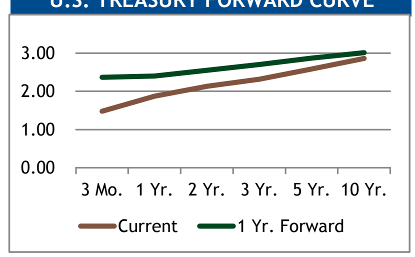
1783 - Sweden recognizes U.S. independence.

1922 - The Reader's Digest begins publication in New York.

1952 - New York adopts three-colored traffic lights.

Calendar	Release	Covering	Week of February 5. 2018
JOLTS INDEX	Tuesday	December	This index of posted but unfilled job openings is expected to remain at just under 6M
Consumer Credit	Wednesday	December	Consumers are more willing to borrow to support growth in final demand with an increase of $20.3B expected from December

U.S. TREASURY FORWARD CURVE



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Commentary

It can be ugly when investor estimate changes direction. The bond market made than turn last week. Market interest rates charged higher as investors began the process of pricing **higher inflation expectations** into current rates. This change is reflected in a steepening of the **yield curve**. In the last month the spread between the yield on the two-year treasury and the ten-year has widened from 49 basis points to 70 basis points. The entire term structure of rates has moved higher but the intermediate and long end has moved higher by a larger amount. The inflation risks were highlighted last week by **the Fed** and the **labor market report**. The Fed did not change **monetary policy** but did change some language in their statement to open the door for more than three increases in managed rates this year. These changes were noting the Fed's belief tight labor markets are going to drive labor costs higher causing companies to raise prices. The room for price increases is also aided by a weaker dollar and **strong consumer final demand**. These risks were highlighted by the labor market report on Friday. Average hourly earnings were reported as having risen by 0.3% in January after rising by 0.4% in December. This brings the year-over-year increase up to 2.9%. This rising labor costs will continue to increase as companies use some of the savings in taxes to pass along to workers and the smaller pool of qualified workers to fill openings creates more competition for those employees. The weaker dollar makes imported goods more expensive, providing room for domestic production to rise in price. This inflation risk premium is coming sooner than we expected. Our forecast had been for the process to begin in the second half of the year. The shift in investor expectations drove stock prices down as market interest rates rose. We know capital market valuations move to extremes when momentum shifts quickly. We expect that will happen this time so further weakness in stock prices and higher market interest rates will continue in the short run.

Lost in all the volatility of last week was the strong economic data released. **Personal income and spending** were solid in December, with growth at better rates than the average of the last two years. **Consumer confidence** remains high at near post recession highs. The **ISM index** rebounded indicating strong manufacturing activity going forward. The growth in manufacturing jobs reported for both December and January validates this environment. The economy is accelerating and growth in disposable income from tax cuts and tight labor markets will fuel accelerating growth in final demand. **Capital spending** is improving after slowing in both 2016 and 2017. Companies are putting cash to work by investing in their own business. The drop in stock prices may have a short term impact on confidence but a 5 to 10% correction in equity markets sets a foundation for further gains later in the year driven by strong earnings gains. In short, the current financial market concerns and volatility are to be expected after the run up in 2017. Even after the market sell-off last week, the S&P 500 is still up 2.5% in 2018.