THE AUSTIN ADVISOR

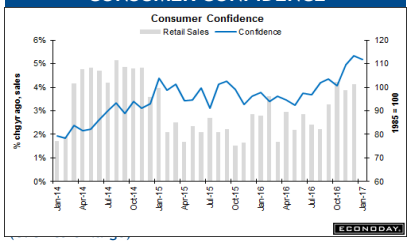
February 27, 2017

Markets	20-Feb	21-Feb	22-Feb	23-Feb	24-Feb	YTD%	30-Dec-16
DJIA	N/A	20,743.00	20,775.60	20,810.32	20,821.76	5.36%	19,762.60
S&P 500	N/A	2,365.38	2,362.82	2,363.81	2,367.34	5.74%	2,238.83
NASDAQ	N/A	5,865.95	5,860.63	5,835.51	5,845.31	8.59%	5,383.12
SNL Bank Index	N/A	560.84	561.05	561.08	555.35	4.26%	532.65
Fed Funds Rate	N/A	0.66%	0.66%	0.66%	0.66%		0.55%
1 Month LIBOR	0.78%	0.78%	0.78%	0.78%	0.78%		0.77%
3 Month LIBOR	1.05%	1.05%	1.05%	1.05%	1.05%		1.00%
3 Month T-Bill	0.53%	0.53%	0.52%	0.51%	0.52%		0.51%
1 Year Treasury	0.82%	0.83%	0.82%	0.81%	0.80%		0.85%
2 Year Treasury	1.21%	1.22%	1.22%	1.18%	1.12%		1.20%
3 Year Treasury	1.48%	1.50%	1.49%	1.44%	1.38%		1.47%
5 Year Treasury	1.92%	1.93%	1.92%	1.87%	1.80%		1.93%
10 Year Treasury	2.42%	2.43%	2.42%	2.38%	2.31%		2.45%
30 Year Treasury	3.03%	3.04%	3.04%	3.02%	2.95%		3.06%

WEEKLY HIGHLIGHT

The wealth of data to be released this week is expected to be high enough to drive rates up

CONSUMER CONFIDENCE



Economy	Week of February 20, 2017	
Existing Home Sales	5.690 Million	This is the highest monthly sales rate since 2007, and well above expectations with a 3.3% gain
FOMC Minutes		The minutes from the January 31 meeting were a bit more hawkish, but a March rate hike remains questionable
New Home Sales	555,000	This highly volatile data has been trending downward and supply is not the issue, as building is catching up with demand

MONDAY MUSING

I am a little worried. I received a new computer so we are compatible with everyone in our new company. The quick start guide is 120 pages. Of course, it is in four languages, none of which I can understand. I did figure out how to start it and the first thing that came up on the screen was "Etch-a-sketch". Please, don't even think about sending me an email.

Calendar	Release	Covering	Week of February 27, 2017
Durable Goods Orders	Monday	January	The 1.8% increase reported continues the trend of the twelve months of gradual improvement
Real GDP-First Revision	Tuesday	4th Qtr	The consensus is for an upward revision to 2.1% from the 1.9% reported last month, but we are looking for a higher number
Consumer Confidence	Tuesday	February	The index hit a 15 year high in December at 113.3 and has been holding steady as forecasts call for 111.7 for February
Personal Income	Wednesdy	January	Expectations are for a 0.3% rise, matching December's rise, and are in line with the trend of the last two years
Personal Spending	Wednesdy	January	Spending surged in December and is expected to be up 0.3% for January, reflecting steady but modest growth
Core PCE Price Index	Wednesdy	January	Prices are expected to be reported to have risen by 0.3%, which is higher than the 1.7% annual increase in the past year
Motor Vehicle Sales	Wednesdy	February	Auto sales spiked in December above 18 million and are expected to remain in the 17.5 million range for February
ISM Index	Wednesdy	February	This index of future manufacturing activity has been well above break-even of 50, with a reading of 56.2 expected

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Commentary

The wealth of data due out this week is expected to continue the trend of the first two months of the year by reporting positive momentum. The income and spending data should be moderate and continue to reflect steady improvement. Spending growth would be higher, except for the warmer weather in January holding down utility costs. The new element is the rise in the core **PCE price index**. That is expected to be up 0.3% for the month, which is higher than the monthly gains in the past year. This is the measure used by **the Fed** to gauge **inflation**. The Fed has expressed concerns about getting behind **the curve** on inflation and the need to remove accommodative **monetary policy** before inflation gets too high. This higher data combined with a second strong monthly gain in **nonfarm payrolls** may be enough to drive the Fed into another move to lower monetary policy accommodation by raising managed rates on March 15. The Fed Funds futures market is pricing in only a 20% chance of that happening in March, but has increased the possibility of a move at the May **FOMC** meeting. The other data due out this week should point the Fed toward moving sooner rather than later with their three planned increases this year.

Consumer confidence is expected to remain just below the 15 year high reached in December. The **ISM index** is expected to remain at 56, or well above the breakeven level of 50. The first revision to fourth quarter **Real GDP** is expected to be at 2.1%, up from the 1.9% estimated in the Advance Report. The swing factors should be a lower **trade deficit**, higher **personal consumption expenditures** and higher **inventory accumulation** than was in the Advance report. In spite of this better economic data, market interest rates moved lower last week. The yield on the ten-year treasury peaked at 2.49% early in the week and ended the week at 2.31%. The five-year and two-year also dropped down during the week. The bond market has been in a trading range and has been unable to break out in either direction. We continue to expect the breakout will occur on the upside. The stronger economic data and the outlook for the Fed should cause short-term rates to move higher. Higher inflation data should cause intermediate and long-term market interest rates to break out of the recent trading range on the upside. We continue to project the yield on the ten-year to reach 2.8% by the end of March.

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