THE AUSTIN ADVISOR

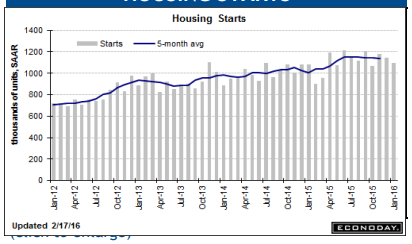
March 14, 2016

Markets	7-Mar	8-Mar	9-Mar	10-Mar	11-Mar	YTD%	31-Dec-15
DJIA	17,073.95	16,964.10	17,000.36	16,995.13	17,213.31	-1.22%	17,425.03
S&P 500	2,001.76	1,979.26	1,989.26	1,989.57	2,022.19	-1.06%	2,043.94
NASDAQ	4,708.25	4,648.82	4,674.38	4,662.16	4,748.47	-5.17%	5,007.41
SNL Bank Index	387.55	378.22	377.57	377.94	388.11	-10.05%	431.48
Fed Funds Rate	0.36%	0.36%	0.36%	0.36%	0.36%		0.35%
1 Month LIBOR	0.44%	0.44%	0.44%	0.44%	0.44%		0.43%
3 Month LIBOR	0.64%	0.64%	0.63%	0.63%	0.63%		0.61%
3 Month T-Bill	0.32%	0.29%	0.30%	0.32%	0.33%		0.16%
1 Year Treasury	0.67%	0.68%	0.68%	0.69%	0.70%		0.65%
2 Year Treasury	0.91%	0.88%	0.90%	0.93%	0.97%		1.06%
3 Year Treasury	1.08%	1.04%	1.07%	1.11%	1.16%		1.31%
5 Year Treasury	1.42%	1.34%	1.39%	1.45%	1.49%		1.76%
10 Year Treasury	1.91%	1.83%	1.90%	1.93%	1.98%		2.27%
30 Year Treasury	2.71%	2.63%	2.68%	2.70%	2.75%		3.01%

WEEKLY HIGHLIGHT

The uncertainties the Fed has been concerned with are beginning to settle down

HOUSING STARTS



Economy	Week of March 7, 2016	
Consumer Credit	$10.5 Billion	This data is well below expectations due to changes made in source data and not a reflection of weaker consumer spending

MONDAY MUSING

The NCAA basketball tournament begins this week, which may be more important to many of us than the FOMC meeting. As a suffering University of Michigan fan, it has been a difficult season with a few good wins and some very bad losses. They made it into the tournament but are required to play an extra game. I do not blame the coaches or the players for my frustration. I blame my parents. If I had been born in Charlotte, I might be a fan of North Carolina.

Calendar	Release	Covering	Week of March 14, 2016
Producer Price Index	Tuesday	February	The headline number is expected to be -0.2%, with commodity prices remaining low in February
Retail Sales	Tuesday	February	Low gasoline prices in February depress the total dollar sales data, with the consensus at -0.1% and +0.3% without gas
Consumer Price Index	Wednesday	February	Expect -0.3% including food and energy and +0.2% excluding them
Housing Starts	Wednesday	February	Data has been volatile, but expectations are for a strong month at 1.146 million, up from 1.099 million in January
Industrial Production	Wednesday	February	After a huge 0.9% jump in January, activity is expected to decline by 0.2% with manufacturing unchanged
Capacity Utilization	Wednesday	February	The operating rate is expected to drop to 76.9% from 77.1%, keeping inflation pressures low
FOMC Meeting Ends	Wednesday		No change in rates, but the Fed will issue its revised economic and interest rate forecast with the press conference to follow
JOLTS Index	Thursday	January	The index reached a post recession high of 5.607 million in December, and will be watched for future direction of labor market
Leading Indicators	Thursday	February	This index has been trending lower in last nine months, but expect +0.2% in February after a -0.2% in January

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Commentary

Financial markets continue to recover from the declines in the first six weeks of the year. This rebound is not just stocks, but also market interest rates. The increase in yields in the bond market has been in intermediate and long-term rates. For example, the yield on the **five-year treasury** has increased by 26 basis points in the last month; the yield on the **ten-year treasury** is up 21 basis points. The yield on the **three-month bill** is up 4 basis points over the same month. Short rates had not declined as much as the intermediate and long rates had in the first six weeks of the year. Market rates are not as high as they were at year-end when investors were pricing continued increases by **the Fed** after their December move. The yield on the ten-year was 2.25% at year-end and as low as 1.55% in the middle of February. The higher stock prices and market rates occurred last week with very little new data.

This week will provide a wealth of data including the **housing market** and **inflation** data. **Retail sales** for February will also be released. This data is expected to be consistent with the past two months. The trend is improving levels of economic growth and rising inflation. The retail sales data is expected to be down, but that is a function of the lower gasoline prices, not a reduction in unit volume sales. The **JOLTS index** is expected to remain high, indicating job growth will continue over the next six months. It is in this environment **the FOMC** meets. While the Fed has said they plan to move short rates up four times in 2016 for a total of 100 basis points, investors are only pricing in 50 basis points in two moves. The strong consensus forecast is the Fed does nothing at the meeting this week. This is a meeting when an updated economic and interest rate forecast is issued, and a press conference is held.

While the Fed is not expected to execute a second upward move in managed rates, the language in the statement released and the tone of the press conference will provide more information about future Fed moves. We expect the Fed to move to a balanced view of risks and potential from a view in January of greater downside risks. This would be a signal they will continue the process of **normalizing monetary policy** this year. Our forecast of better than 3% **Real GDP** growth in the last three quarters of the year based on acceleration in **consumer final demand** would allow the Fed to raise rates as they indicated at their December, 2015 forecasted pace. We look for the next move by the June meeting and could get a move up at their May meeting. We continue to forecast strong **job growth** and better **income growth** in the next year than has been experienced in the last six months. This should keep **consumer confidence and spending** growing at a faster pace than the past six months. The data to be released this week and the Fed announcement should provide evidence one way or the other of the validity of our forecast.

Trusted Advisor to Financial Institutions
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