THE PROBANK AUSTIN ADVISOR

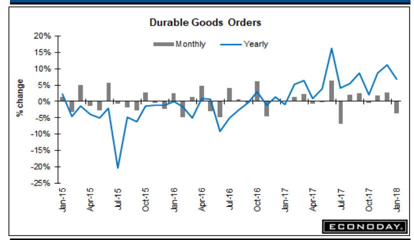
March 19, 2018

Markets	12-Mar	13-Mar	14-Mar	15-Mar	16-Mar	YTD%	29-Dec-17
DJIA	25,178.61	25,007.03	24,758.12	24,873.66	24,946.51	0.92%	24,719.22
S&P 500	2,783.02	2,765.31	2,749.48	2,747.33	2,752.01	2.93%	2,673.61
NASDAQ	7,588.32	7,511.01	7,496.81	7,481.74	7,481.99	8.38%	6,903.39
SNL Bank Index	657.34	650.36	641.66	642.80	643.83	4.23%	617.68
Fed Funds Rate	1.42%	1.42%	1.42%	1.43%	1.43%		1.42%
1 Month LIBOR	1.76%	1.78%	1.79%	1.81%	1.82%		1.56%
3 Month LIBOR	2.11%	2.12%	2.15%	2.18%	2.20%		1.69%
3 Month T-Bill	1.71%	1.73%	1.76%	1.77%	1.78%		1.39%
1 Year Treasury	2.05%	2.03%	2.05%	2.07%	2.08%		1.76%
2 Year Treasury	2.27%	2.26%	2.26%	2.29%	2.31%		1.89%
3 Year Treasury	2.43%	2.41%	2.41%	2.42%	2.44%		1.98%
5 Year Treasury	2.64%	2.62%	2.61%	2.62%	2.65%		2.20%
10 Year Treasury	2.87%	2.84%	2.81%	2.82%	2.85%		2.40%
30 Year Treasury	3.13%	3.10%	3.05%	3.05%	3.08%		2.74%

WEEKLY HIGHLIGHT

Investors will be waiting for the Wednesday statement from the Fed for any change in signals

LEADING INDICATORS



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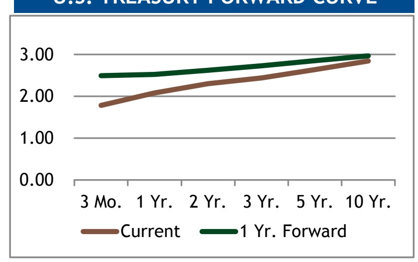
Economy	Week of March 12, 2018	
Consumer Price Index	0.2%	Inflation remains well contained with the core rate also up only 0.2% following the 0.5% rise in January
Producer Price Index	0.2%	Another modest report came in well below the 0.4% for January but brought the Y/Y result up to 2.5% for the core rate
Retail Sales	-0.1%	The rise in after tax disposable income from the tax cuts is not being used to increase final demand as of yet
Housing Starts	1.236 Million	This is a 7% decline from January with permits also falling and the Y/Y growth has now slowed to less than 5%
Industrial Production	1.1%	Output finally increased following the ISM Index and job growth in manufacturing confirming a strong CAPEX for the first quarter
Capacity Utilization	78.1%	The operating rate also moved up from 77.4% but still remains well below inflationary levels
JOLTS	6.312 Million	Big jump from 5.667M indicating strong job growth should continue with the increase in posted but unfilled positions

Calendar	Release	Covering	Week of March 19, 2018
Existing Home Sales	Wednesday	February	The lack of inventory in most markets continues to limit sales with only 5.42 M expected which would be a -4.8% Y/Y
FOMC Announcement	Wednesday	2:00 PM	The Fed is expected to raise managed rates another 25 basis points with the language in the statement and the tone of the press conference to follow very important
Leading Indicators	Thursday	February	An increase of 0.3% is expected after the huge 1.0% jump in January with job growth and confidence driving the index higher
Durable Goods Orders	Friday	February	A weak start to the year was reported for January with a rebound of 1.9% expected in this very important data for CAPEX spending
New Home Sales	Friday	February	The stronger housing starts data of the past few months should provide the supply to drive sales up, expect 620K up from 593K

U.S. TREASURY FORWARD CURVE



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Commentary

Financial markets will be focused on the Wednesday **FOMC meeting**. It will be the first for new Chairman Powell, as well as his first press conference. **The Fed** is expected to raise managed rates by **25 basis points** but the focal points will be the language in the statement and the tone of the Chairman. Investors will be looking for any signal the Fed will change its current **guidance** of three rate increases this year. The signal would come from a change in the Fed's **economic** and **inflation forecast** from December or from a change in the language in the statement following the meeting. We do not expect any change in guidance in this first meeting with a new Chairman. We do expect **four increases** this year but that will be dependent on better economic and **inflation data** than what has been released in the first two months of the year. **Retail sales** did not increase in February as expected with the rise in **after-tax disposable income** from the tax cuts. Inflation was much lower in February than what was reported for January. The **housing sector** was weaker than the last three months of 2017. The **trade deficit** expanded more than expected in January in spite of the weaker dollar. These weaker reports call into question the forecast for first quarter **Real GDP** exceeding 3%. We have lowered our forecast to 2.3%. We continue to forecast 3.5% Real GDP growth in the last three quarters of the year. We continue to expect the **trade deficit** to narrow. We are forecasting that **consumer final demand** will expand by better than 3.5% and **capital expenditures** will grow more than 6%. This forecast is based on strong job growth, high levels of consumer confidence and accelerating growth in personal incomes. This kind of economic environment should generate upward **pressure** on inflation and cause the **Fed** to move more than their current guidance indicates. The data from the first two months of the year has been disappointing and does not indicate this kind of environment has begun to develop.

Short-term market **interest rates** have moved higher in the last month as investors include a **Fed increase** on Wednesday. Intermediate and long-term market rates have stalled as **inflation data** and pressures abated from those experienced in the fourth quarter of last year. As a result, the curve has flattened with the spread between the two-year and ten-year down to 54 basis points from the 71 basis point spread in early January. Our clients are reporting continued **price competition** in lending and rising funding costs as some banks raise rates on *non-maturity deposit balances* as well as higher special **CD offering rates**. The curve needs to steepen in order to get more discipline in loan pricing and **higher asset yields**. We have been forecasting a steepening in the curve beginning late in the second quarter and continuing through the end of the year. The one unknown is whether we end up in a **trade war** due to tariffs causing much slower economic growth but much higher inflation.

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