THE AUSTIN ADVISOR

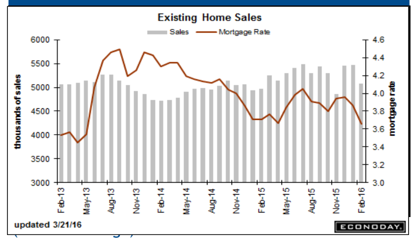
March 21, 2016

Markets	14-Mar	15-Mar	16-Mar	17-Mar	18-Mar	YTD%	31-Dec-15
DJIA	17,229.13	17,251.53	17,325.76	17,481.49	17,602.30	1.02%	17,425.03
S&P 500	2,019.64	2,015.93	2,027.22	2,040.59	2,049.58	0.28%	2,043.94
NASDAQ	4,750.28	4,728.67	4,763.97	4,774.99	4,795.65	-4.23%	5,007.41
SNL Bank Index	386.09	385.03	381.61	384.13	391.46	-9.27%	431.48
Fed Funds Rate	0.36%	0.37%	0.37%	0.37%	0.37%		0.35%
1 Month LIBOR	0.44%	N/A	0.44%	0.43%	N/A		0.43%
3 Month LIBOR	0.64%	N/A	0.64%	0.62%	N/A		0.61%
3 Month T-Bill	0.34%	0.34%	0.31%	0.29%	0.30%		0.16%
1 Year Treasury	0.70%	0.71%	0.66%	0.64%	0.62%		0.65%
2 Year Treasury	0.97%	0.98%	0.87%	0.87%	0.84%		1.06%
3 Year Treasury	1.15%	1.16%	1.05%	1.04%	1.00%		1.31%
5 Year Treasury	1.49%	1.50%	1.41%	1.39%	1.34%		1.76%
10 Year Treasury	1.97%	1.97%	1.94%	1.91%	1.88%		2.27%
30 Year Treasury	2.74%	2.73%	2.73%	2.69%	2.68%		3.01%

WEEKLY HIGHLIGHT

The Fed met and issued one of the more confusing statements ever, giving less direction about monetary policy

EXISTING HOME SALES



Economy	Week of March 14, 2016	
Producer Price Index	-0.2%	As expected, with oil not recovering until early March, with the core rate unchanged making this a benign inflation report
Retail Sales	-0.1%	Headline number reflects lower gasoline prices, with sales up a solid 0.3% excluding autos and gas
Consumer Price Index	-0.2%	Again, headline number is a function of gas prices as the core rate was up 0.3%, bringing YOY increase up to 2.3%
Housing Starts	1.178 Million	Starts were up as single family jumped 7.2%, and January was revised up but permits were down to 1.167M
Industrial Production	-0.5%	Headline was down, but decline was due to utility output drop, with manufacturing up 0.2%
Capacity Utilization	76.7%	Down from 77.1%, as this measure of economic strength has been declining for the last twelve months
FOMC Meeting Ends		No change in monetary policy, but the outlook issued by the Fed was cut
JOLTS Index	5.541 Million	This January data was down from 5.607M for December, but is still strong indicating further job growth in 2016
Leading Indicators	0.1%	First increase in the last three months and has been soft for the last six months

MONDAY MUSING

As many of you know, I am often late for meetings. I came up with a way to fix this problem. I only moved my clocks ahead by one-half hour a week ago and was on time for every meeting last week. This also had some other benefits. I did not lose a full hour of sleep and I saved some money since I only had to change half the batteries in the smoke detectors.

Calendar	Release	Covering	Week of March 21, 2016
Existing Home Sales	Monday	February	Sales have been running in the low 5 million annual rate on average for the past six months, as we expect 5.3M for February
New Home Sales	Wednesday	February	New homes have averaged 500,000 annual rate for last six months and we expect 510,000 for February
Durable Goods Orders	Thursday	February	Consensus expects a decline of 3.0% following a big jump of 4.9% in January
Real GDP - Final	Friday	4th Qtr	No change from the 1.0% growth last reported is expected with this final number

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Commentary

The **FOMC** met last week and issued one of the most confusing statements ever following the meeting. They did not change the current level of **monetary policy,** but did change their expectation for future changes. They dropped down to two increases in managed rates this year, from what had been an expectation of four increases. Their direction to markets calls for a total of 50 basis points of increase as opposed to 100 basis points of change in their prior direction. What was confusing was the Fed increased their concern about **inflation** pressures. They dropped the language of "closely monitoring" financial market volatility and global economic conditions, while retaining mention of these as reasons to remain cautious. They did add language which said they are now "closely monitoring" inflation pressures. The increase in the price of oil from less than $30 a barrel to $40 began in March. Inflation data for March should be much higher than the average increase in the last two years. The **CPI** has risen by 2.3% in the last twelve months ending in February, and should be up much more than that with the March data. The Fed is dealing with an environment of declining unemployment and rising inflation concerns and cut expectations of future monetary policy changes to half of what they were expecting just two months ago. We are having trouble reconciling this statement.

The economic data released last week continues to point to improving economic conditions going forward. **Retail sales,** excluding autos and gas, increased by 0.3% in February. We believe this is a reflection of continued growth in **consumer final demand**. The **JOLTS index** did decline but remains at a high level, which indicates continued job growth in 2016. This week will be dominated by the **housing sector** data. This sector has been stronger than normal in the last three months, due to a much milder winter than normal in most parts of the country. The data from February is expected to be lower than the average of the last three months, but still solid, providing some evidence the housing sector will contribute to better **Real GDP** growth in 2016.

Financial market conditions have improved since the last FOMC meeting. The outlook for global economic conditions have improved as additional monetary stimulus has been executed in Europe. The FOMC statement does not reflect the conditions as they are being reported. Market interest rates declined on the FOMC news, with the ten-year treasury dropping from a 2.0% yield to 1.81%. The two-year dropped from .98% to .82%. Those rates began to move higher on Friday, and look to move again as this week begins. Investors are pricing in higher inflation going forward, but short rates will be held down with the lack of Fed action. **The curve** could steepen as the Fed stays well behind the market in pricing financial assets relative to fundamental economic conditions. This environment could help banks as deposit rates will remain low and funding costs will not rise as fast as has been expected. The negative is that loan pricing will remain low, until there is more clarity from the Fed.

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