THE PROBANK AUSTIN ADVISOR

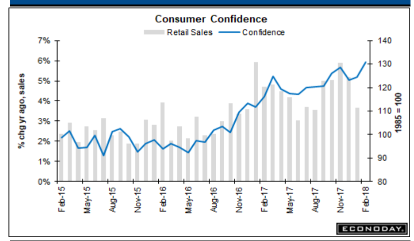
March 26, 2018

Markets	19-Mar	20-Mar	21-Mar	22-Mar	23-Mar	YTD%	29-Dec-17
DJIA	24,610.91	24,727.27	24,682.31	23,957.89	23,533.20	-4.80%	24,719.22
S&P 500	2,712.92	2,716.94	2,711.93	2,643.69	2,588.26	-3.19%	2,673.61
NASDAQ	7,344.24	7,364.30	7,345.29	7,166.68	6,992.66	1.29%	6,903.39
SNL Bank Index	639.36	637.83	638.30	613.08	592.61	-4.06%	617.68
Fed Funds Rate	1.43%	1.44%	1.44%	1.68%	1.68%		1.42%
1 Month LIBOR	1.84%	1.85%	1.86%	1.87%	1.88%		1.56%
3 Month LIBOR	2.22%	2.25%	2.27%	2.29%	2.29%		1.69%
3 Month T-Bill	1.80%	1.81%	1.74%	1.72%	1.74%		1.39%
1 Year Treasury	2.08%	2.08%	2.06%	2.05%	2.04%		1.76%
2 Year Treasury	2.31%	2.34%	2.31%	2.29%	2.28%		1.89%
3 Year Treasury	2.45%	2.49%	2.46%	2.43%	2.41%		1.98%
5 Year Treasury	2.65%	2.69%	2.69%	2.63%	2.61%		2.20%
10 Year Treasury	2.85%	2.89%	2.89%	2.83%	2.82%		2.40%
30 Year Treasury	3.09%	3.12%	3.12%	3.06%	3.06%		2.74%

WEEKLY HIGHLIGHT

Markets were buffeted last week on trade war fears but that may be premature

CONSUMER CONFIDENCE



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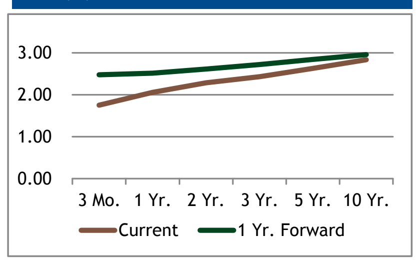
Economy		Week of March 12, 2018
Existing Home Sales	5.540 Million	A strong 3.0% rebound from the weak data released over the last two months and should remain strong through the summer
FOMC Announcement		As expected, the Fed moved up 25 basis points but did not change guidence going forward but did raise their economic forecasts
Leading Indicators	0.6%	This index of future economic conditions continues to be driven higher due to tight labor market and confidence survey's.
Durable Goods Orders	3.1%	This strong number reverses the -3.5% reported for January and leads to strong expectations for CAPEX in 2018
New Home Sales	618,000	As expected and January was revised upward to a much stronger 622k from the 593k first reported

Calendar	Release	Covering	Week of March 26, 2018
Consumer Confidence	Tuesday	March	The strong labor market and the impact of tax reform is expected to drive a very strong level even higher to 131.4 from 130.8
Real GDP - Final	Wednesday	4th Qtr	An increase from 2.5% to 2.7% is expected as a smaller drag from inventories than first reported is expected
Personal Income	Friday	February	Incomes rose 0.4% in January and is expected to increase by the same rate in February as a tight labor market and tax reform helps
Personal Spending	Friday	February	The growth in incomes is not being used to increase spending as yet with only 0.2% expected, the same as the weak January number
Core PCE Price Index	Friday	February	The core rate is forecast to be up 0.2% for February as compared to 0.3% for January which will not change the 1.5% Y/Y increase

U.S. TREASURY FORWARD CURVE



Commentary

Normally, financial markets would be driven by Fed action in a week when the **FOMC** meets. That was not the case last week. A much larger factor was investor's fear of a **trade war**. Tariffs were announced against **China** and they responded with threats of raising tariffs of their own. A trade war, even if it is limited to China, would result in **lower economic growth** in the U.S. and higher inflation. The fear is that this would possibly offset the positive impact of **tax reform**. Financial markets had been pricing in the benefits from tax reform and dropped by a huge amount last week when the risk of those benefits being offset were taken into consideration. Comments over the weekend indicated the announced tariffs may be part of a **negotiating process** and the risk of a trade war may be overblown. We have not included the impact of a trade war in our current forecast for **Real GDP growth**, inflation or **interest rates** as of yet. If this is a negotiating technique and agreements are reached to avoid a trade war, financial markets should move higher. That expectation is based on the strong fundamental economic data reported and the forecast that they will be even stronger in the remainder of 2018.

Durable goods orders were strong in February which serves as confirmation that the reported growth in manufacturing jobs in the last two months will lead to a strong **CAPEX** contribution to first quarter Real GDP growth. **New home sales** have improved in the last two months with February sales about equal to January. Prices have risen by 9.7% over the past year and the strong **housing starts** data has increased the supply to the 5.9 months level. That means there is a wider selection of new homes to choose from which will boost sales going into the spring selling season. It is within the context of a strong economy that the **Fed** decided to raise managed rates by **25 basis points** last week. They raised their **economic growth forecast** and inflation expectations. They did not send a signal of more than three rate hikes in 2018 as some expected. We continue to call for four increases this year as **inflation** moves to the Fed's target by the third quarter. We have not seen inflation increase yet. The **core PCE price index** is due out on Thursday and is forecasted to be up 0.2% for February after the 0.3% rise reported for January. The February data will leave the Y/Y change at 1.5%. The Fed continues to be concerned about **inflation** moving up as the economy expands at a faster pace and **labor costs rise**. They intend to move rates higher in order to have the tools to deal with downturn in the future. They do not want to move rates up at a rate that would stall the expansion but they do want to be in front of any rising inflation pressures. Without **inflation risk** affecting market rates, the curve will remain flat with less than a 60 basis point spread between the yield on the two-year treasury and the ten-year.

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