THE AUSTIN ADVISOR

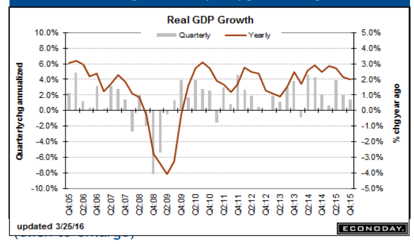
April 25, 2016

Markets	18-Apr	19-Apr	20-Apr	21-Apr	22-Apr	YTD%	31-Dec-15
DJIA	18,004.16	18,053.60	18,096.27	17,982.52	18,003.75	3.32%	17,425.03
S&P 500	2,094.34	2,100.80	2,102.40	2,091.48	2,091.58	2.33%	2,043.94
NASDAQ	4,960.02	4,940.33	4,948.13	4,945.89	4,906.23	-2.02%	5,007.41
SNL Bank Index	396.58	403.18	410.15	408.15	412.44	-4.41%	431.48
Fed Funds Rate	0.37%	0.37%	0.37%	0.37%	0.37%		0.35%
1 Month LIBOR	0.44%	0.44%	0.44%	0.44%	0.44%		0.43%
3 Month LIBOR	0.63%	0.63%	0.64%	0.64%	0.64%		0.61%
3 Month T-Bill	0.22%	0.21%	0.23%	0.23%	0.23%		0.16%
1 Year Treasury	0.52%	0.53%	0.54%	0.56%	0.56%		0.65%
2 Year Treasury	0.75%	0.77%	0.80%	0.82%	0.84%		1.06%
3 Year Treasury	0.90%	0.92%	0.97%	0.98%	1.01%		1.31%
5 Year Treasury	1.24%	1.26%	1.32%	1.35%	1.37%		1.76%
10 Year Treasury	1.78%	1.79%	1.85%	1.88%	1.89%		2.27%
30 Year Treasury	2.58%	2.60%	2.66%	2.69%	2.70%		3.01%

WEEKLY HIGHLIGHT

The Fed meets with conflicting issues between inflation and reported Real GDP data

REAL GDP-ADVANCE REPORT



Economy	Week of April 18, 2016	
Housing Starts	1.089 Million	Well below expectations at a time of the year when seasonal conditions should cause strength
Existing Home Sales	5.330 Million	This housing data was much better than expected, with growth at 5.1% for the month
Leading Indicators	0.2%	The first increase in the last three months, with the index not signaling the strong growth we have been forecasting

Calendar	Release	Covering	Week of April 25, 2016
New Home Sales	Monday	March	New home sales have been running just above 500,000 for the last year, and we expect it on trend for March
Durable Goods Orders	Tuesday	March	Even with higher oil prices and a lower dollar, durable goods orders have yet begun expanding, expect +1.5%
Consumer Confidence	Tuesday	April	Little change in the 96.2 reading reported for March is expected for April, as the index remains at solid levels
FOMC Meeting Ends	Wednesday		No change in policy is expected, but the issue will be the Fed's reaction to higher oil prices and new inflation pressures
Real GDP-Advance Report	Thursday	1st Qtr	The consensus is for less than 1%, but the advance report is subject to large revisions
Personal Income	Friday	March	Income is expected to be reported as up 0.3%, which is higher than the 0.2% reported for February
Personal Spending	Friday	March	Spending is expected to be reported as up 0.2%, which is below the level needed to drive overall economic growth higher

MONDAY MUSING

I learned a lesson last week. You cannot trust anyone. My neighbor was having a garage sale so I took my old set of golf clubs over and asked if he would include them in his sale. He said sure and wanted to know how much I wanted for them. I told him I thought $300 was a fair price. He said fine, but what was the lowest amount I would accept. I told him $150. When I came back at the end of the day he told me the clubs had sold for $150. I asked him who bought them and he said he did. I did not even know I was bargaining when I took the clubs over.

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Commentary

The Fed meets this week, with no one expecting any change in current monetary policy conditions. As usual, it is the language in the statement following the meeting that will move markets. The Fed did raise **inflation** risks with the statement following the March meeting when it said they were "closely monitoring" inflation data. The March data for the **CPI**, **PPI** and expected data for the **PCE Core Price index** has not yet reflected any increase in prices. However, oil and agriculture commodity prices have risen in April at an accelerating rate and gasoline prices have jumped. The dollar has declined, which also adds to inflation pressures. Investors will react to any change in the language in the Fed statement which increases inflation risk.

We have long believed the Fed will raise rates again in June, as inflation becomes a larger risk than deflation spreading from foreign economic conditions. Market interest rates will move higher sooner and more than the Fed changes short rates, as investors begin to demand an inflation premium in intermediate and long rates. This would cause a steepening in the **yield curve** over the remainder of this year as the Fed is behind the curve. The very low **Real GDP** for the first quarter has already been discounted by financial markets. The less than 1% growth expected is largely ignored, as many believe the seasonal adjustment factors used for the first quarter are out of date. The first quarter reports have been very low for the past three years. The **housing data** from last week was below expectations, after running at higher rates during 2015. The data does reflect an expanding market, but not as fast as the last two years. The other data will be important, with **consumer confidence** data expected to reflect a solid level of confidence in spite of the political process we are experiencing. Finally, first quarter corporate earnings have been lower than those reported in 2015, but are not a drag on equity prices. The decline in the dollar over the last two months means the **trade deficit** should decline over the second half of the year and be less of a drag on total economic growth than it was in the past year.

The question is whether the Fed believes the economy is strong enough to allow them to continue the process of **normalizing monetary policy,** which they have said is their goal. We believe the higher inflation data we expect in the next six months and stronger Real GDP growth in the last three quarters of the year will force the Fed to move short-term rates higher at a faster pace than is currently expected. The rise in market rates in the last two weeks is the beginning of the process of pricing inflation risk into the bond market. The Fed will be playing catch-up beginning in June.

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