

THE AUSTIN ADVISOR

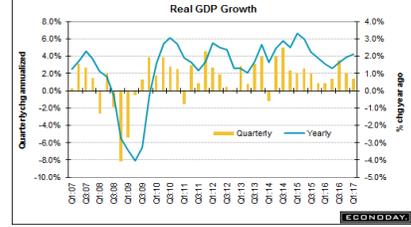
July 24, 2017

Markets	17-Jul	18-Jul	19-Jul	20-Jul	21-Jul	YTD%	30-Dec-16
DJIA	21,629.72	21,574.73	21,640.75	21,611.78	21,580.07	9.20%	19,762.60
S&P 500	2,459.14	2,460.61	2,473.83	2,473.45	2,472.54	10.44%	2,238.83
NASDAQ	6,314.43	6,344.31	6,385.04	6,390.00	6,387.75	18.66%	5,383.12
SNL Bank Index	552.25	550.40	550.40	549.94	547.29	2.75%	532.65
Fed Funds Rate	1.16%	1.16%	1.16%	1.16%	1.16%		0.55%
1 Month LIBOR	1.23%	1.23%	1.23%	1.23%	1.23%		0.77%
3 Month LIBOR	1.31%	1.31%	1.31%	1.31%	1.31%		1.00%
3 Month T-Bill	1.07%	1.07%	1.11%	1.15%	1.16%		0.51%
1 Year Treasury	1.22%	1.19%	1.23%	1.22%	1.22%		0.85%
2 Year Treasury	1.36%	1.36%	1.37%	1.37%	1.36%		1.20%
3 Year Treasury	1.53%	1.52%	1.52%	1.51%	1.50%		1.47%
5 Year Treasury	1.86%	1.82%	1.83%	1.82%	1.81%		1.93%
10 Year Treasury	2.31%	2.27%	2.27%	2.27%	2.24%		2.45%
30 Year Treasury	2.89%	2.85%	2.85%	2.83%	2.81%		3.06%

WEEKLY HIGHLIGHT

The Fed meets and the Advance report for second quarter Real GDP will move markets this week

REAL GDP-ADVANCE REPORT



(click to enlarge)

ON THIS DAY IN HISTORY

- 1758 - George Washington elected to Virginia House of Burgesses
- 1901 - O. Henry released from prison after 3 years for embezzlement from a bank
- 1931 - Paavo Nurmi runs World record 2-mile in 8:59.6
- 1958 - Ted Williams fined \$250 for spitting at Boston fans...again
- 1969 - Apollo 11 returns to Earth

Economy

Week of July 17, 2017

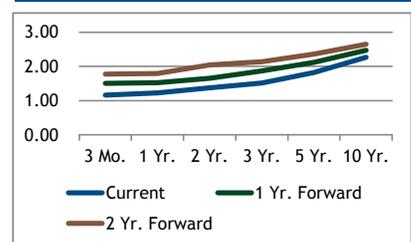
Housing Starts	1.215 Million	Starts rose 8.3% in June from May's depressed level and permits were up 7.4% for a strong rebound
Leading Indicators	0.6%	The housing permits jump was the biggest factor in the very strong report

Calendar

Release Covering Week of July 24, 2017

Existing Home Sales	Monday	June	Sales were up in May and a pull-back from that number is expected, dropping from 5.63 M to 5.58M
Consumer Confidence	Tuesday	July	This measure of the condition of the consumer has not dropped and is expected to remain high at 118.2
New Home Sales	Wednesday	June	This highly volatile data jumped in the last two months, but still represents a soft spring selling period
FOMC Meeting Ends	Wednesday		The Fed is not expected to move policy with this meeting, but their comments on the economy will affect markets
Durable Goods Orders	Thursday	June	A strong +3% report is expected after dropping by 1.1% in May and declining in April
Real GDP-Advance Report	Friday	2nd Qtr	The consensus forecast calls for a rise of 2.6% after the 1.4% in the first quarter, but is subject to large revisions

U.S. TREASURY FORWARD CURVE



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Commentary

This week will produce much for investors to digest. The FOMC meets, with no expectation for any change in current **monetary policy**. The key will be what the Fed says in its statement about the current condition of the economy. Past statements refer to the weak first half of the year as "transitory", with expectations that growth will be much stronger in the second half of this year than the first quarter. The Fed has said they expect **inflation** to reach their target of 2% in the intermediate term, even as it is well below that target in the first half. The Advance report for second quarter **Real GDP** is expected to be much better than the 1.4% growth reported for the first quarter. The consensus expects 2.6% to be reported on Friday. The Advance report is subject to large revisions when more complete data is available. For the past two years, those revisions have been large with an upward bias. This report will also have the benchmark revisions for the past three years. Any major changes to past data could also impact financial markets. These revisions usually only change the timing of the business cycle and do not change the overall magnitude of growth. The key component of the report will be **personal consumption expenditures**. Inflation has been so low in the first half of this year, the GDP data adjusts this price weakness to report unit volume changes to provide a better view of **consumer final demand**. The second quarter Real GDP data, after revisions, will be the view the Fed will have of current economic conditions, including inflation, when they meet again in September.

We do not expect another Fed rate move at that meeting, but do expect one at the December meeting. Whether the Fed continues to raise managed rates in 2018 will depend on their forecast of faster growth and higher inflation in the second half of the year. Our forecast continues to call for further rate moves next year. Growth of 2.6% or better in the second quarter is needed for this forecast to unfold. Consumers must increase spending and inventories must begin to grow. **Capital spending** must continue to grow and the trade deficit must stabilize in order for the Fed to continue its stated goal of **normalizing monetary policy**. The data this week will be an important first step in determining whether our forecast is valid. The bond market does not buy this outlook. Intermediate and long-term market rates declined last week after moving up the week before. Investors do not see any meaningful increase in inflation and are pricing no inflation risk into the long end of the curve. They are pricing additional increases in short rates as the Fed continues its effort to reach a neutral monetary policy position.

Finally, the market will be looking for further guidance as to the timing and magnitude of shrinking the Fed's balance sheet. We do not expect the Fed to be more specific as to the timing of this process. We continue to expect it to begin in the fourth quarter of this year. This could be a highly volatile week for the bond market.

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