

THE AUSTIN ADVISOR

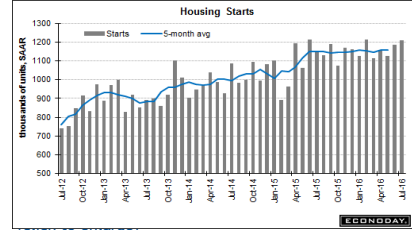
September 19, 2016

Markets	12-Sep	13-Sep	14-Sep	15-Sep	16-Sep	YTD%	31-Dec-15
DJIA	18,325.07	18,066.75	18,034.77	18,212.48	18,123.80	4.01%	17,425.03
S&P 500	2,159.04	2,127.02	2,125.77	2,147.26	2,139.16	4.66%	2,043.94
NASDAQ	5,211.89	5,155.26	5,173.77	5,249.69	5,244.57	4.74%	5,007.41
SNL Bank Index	423.82	416.72	414.23	416.06	411.44	-4.64%	431.48
Fed Funds Rate	0.40%	0.40%	0.40%	0.40%	0.40%		0.35%
1 Month LIBOR	0.53%	0.52%	0.53%	0.53%	0.53%		0.43%
3 Month LIBOR	0.86%	0.85%	0.85%	0.86%	0.86%		0.61%
3 Month T-Bill	0.37%	0.36%	0.33%	0.29%	0.30%		0.16%
1 Year Treasury	0.57%	0.63%	0.62%	0.60%	0.61%		0.65%
2 Year Treasury	0.79%	0.80%	0.77%	0.74%	0.77%		1.06%
3 Year Treasury	0.92%	0.95%	0.90%	0.87%	0.91%		1.31%
5 Year Treasury	1.21%	1.26%	1.21%	1.20%	1.21%		1.76%
10 Year Treasury	1.68%	1.73%	1.70%	1.71%	1.70%		2.27%
30 Year Treasury	2.40%	2.47%	2.44%	2.48%	2.44%		3.01%

WEEKLY HIGHLIGHT

A huge week of information for investors to digest could lead to even more volatility in markets

HOUSING STARTS



Economy	Week of September 12, 2016	
Producer Price Index	0.0%	From a wholesales standpoint, inflation remains almost non-existent with YOY growth at only 0.3%
Retail Sales	-0.3%	After strong gains in the second quarter, retail sales growth has been muted in the last two months
Industrial Production	-0.4%	The strong growth reported for July was reversed with the decline in August, as manufacturing remains weak
Capacity Utilization	75.5%	Down from 75.9% in July as manufacturing continues to lag the growth in final demand
Consumer Price Index	0.2%	Inflation at the retail level is higher than at the wholesale level, bringing YOY core rate increase up to 2.3%

MONDAY MUSING

Everything costs more in New York City. During my last trip to the city, I walked into a Starbucks to get a cup of coffee. They were charging \$10 for a Grande cup. They did know this was a high price to pay for coffee. I could tell by the names they had given each selection. One was named Mocha Dinero. Another was Cost-a-latte. My favorite was Brokefest Blend. Only in New York.

Calendar	Release	Covering	Week of September 19, 2016
Housing Starts	Tuesday	August	While starts have been strong, permits have been slowing, driving expectations for starts down with forecasts at 1.19M
FOMC Announcement	Wednesday		The announcement comes at 2 pm and the press conference starts at 2:30, with no change in policy expected
Existing Home Sales	Thursday	August	Existing home sales growth has lagged due to the lack of inventory, with a consensus forecast of 5.44M, up from 5.39M
Leading Indicators	Thursday	August	A large increase in July of 0.4% is expected to be followed by a more modest 0.1%

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Commentary

The financial markets will be focused on the **Federal Reserve** this week. The **FOMC** meets on Tuesday and Wednesday, with the announcement of the results of the meeting Wednesday afternoon. The Fed Chair press conference follows just after the release of updated Fed economic forecasts. The consensus calls for no change in current monetary policy positions. There is a split on the FOMC with respect to the timing of the next increase in managed rates. In order to resolve the division of opinion, economic data and inflation must change from the volatility of the past nine months.

The data from last week did not resolve the issue of the true strength of the expansion. **Retail sales** were down and **industrial production** continues to reflect a weak manufacturing environment. The **inflation** data was mixed. Wholesale inflation is low and has not changed, while there has been an increase in the retail end. This is consistent with our view that higher prices will be driven by higher **labor costs** and not by rising **commodity costs**. We have expected demand pull inflation pressures and not by cost push pressures. However, rising labor costs have come at a slower pace than we had forecast. Without higher inflation, it will be difficult to get the Fed to move.

We expect the **Fed Chair** will spend much of the press conference defending the decision to wait longer before continuing to execute the effort to **normalize monetary policy**. The question the FOMC must resolve is whether the expansion is strong enough to absorb higher interest rates and whether inflation pressures are building, requiring a reduction in the stimulative monetary policy currently in place. The FOMC is not the only event this week which will affect financial markets. **The Bank of Japan** is also meeting, and possible changes to the very accommodative policy they have been executing should change. The large dose of liquidity being added to their economy has not resulted in an improvement as expected. It is time to rethink their programs, which could affect currencies over the next year. This week will generate a huge amount of information for investors to digest.

Trusted Advisor to Financial Institutions

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