THE AUSTIN ADVISOR

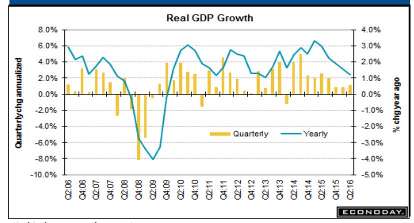
September 26, 2016

Markets	19-Sep	20-Sep	21-Sep	22-Sep	23-Sep	YTD%	31-Dec-15
DJIA	18,120.17	18,129.96	18,293.70	18,392.46	18,261.45	4.80%	17,425.03
S&P 500	2,139.12	2,139.76	2,163.12	2,177.18	2,164.69	5.91%	2,043.94
NASDAQ	5,235.03	5,241.35	5,295.18	5,339.52	5,305.75	5.96%	5,007.41
SNL Bank Index	413.84	414.98	416.00	417.34	416.39	-3.50%	431.48
Fed Funds Rate	0.40%	0.40%	0.40%	0.40%	0.40%		0.35%
1 Month LIBOR	0.54%	0.54%	0.55%	0.53%	0.52%		0.43%
3 Month LIBOR	0.86%	0.87%	0.86%	0.86%	0.85%		0.61%
3 Month T-Bill	0.30%	0.30%	0.22%	0.18%	0.18%		0.16%
1 Year Treasury	0.60%	0.61%	0.61%	0.60%	0.60%		0.65%
2 Year Treasury	0.79%	0.79%	0.79%	0.79%	0.77%		1.06%
3 Year Treasury	0.92%	0.93%	0.92%	0.91%	0.90%		1.31%
5 Year Treasury	1.22%	1.20%	1.20%	1.18%	1.16%		1.76%
10 Year Treasury	1.70%	1.69%	1.66%	1.63%	1.62%		2.27%
30 Year Treasury	2.45%	2.43%	2.39%	2.34%	2.34%		3.01%

WEEKLY HIGHLIGHT

The surprise from the Fed was the degree of dissention on the FOMC

REAL GDP-FINAL



(click to enlarge)

Economy	Week of September 19, 2016	
Housing Starts	1.142 Million	While starts dropped from the very strong July results, permits increased by 3.7% meaning a continued strong housing sector
FOMC Announcement		As expected, no change in monetary policy currently but the signals for a December increase in rates were stronger
Existing Home Sales	5.33 Million	Existing home sales are being held down by lack of supply causing prices to rise by over 5% YOY
Leading Indicators	-0.2%	Weakness in the manufacturing sector was the cause of the drop in August

MONDAY MUSING

Sylvania, the town I live in, has an income tax but has a tax break for anyone over 65. I got a call last week from the city tax office. They said my return was incomplete since I did not include the form declaring I was over 65. I told them I had filed that form last year which the person confirmed they had on record but I am required to file the form every year. I guess they are concerned I am getting younger. Government at work.

Calendar	Release	Covering	Week of September 26, 2016
New Home Sales	Monday	August	The housing sector remains a strong contributor to total growth, with a small decline from record levels at 601K expected
Consumer Confidence	Tuesday	September	A portion of the huge jump in August should be given back with a reading of 99.1 expected
Durable Goods Orders	Wednesday	August	The 4.4% increase reported for July is not expected to be maintained, with a decline of 2% expected
Real GDP-Final	Thursday	2nd Qtr	A small upperward revision is expected, moving the results to +1.3% from 1.1% last reported
Personal Spending	Friday	August	Spending growth has softened somewhat with +0.2% expected, after the 0.3% in July and 0.4% in June
Personal Income	Friday	August	Income growth is also expected to be reported as softer at +0.2%, from the 0.4% growth reported for July
PCE Core Price Index	Friday	August	Inflation is expected to have picked up in August, with +0.2% for the month leaving the YOY increase at 1.6%

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Commentary

The division on the **FOMC** widened last week. **The Fed** decided to leave monetary policy unchanged, but three of the ten voting members disagreed. This kind of split is not the usual condition for a Fed that tries to project a solid view in order to instill confidence by investors. There are those who believe they should resume the effort to normalize monetary policy now so they do not need to raise short-term rates by larger increments and at a faster pace should inflation begin to increase sooner than expected. The majority see no reason to raise rates, with no indication of inflation pressures building and a fragile recovery. They did send a strong signal they would be raising rates going forward, with most forecasts calling for a December increase of 25 basis points.

The Fed also issued revised economic and monetary policy forecasts. The new Fed projection calls for two rate increases in 2017, down from three increases in their last forecast. They did move to a balanced view of economic conditions, which was a change from the view in July of slightly greater downside risks. The Fed remains cautious and does not see a reason to get ahead of **inflation** when there is not inflation pressure being reported. This week will see the release of the August **PCE** core price index. It is expected to up from the 0.1% rise in July to 0.2% for August. That monthly rate would get the index to above the 2% target rate the Fed has set.

The reaction in **market rates** was swift. Short-term rates dropped quickly with the yield on the 91 day treasury bill dropping from above 30 basis points to 17 basis points. Longer dated maturities did not move on the news. This drop in the short end of the curve does reflect the expectation the Fed will move in December and short term instruments will be maturing at a time when re-investment rates will be rising. Of course, any move by the Fed is data dependent or may depend on events which could affect the data. The economic data has been slightly softer in the last month, with third quarter growth still on track for better than 3%. **Real GDP** growth above 3% in the second half of the year is good enough to allow the Fed to move to a symmetrical monetary policy position in the next year.

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