THE PROBANK AUSTIN ADVISOR

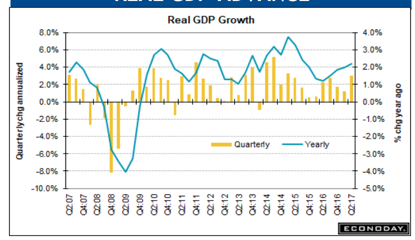
October 23, 2017

Markets	16-Oct	17-Oct	18-Oct	19-Oct	20-Oct	YTD%	30-Dec-16
DJIA	22,956.96	22,997.44	23,157.60	23,163.04	23,328.63	18.04%	19,762.60
S&P 500	2,557.64	2,559.36	2,561.26	2,562.10	2,575.21	15.02%	2,238.83
NASDAQ	6,624.01	6,623.66	6,624.22	6,605.07	6,629.05	23.15%	5,383.12
SNL Bank Index	577.01	573.37	577.13	578.40	587.05	10.21%	532.65
Fed Funds Rate	1.16%	1.16%	1.16%	1.16%	1.16%		0.55%
1 Month LIBOR	1.24%	1.24%	1.24%	1.24%	1.24%		0.77%
3 Month LIBOR	1.35%	1.36%	1.36%	1.36%	1.36%		1.00%
3 Month T-Bill	1.10%	1.09%	1.09%	1.10%	1.11%		0.51%
1 Year Treasury	1.42%	1.41%	1.42%	1.41%	1.43%		0.85%
2 Year Treasury	1.54%	1.54%	1.59%	1.58%	1.60%		1.20%
3 Year Treasury	1.68%	1.69%	1.70%	1.69%	1.72%		1.47%
5 Year Treasury	1.95%	1.97%	1.99%	1.98%	2.03%		1.93%
10 Year Treasury	2.30%	2.30%	2.34%	2.33%	2.39%		2.45%
30 Year Treasury	2.82%	2.80%	2.85%	2.83%	2.89%		3.06%

WEEKLY HIGHLIGHT

The weather related data being released currently is being ignored by the bond market

REAL GDP-ADVANCE



(click to enlarge)

Economy		Week of October 16, 2017
Industrial Production	0.3%	The manufacturing component was only up 0.1% and it was only the second positive number in the last five months
Capacity Utilization	76.0%	The operating rate moved up from a revised 75.8% in August, but remains below inflationary levels
Housing Starts	1.127 Million	Less than expected, but data is for September and was affected by the hurricanes in the south and was ignored by the market
Leading Indicators	-0.2%	The hurricanes drove the index down and is another piece of data ignored by the bond market
Existing Home Sales	5.390 Million	This was the first positive month in the last four, driven by a rebound in south Texas which was offset by the drop in Florida

ON THIS DAY IN HISTORY

1812 - Failed coup against emperor Napoleon

1814 - First plastic surgery is performed in England

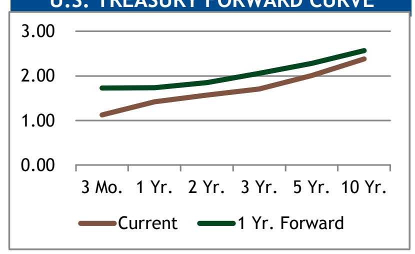
1910 - Blanche Scott becomes first woman to fly at a public event

1933 - John Dillinger and his gang rob $75K from Central National Bank

1981 - US national debt hits $1 trillion

Calendar	Release	Covering	Week of October 23, 2017
Durable Goods Orders	Wednesday	September	Consensus forecast calls for a solid 1.0% gain following August's stronger 1.7% growth as business spending improves
New Home Sales	Wednesday	September	Sales have been slowing this year, but remains a source of overall strength in housing with expectations at 555,000
Real GDP-Advance	Friday	3rd Qtr.	The Advance report is subject to large revisions, with the consensus expecting 2.5% after the final 3.1% reported for the 2nd Qtr.

U.S. TREASURY FORWARD CURVE



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Commentary

The economic data being released is still being impacted by the hurricanes in late August and early September. It is largely being ignored by the bond market. This market continues to price an expectation of an increase in managed rates by **the Fed** at its December **FOMC** meeting. The two-year treasury is the most sensitive to Fed action and it has risen by 13 basis points in the last month. The ten-year has risen in yield by the same amount. Most of this movement has been in the last two weeks as investors have ignored weak economic data and low **inflation** reports, believing it does not reflect the true strength in the U.S. economy. The inflation data has been reported as increasing, but this has been driven by weather related dislocations. We will need to wait until the November data released in December to get the first of the non-weather impacted economic data. Investors are pricing in a Fed move and not an increase in inflation.

The Advance report for third quarter **Real GDP** will be released this Friday. The consensus expects a 2.5% rate of growth with less than 3% growth in **personal consumption expenditures**. The Advance Report data is subject to large revisions with subsequent releases in November and December. Those revisions have had large increases from the data released in the Advance Report in the last five years. The data due out Friday will be further impacted by the estimates used to compile the number due to the the storms in the last month of the quarter. The price deflator will be higher with estimates of 2% for the quarter, as energy and building materials prices were driven higher by the demand and supply dislocations caused by the storms. They will be largely ignored by investors.

We continue to expect economic growth to be above 3% over the next year. The increase in growth from the 2.1% average of the past six years will come from continued solid growth in personal consumption expenditures, acceleration in **business fixed investments** and a lower **trade deficit** as the dollar declines against other currencies. We do not expect any rebound in inventory building or in government spending. The continued growth in **consumer final demand** will be driven by strong **consumer confidence,** driven by a low **unemployment rate** and solid job growth. We do not have in our forecast any changes in taxes. Should we get a tax change passed by Congress, we would raise our forecast for growth in 2018. We have no special insight as to whether a tax change will be passed. That is a political process which is driven by the environment in Washington. The risk to our forecast is that we are too low in our expectations for growth. We do expect inflation to reach the Fed's target of 2% by the second half of next year. We do expect this rise in inflation will allow the **yield curve** to steepen, but expect it to be a slow process over the next three quarters.

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