THE PROBANK AUSTIN ADVISOR

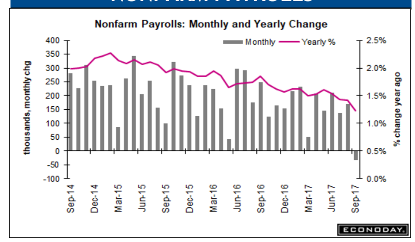
October 30, 2017

Markets	23-Oct	24-Oct	25-Oct	26-Oct	27-Oct	YTD%	30-Dec-16
DJIA	23,273.96	23,441.76	23,329.46	23,400.86	23,434.19	18.58%	19,762.60
S&P 500	2,564.98	2,569.13	2,557.15	2,560.40	2,581.07	15.29%	2,238.83
NASDAQ	6,586.83	6,598.43	6,563.89	6,556.77	6,701.26	24.49%	5,383.12
SNL Bank Index	584.76	590.57	588.78	592.97	594.32	11.58%	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	1.37%	1.37%	1.37%	1.38%	1.38%		1.00%
3 Month T-Bill	1.09%	1.12%	1.12%	1.11%	1.10%		0.51%
1 Year Treasury	1.42%	1.43%	1.43%	1.43%	1.42%		0.85%
2 Year Treasury	1.58%	1.60%	1.61%	1.63%	1.59%		1.20%
3 Year Treasury	1.70%	1.73%	1.74%	1.76%	1.73%		1.47%
5 Year Treasury	2.01%	2.05%	2.06%	2.07%	2.03%		1.93%
10 Year Treasury	2.38%	2.42%	2.44%	2.46%	2.42%		2.45%
30 Year Treasury	2.89%	2.92%	2.95%	2.96%	2.93%		3.06%

WEEKLY HIGHLIGHT

A wealth of data is due out this week and the FOMC meets with no change in policy expected

NONFARM PAYROLLS



(click to enlarge)

Economy	Week of October 23, 2017	
Durable Goods Orders	2.2%	The better than expected report was driven by aircraft and business fixed investment growth
New Home Sales	667,000	This data was affected by the hurricanes, with huge growth reported in the south, but this is not sustainable
Real GDP-Advance	3.0%	The Advance report is subject to large revisions, with estimates for September expected to be much different with final data

ON THIS DAY IN HISTORY

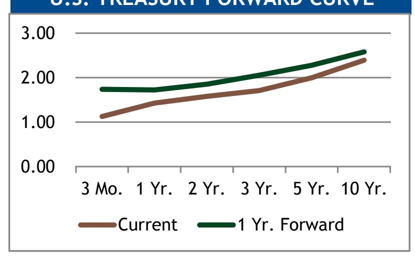
1866 - Jesse James' gang robs bank in Lexington, MO

1900 - First auto show in US opens at MSG in NYC

1919 - Baseball league presidents call for abolishment of the 'spitball'

Calendar	Release	Covering	Week of October 30, 2017
Personal Income	Monday	September	Income growth improved to 0.4% in September, rebounding from the 0.2% increase reported for August
Personal Spending	Monday	September	The very strong 1.0% increase was primarily due to the surge in auto sales, as replacement sales from the hurricanes hit
Core PCE Price Index	Monday	September	Still no indication of inflation heating up, with only a 0.1% increase leaving the YOY gain at 1.3%
Consumer Confidence	Tuesday	October	This index has been running at near record levels, with an increase from 119.8 to 121.1 expected for the month
Motor Vehicle Sales	Wednesday	October	The huge jump to 18.6M in September was replacement demand, with sales expected to be 17.5M as replacement demand remains
FOMC Meeting Statement	Wednesday		No change in current monetary policy is expected at this meeting, but the market is still expecting a December upward move
ISM Index	Wednesday	September	Manufacturing activity remains strong, with this indicator expected to remain above 60 meaning strong output in the future
Unemployment Rate	Friday	October	The unemployment rate is expected to remain unchanged at the very low 4.2% reached in September
Nonfarm Payrolls	Friday	October	A huge rebound of 325,000 is expected, reflecting the issues from hurricanes in September which was a -33,000
Avg. Hourly Earnings	Friday	October	The large increase of 0.5% reported for September is expected to be short-term improvement, with 0.2% expected for October
Trade Deficit	Friday	September	A small widening to -$43.5B from -$42.4B is expected, but this data is affected by closing of ports in September

U.S. TREASURY FORWARD CURVE



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Commentary

Those of us who believe there is a correlation between economic fundamentals and valuations in financial markets continue to be lost. The true economic condition is unknown since the data being released is affected by hurricanes and fires in the west. For example, **nonfarm payrolls** were reported as having declined by 33,000 in September, but are expected to jump by more than 300,000 for October. **Average hourly earnings** were reported as having risen by 0.5% in September, but are only expected to be up 0.2% for October. It is difficult to determine the true condition of the **labor market** with this much monthly volatility. The condition of the labor market is a key determinate of any changes in **Fed monetary policy**. The **Advance Report** of the third quarter **Real GDP** was released at a +3.0%, which was well above consensus forecasts. The report is always subject to large revisions. In the past three years, those revisions have tended to be upward. This number may be revised downward since the data for the last month of the quarter was estimated and seasonally adjusted but not adjusted for the hurricanes. We expect the estimates for **personal consumption expenditures** will prove to be too high in this Advance report. The inventory growth reported for the third quarter may have been a function of the disruption in the supply chain from the weather. That means inventory accumulation would be much lower going forward than would otherwise be the case. Finally, the **inflation** fundamentals remain very low. The **GDP price deflator** for the third quarter and the **PCE core price index** for September were well continued indicating no upward pressure on pricing.

The Fed meets this week trying to assess the actual condition of the economy. There are no forecasts of the **FOMC** moving managed rates up at this meeting. The key question is whether the Fed changes its guidance for future action. The Fed has continued to indicate an increase of 25 basis points at the December meeting. The bond market has taken short rates up in anticipation of this move. The statement issued at 2 pm on Wednesday will be closely monitored by investors to determine if the timing of the next Fed move has changed due to the volatility of the economic data being released. There are sectors of the economy that are clearly accelerating. Business fixed investment was up in the third quarter, durable goods orders experienced strong growth and the **ISM Index** is at post recession highs. These fundamentals, combined with strong **consumer confidence** and higher **final demand**, suggest stronger Real GDP growth going forward than has been the case in the past six years. Our forecast calls for better than 3% growth in 2018. Our forecast also calls for inflation moving above the Fed's target of 2% by the middle of next year. This fundamental economic environment should lead to a steepening of the **yield curve,** with intermediate and long-term market rates moving up faster and sooner than the Fed moves monetary policy.

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