THE AUSTIN ADVISOR

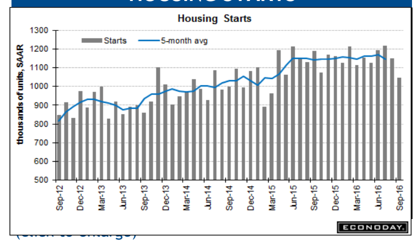
November 14, 2016

Markets	7-Nov	8-Nov	9-Nov	10-Nov	11-Nov	YTD%	31-Dec-15
DJIA	18,259.60	18,332.74	18,589.69	18,807.88	18,847.66	8.16%	17,425.03
S&P 500	2,131.52	2,139.56	2,163.26	2,167.48	2,164.45	5.90%	2,043.94
NASDAQ	5,166.17	5,193.49	5,251.07	5,208.80	5,237.11	4.59%	5,007.41
SNL Bank Index	433.97	433.33	454.27	474.59	479.09	11.03%	431.48
Fed Funds Rate	0.41%	0.41%	0.41%	0.41%	N/A		0.35%
1 Month LIBOR	0.54%	0.54%	0.54%	0.54%	0.54%		0.43%
3 Month LIBOR	0.89%	0.88%	0.89%	0.90%	0.91%		0.61%
3 Month T-Bill	0.41%	0.43%	0.45%	0.48%	0.48%		0.16%
1 Year Treasury	0.63%	0.71%	0.72%	0.72%	0.72%		0.65%
2 Year Treasury	0.82%	0.87%	0.90%	0.92%	0.92%		1.06%
3 Year Treasury	0.99%	1.04%	1.12%	1.17%	1.17%		1.31%
5 Year Treasury	1.29%	1.34%	1.49%	1.56%	1.56%		1.76%
10 Year Treasury	1.83%	1.88%	2.07%	2.15%	2.15%		2.27%
30 Year Treasury	2.60%	2.63%	2.88%	2.94%	2.94%		3.01%

WEEKLY HIGHLIGHT

The election changes many things with the most important being less uncertainty going forward

HOUSING STARTS



Economy	Week of November 7, 2016	
Consumer Credit	$19.3 Billion	Above expectations, with credit card debt up $4.2 billion after the $5.6 billion growth in August
JOLTS	5.486 Million	Little changed from the 5.453 million reported for August, indicating continued growth in jobs going forward

Calendar	Release	Covering	Week of November 14, 2016
Retail Sales	Tuesday	October	A second consecutive month of strong sales data is expected at +0.6%, matching the September strong data
Producer Price Index	Wednesday	October	Another above average increase of 0.3% is the consensus forecast, adding to inflation risks in the future
Industrial Production	Wednesday	October	While the demand side of the economy is accelerating, the output side remains stagnet at only +0.1%
Capacity Utilization	Wednesday	October	The operating rate remains well below inflationary levels at 75.5%
Consumer Price Index	Thursday	October	Inflation is beginning to increase with a +0.4% rise expected after the 0.3% rise in September
Housing Starts	Thursday	October	A jump to 1.168 million from 1.047 million is expected, which should add to fourth quarter Real GDP growth
Leading Index	Friday	October	The highly volatile index is not expected to reflect a stronger growth in the future at only 0.1%

MONDAY MUSING

Protests have broken out after the election. The massive protest in Cleveland over the weekend was just one, but it was different. The people in that city took the opportunity to march with signs that read "The Cubs are not my World Champion". Apparently, those people want to change the rules to make the World Series the best 5 out of 8.

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Commentary

An upset of historic proportions has changed the outlook going forward. Iowa beating Michigan has thrown the college football payoffs into chaos. The other upset was the results of the election. We now find a unified government with the Republicans controlling the White House and Congress. This means there is some chance the gridlock in Washington may break down. Not everyone will agree on the actions taken in the coming months, but there will be some fiscal stimulus coming. The gridlock had left only the **Federal Reserve** to combat the modest economic growth environment of the past eight years. Changes to the health care program, tax reform and the elimination of regulatory barriers will provide the fiscal stimulus needed to drive growth higher. This better economic growth will add to **inflationary pressures** in 2017.

The inflation risk premium has risen dramatically in the last week in the bond market. The yield on the ten-year treasury jumped by 35 basis points in the last four trading days. The yield on the five-year treasury has risen to 1.65%, up 37 basis points in the last month. Investors recognize the changes in the political environment will allow the Federal Reserve to move faster in reaching its stated goal of **normalizing monetary policy.** Market interest rates have moved up to year-end 2015 levels when the market was pricing four increases by the Fed over a twelve month period. Further increases in market rates will occur as inflation expectations rise. The **curve** has steepened, with intermediate and long-term rates moving up more than the rise in short-term rates. The yield on the two-year treasury has risen 14 basis points over the last month. This more modest rise in short rates will drive funding costs for banks as alternative investments are available with much higher yields than being offered in non-maturity deposit products. Banks will need to raise these rates in order to maintain liquidity. Faster economic growth will drive loan demand up as the uncertainty keeping businesses from investing in their own needs is changed. Banks need a steeper yield curve in order to generate the increase in revenues needed to offset rising non-interest expenses and funding costs. The rise in stock prices since the election should remove concerns at the Fed about raising managed rates at their December meeting. We continue to believe they will raise the target for Fed Funds to 75 basis points on December 14.

Trusted Advisor to Financial Institutions
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