THE PROBANK AUSTIN ADVISOR

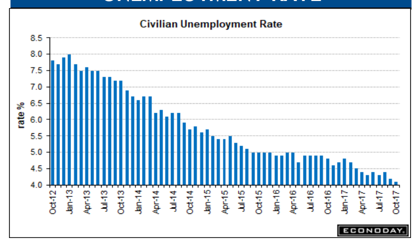
December 5, 2017

Markets	27-Nov	28-Nov	29-Nov	30-Nov	1-Dec	YTD%	30-Dec-16
DJIA	23,580.78	23,836.71	23,940.68	24,272.35	24,231.59	22.61%	19,762.60
S&P 500	2,601.42	2,627.04	2,626.07	2,647.58	2,642.22	18.02%	2,238.83
NASDAQ	6,878.52	6,912.36	6,824.39	6,873.97	6,847.59	27.20%	5,383.12
SNL Bank Index	572.80	591.12	605.91	605.47	605.03	13.59%	532.65
Fed Funds Rate	1.16%	1.16%	1.16%	1.07%	1.07%		0.55%
1 Month LIBOR	1.35%	1.35%	1.36%	1.37%	1.38%		0.77%
3 Month LIBOR	1.48%	1.48%	1.48%	1.49%	1.49%		1.00%
3 Month T-Bill	1.27%	1.30%	1.29%	1.27%	1.27%		0.51%
1 Year Treasury	1.62%	1.61%	1.61%	1.62%	1.62%		0.85%
2 Year Treasury	1.74%	1.75%	1.78%	1.78%	1.78%		1.20%
3 Year Treasury	1.84%	1.85%	1.86%	1.90%	1.90%		1.47%
5 Year Treasury	2.06%	2.07%	2.09%	2.14%	2.13%		1.93%
10 Year Treasury	2.32%	2.34%	2.37%	2.42%	2.37%		2.45%
30 Year Treasury	2.76%	2.77%	2.81%	2.83%	2.76%		3.06%

WEEKLY HIGHLIGHT

The Senate passed their version of tax reform, making the possibility of fiscal stimulus higher

UNEMPLOYMENT RATE



(click to enlarge)

Economy		Week of November 27, 2017
New Home Sales	685,000	The second consecutive month with results well above forecasts, with a huge 6.2% increase in October
Consumer Confidence	129.5	Another big jump with the index moving up from 126.2 in October to a new 17 year high
Real GDP-Revised	3.3%	The upward revision was a function of higher inventory building and a lower trade deficit
Janet Yellen Testifies		Nothing surprising came from her final testimony and no signal the Fed is not going to raise managed rates in two weeks
Personal Income	0.4%	Solid growth equaling the increase reported for September providing the financial ability to grow final demand
Personal Spending	0.3%	Following the large increase in September related to hurricane recovery, this data represents solid normalized growth
Core PCE Price Index	0.2%	Even with a slight increase in the monthly number, the YOY increase remains muted at only 1.4%
Motor Vehicle Sales	15.5 Million	As expected, as replacement autos from the hurricanes are still affecting the monthly sales data
ISM Index	58.2	As expected and even stronger since the disruption to the supply chain from the hurricanes has been reduced

ON THIS DAY IN HISTORY

663 - Fourth Council of Toledo takes place

1492 - Columbus discovers Hispaniola

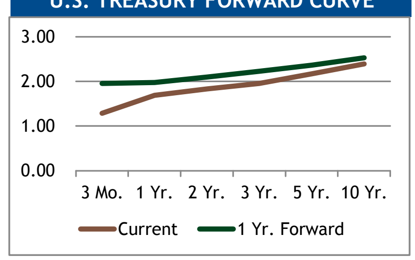
1792 - George Washington re-elected President

1908 - Numbers appear on football uniforms for the first time (U. of Pittsburgh)

1932 - Albert Einstein granted a visa to enter America

Calendar	Release	Covering	Week of December 4, 2017
Trade Deficit	Tuesday	October	The deficit is forecast to have widened to -$47.1 B from -$43.5 B increasing the drag on growth in the fourth quarter
Consumer Credit	Thursday	October	Consumer credit surged in September as replacement demand for damaged autos jumped, expect a solid increase of $17.5 B
Unemployment rate	Friday	November	No change in the very low unemployment rate of 4.1% is expected, as the labor market growth has slowed
Nonfarm Payrolls	Friday	November	An average month over the past two years has been 185,000 growth and the November data is expected to be average
Avg. Hourly Earnings	Friday	November	After no growth in October, wages are expected to increase by 0.3% in November

U.S. TREASURY FORWARD CURVE



THE PROBANK AUSTIN ADVISOR

Commentary

The most important event last week was the passage in the Senate of a **tax reform bill**. The House has already passed its version and the two bills must now go through reconciliation. We are much closer to getting a major **fiscal stimulus package** to add to the economic data that continues to reflect steady improvement in current conditions.

Third quarter **Real GDP** was revised up to a 3.3% growth, from the 3.0% contained in the Advance Report. The higher growth was a function of greater **inventory** accumulation and a lower **trade deficit** than first estimated. Growth did not accelerate due to strong **consumer final demand**. **Personal consumption expenditures** were actually revised down to a 2.3% rate of growth, from 2.4% first estimated. With seventeen year highs for **consumer confidence** and strong job growth, consumer spending should lead overall economic growth to even better levels going forward. Job growth remains strong, with a 261,000 increase in October. Both August and September were revised upward. The housing sector reported existing and new home sales for October. Prices also rose, which will contribute to higher **inflation** data since home prices are included in the indices. Prices should continue to rise given the short supply of homes on the market. Inventory of existing homes for sale were under a four month supply in October. **Auto sales** remained well above the monthly average of the past year at 17.5 million for November. **Retail sales** were up 0.3% in October, after the huge 1.9% increase in September due to the hurricanes. The economy is growing at an accelerating rate, even without the stimulus from the tax reform efforts. Those efforts will only add to the overall rate of growth. Even with an improving growth rate, inflation is not being driven higher as of yet. The Fed believes the risk is that inflation will spike due to higher labor costs in the low **unemployment** environment. Therefore, it is appropriate to move managed rates up before inflation gets to high.

The Fed has not sent any signal they are not going to move another 25 basis points on December 13. They have not changed their guidence of another 75 basis point upward move in 2018. Investors are still not demanding an inflation risk premium in long term market rates. The spread between the yield on the two-year and ten-year treasury is under 60 basis points. The two-year is now yielding above 1.8%. Non-core funding costs are rising by large amounts, while loan rates remain little changed. The flat **yield curve** creates the risk of negative rate variances for most banks in 2018. Our forecast does not call for any steepening in the curve until the second half of next year. Shorter term bonds are beginning to offer an alternative to booking loans at 4.25%.