THE AUSTIN ADVISOR

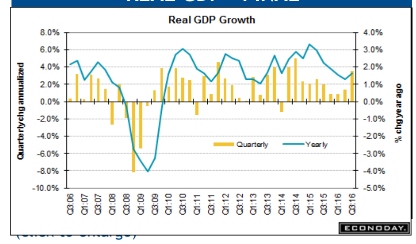
December 27, 2016

Markets	19-Dec	20-Dec	21-Dec	22-Dec	23-Dec	YTD%	31-Dec-15
DJIA	19,883.06	19,974.62	19,941.96	19,918.88	19,933.81	14.40%	17,425.03
S&P 500	2,262.53	2,270.76	2,265.18	2,260.96	2,263.79	10.76%	2,043.94
NASDAQ	5,457.44	5,483.94	5,471.43	5,447.42	5,462.69	9.09%	5,007.41
SNL Bank Index	532.35	540.29	538.91	538.57	540.12	25.18%	431.48
Fed Funds Rate	0.66%	0.66%	0.66%	0.66%	0.66%		0.35%
1 Month LIBOR	0.74%	0.75%	0.76%	0.76%	0.76%		0.43%
3 Month LIBOR	0.99%	1.00%	1.00%	1.00%	1.00%		0.61%
3 Month T-Bill	0.52%	0.52%	0.52%	0.51%	0.52%		0.16%
1 Year Treasury	0.90%	0.90%	0.88%	0.87%	0.87%		0.65%
2 Year Treasury	1.24%	1.25%	1.21%	1.22%	1.22%		1.06%
3 Year Treasury	1.55%	1.56%	1.54%	1.54%	1.54%		1.31%
5 Year Treasury	2.03%	2.06%	2.04%	2.04%	2.04%		1.76%
10 Year Treasury	2.54%	2.57%	2.55%	2.55%	2.55%		2.27%
30 Year Treasury	3.12%	3.15%	3.12%	3.12%	3.12%		3.01%

WEEKLY HIGHLIGHT

While risks still exist, we enter a new year with solid momentum in the economy

REAL GDP - FINAL



Economy	Week of December 19, 2016	
Existing Home Sales	5.610 Million	Better than expected, and up from revised 5.570M result for October
Durable Goods Orders	-4.6%	About as expected after surge of +4.8% in October, with volatile transportation down leaving ex-aircraft at +0.5%
Real GDP - Final	3.5%	The best growth in past two years after the revisions were both positive with PCE growth reported as +3.0%
Personal Income	Unchanged	Incomes remained flat in November, following the strong 0.5% increase reported for October
Personal Spending	0.2%	The smaller growth was primarily a function of a weak car sales component, even with the industry reporting solid results
Core PCE Index	0.1%	Another low inflation report, leaving the bond market well ahead of any pricing pressure
New Home Sales	592,000	The housing data was much better than expected for November being held down by a lack of inventory

Calendar	Release	Covering	Week of December 26, 2016
Consumer Confidence	Tuesday	December	This index has surged after the election in November and we expect to remain high at better than 108, up from 7.1

MONDAY MUSING

I know this time of the year puts pressure on retailers. They hire people they might not the rest of the year. I stopped at a Subway to get lunch for me and three friends who were visiting. When the foot long sandwiches were ordered, I asked the young man if he could cut each into fourths. He told me it was too late, he had already cut them in half. Of course, it is not always the clerks fault. I was in a coffee shop and they had a case filled with pies they sold. They had cherry, apple, herman's, peach and berry. I asked what was a herman pie, and was told it was an apple pie Herman had ordered the day before. What jobs do people get after the holiday's?

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Commentary

We are ending the year on a high note with the stock market holding on to record highs and market interest rates at the highest level of the year. **Consumer confidence** is at post recession highs, and there are high expectations for the new administration adopting stimulative fiscal policy early in 2017. The risk is this optimism will turn out to be unjustified. The risk is legislation does not get passed as expected. The risk is the surge in **consumer spending,** which has been the primary driver of growth this year, does not continue. The risk is the strong dollar, which has only gotten higher against other currencies after the election, drives exports down and imports higher. The risk is the **housing sector** does not continue to improve as higher mortgage rates depress demand. There is a risk **inflation** does not rise due to lack of pricing freedom with a growing **trade deficit** and **the Fed** does not move managed rates higher as is currently expected. In other words, there is plenty of risks to be concerned about as we enter the new year.

The data from the fourth quarter of this year is confusing. For example, the **personal spending** data for November showed no change from October. The primary reason was the drop in **auto sales** estimated in the data. However, auto sales were near record high levels according to the industry data release. Additionally, there are real questions about the seasonal adjustment factors used to compute data such as spending and **Real GDP growth**. The changes in the way consumers buy may not be fully captured by the Bureau of Economic Analysis. On-line purchases and the spread of gift cards makes **final demand** data much harder to track. The current estimates for fourth quarter Real GDP growth are well below the 3.5% growth now reported for the third quarter. These forecasts expect a large increase in the drag from a much larger trade deficit and a slow down in consumer final demand. Should this be the case, the volatility in financial markets may increase as questions are raised about the sustainability of the recovery.

We are forecasting a much higher fourth quarter growth than the consensus and continued expansion into next year. We believe a strong labor market will begin to drive wages higher and add to consumers willingness to increase spending. We believe there is pent-up demand in the **housing sector**, that will keep activity for both **existing home sales** and construction of new homes at high levels. We do believe the Fed will raise rates as inflation risks increase in 2017.

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