

THE AUSTIN ADVISOR

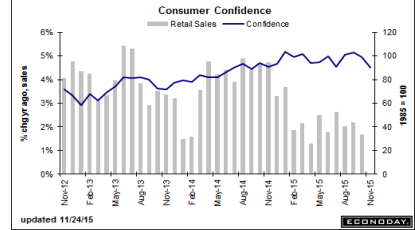
December 28, 2015

Markets	21-Dec	22-Dec	23-Dec	24-Dec	25-Dec	YTD%	31-Dec-14
DJIA	17,251.62	17,417.27	17,602.61	17,552.17	NA	NA	17,823.07
S&P 500	2,021.15	2,038.97	2,064.29	2,060.99	NA	NA	2,058.90
NASDAQ	4,968.92	5,001.11	5,045.93	5,048.49	NA	NA	4,736.05
SNL Bank Index	429.72	431.93	437.74	437.50	NA	NA	432.75
Fed Funds Rate	0.36%	0.36%	0.36%	0.36%	NA	NA	0.06%
1 Month LIBOR	0.42%	0.42%	0.42%	0.42%	NA	NA	0.17%
3 Month LIBOR	0.59%	0.59%	0.60%	0.60%	NA	NA	0.26%
3 Month T-Bill	0.24%	0.21%	0.20%	0.20%	0.20%	0.20%	0.04%
1 Year Treasury	0.64%	0.66%	0.65%	0.64%	0.64%	0.64%	0.25%
2 Year Treasury	0.96%	0.99%	1.01%	1.03%	1.03%	1.03%	0.67%
3 Year Treasury	1.28%	1.31%	1.32%	1.33%	1.33%	1.33%	1.10%
5 Year Treasury	1.67%	1.71%	1.74%	1.73%	1.73%	1.73%	1.65%
10 Year Treasury	2.20%	2.24%	2.27%	2.25%	2.25%	2.25%	2.17%
30 Year Treasury	2.92%	2.96%	3.00%	2.96%	2.96%	2.96%	2.75%

WEEKLY HIGHLIGHT

Financial asset prices are being driven by commodity prices in the short run, but economic fundamentals in the long run

CONSUMER CONFIDENCE



Economy	Week of December 21, 2015	
Real GDP-Final Revision	2.0%	Revised down from 2.1% due to a lower level of inventory build than was last reported
Existing Home Sales	4.760 Million	A huge drop from 5.320 M in October, with a change in closing rules delaying sales which should be reported in December
Durable Goods Orders	0.0%	After strong growth of 3.0% in October, there was no growth in November as manufacturing output remains weak
Personal Income	0.3%	A solid increase in incomes should provide the fuel for spending going forward
Personal Spending	0.3%	A better month than the flat October, reflecting a growing level of consumer final demand

MONDAY MUSING

I know some of you think I have a strange sense of humor but I come by it naturally. Christmas Eve candle light services always remind me of the year my Dad bought a plastic bow tie that was made to look like holly leaves. The bow tie had little red balls on it that were lights. My Dad thought it was funny to wait until all the lights in the church were turned off for the passing of the candlelight to turn on the blinking red holly balls on the tie. It looked like downtown Las Vegas in the dark church. My Dad never threw anything away but for some reason, he could never find that tie again. I think my Mom buried it in the backyard.

Calendar	Release	Covering	Week of December 28, 2015
Consumer Confidence	Tuesday	December	The Index dropped from over 100 two months ago to 90.4 in November, but is expected to be 94.0 for December
New Year's Day	Friday		All Markets Closed - Go Blue

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Commentary

Financial markets are not driven by the limited amount of data released in the last two weeks of the year. They are driven by the limited liquidity, with many traders gone for the holidays and by portfolio managers trying to set their holdings for year end reports. The data released last week was mixed. The **housing data** was well below expectations and prior months. It is believed to be due to a change in requirements for closing documentation which lengthens the closing on a home purchase. If that is the case, the December data should be well above the average. The **personal income and spending** data was solid and consistent with the trend of the last four months. Income growth is the most important since this will provide the fuel for further growth in **final demand**.

The final revision to third quarter **Real GDP** was small, dropping from 2.1% to 2.0%. The downward revision was largely a function of a smaller **inventory build** than was estimated with the first revision. This should help fourth quarter growth since there is less inventory to work down as final demand continues to expand. The volatility in stock prices last week was associated with the price of oil. When oil drops, stocks decline and when oil prices rise, stock prices recover. The price of oil is not expected to move higher given the large inventories globally. **OPEC** continues production levels from four years ago, even as demand has dropped. The large inventories in many commodities makes higher prices difficult to achieve. Due to this, inflation expectations remain very low.

The Core rate for the **PCE index** was unchanged for the month, and is still up only 1.3% on a year-over-year basis. It has remained at this rate for the last three months and is well below **the Fed's** target of 2.0%. Investors have not moved the yield on intermediate and long-term bonds higher as short rates have moved up with the Fed action. The discussions we have had with clients in the last two weeks indicates no change in the highly competitive **loan rates** being offered. Five year, fixed rate loans at 4% or lower still appear to be in the market. There is also increased demand for longer-terms as borrowers expect the Fed will raise rates again in 2016. As of yet, we have not seen significant changes in deposit offering rates after the Fed moved. We do expect to see shorter term **CD rates** to be moved higher in reaction to the move by the Fed. The **yield curve** needs to steepen with higher rates for longer term maturities in order to get loan rates to move higher. We do not expect this to happen until this next spring or summer.

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