



City of DeSoto

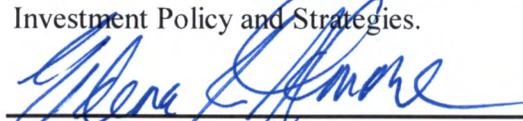
QUARTERLY INVESTMENT REPORT

For the Quarter Ended

September 30, 2013

**Prepared by
Valley View Consulting, L.L.C.**

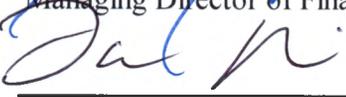
The investment portfolio of the City of DeSoto is in compliance with the Public Funds Investment Act and the Investment Policy and Strategies.



Managing Director of Financial Services



Accounting Manager



City Manager

These reports were compiled using information provided by the City. No procedures were performed to test the accuracy or completeness of this information. The market values included in these reports were obtained by Valley View Consulting, L.L.C. from sources believed to be accurate and represent proprietary valuation. Due to market fluctuations these levels are not necessarily reflective of current liquidation values. Yield calculations are not determined using standard performance formulas, are not representative of total return yields and do not account for investment advisor fees.

City of DeSoto, Texas Annual Comparison of Portfolio Performance

The Federal Open Market Committee (FOMC) maintained the Fed Funds target range between 0.00% and 0.25% (actual Fed Funds traded +/- 10 bps). The FOMC shifted the Quantitative Easing (QE3) focus to target unemployment below 6.5% and inflation between 2.0% and 2.5%. International and domestic economic and employment data posted modest but erratic growth. Overall US economic activity remains low to moderate with GDP +/-2.0%. The US stock markets maintained their bullish tone, pushing to new highs. During the summer the FOMC discussed a tapered reduction of the monthly QE3 security purchases - although they chose not to at the September meeting. The market reacted quickly by pushing interest rates higher. The partial Federal Government shutdown and debt ceiling issues have increased uncertainty. Financial institution deposits and laddering targeted cash flows still provide the best interest earnings opportunity.

FYE Results by Investment Category:

| <u>Asset Type</u> | <u>September 30, 2013</u> | | | <u>September 30, 2012</u> | | |
|-------------------|---------------------------|-------------------------|--------------------------------|---------------------------|-------------------------|-------------------------|
| | <u>Ave. Yield</u> | <u>Book Value</u> | <u>Market Value</u> | <u>Ave. Yield</u> | <u>Book Value</u> | <u>Market Value</u> |
| DDA | 0.00% | \$ 500,000.00 | \$ 500,000.00 | 0.00% | \$ 500,000.00 | \$ 500,000.00 |
| MMA/NOW/Pool | 0.15% | 28,028,714.51 | 28,028,714.51 | 0.27% | 34,144,761.73 | 34,144,761.73 |
| CDs/Securities | 0.39% | 17,038,686.15 | 17,038,686.15 | 0.55% | 8,004,848.94 | 8,004,848.94 |
| Totals | | \$ 45,567,400.66 | \$ 45,567,400.66 | | \$ 42,649,610.67 | \$ 42,649,610.67 |
| | | | | 2013 | 2012 | Change |
| | | | Total Portfolio | 0.28% | 0.26% | 0.02% |
| | | | Rolling Three Mo. Treas. Yield | 0.07% | 0.07% | 0.00% |
| | | | Rolling Six Mo. Treas. Yield | 0.11% | 0.11% | 0.00% |
| | | | Quarterly TexPool Yield | 0.09% | 0.12% | -0.04% |

(1) Average Yield calculated using quarter end report yields and adjusted book values and does not reflect a total return analysis or account for advisory fees.

(2) Fiscal Year-to-Date Average Yields calculated using quarter end report yields and adjusted book values and does not reflect a total return analysis or account for advisory fees.

Strategy Summary:

The Federal Open Market Committee (FOMC) maintained the Fed Funds target range between 0.00% and 0.25% (actual Fed Funds traded <10 bps). The FOMC continued Quantitative Easing (QE3), but openly discussed the potential tapering of the monthly security purchases. The fixed income market reacted quickly, raising 10 year rates over 1.00% to +/-2.75%. Mortgage rates also jumped quickly and dramatically. Domestic employment posted erratic, uninspiring growth. Overall economic activity remains moderate with second quarter GDP of 2.5%. The US stock markets touched new highs. The partial Federal Government shut down and debt ceiling cap increase uncertainty. Financial institution deposits and laddering targeted cash flows still provide the best interest earnings opportunity.

Quarter End Results by Investment Category:

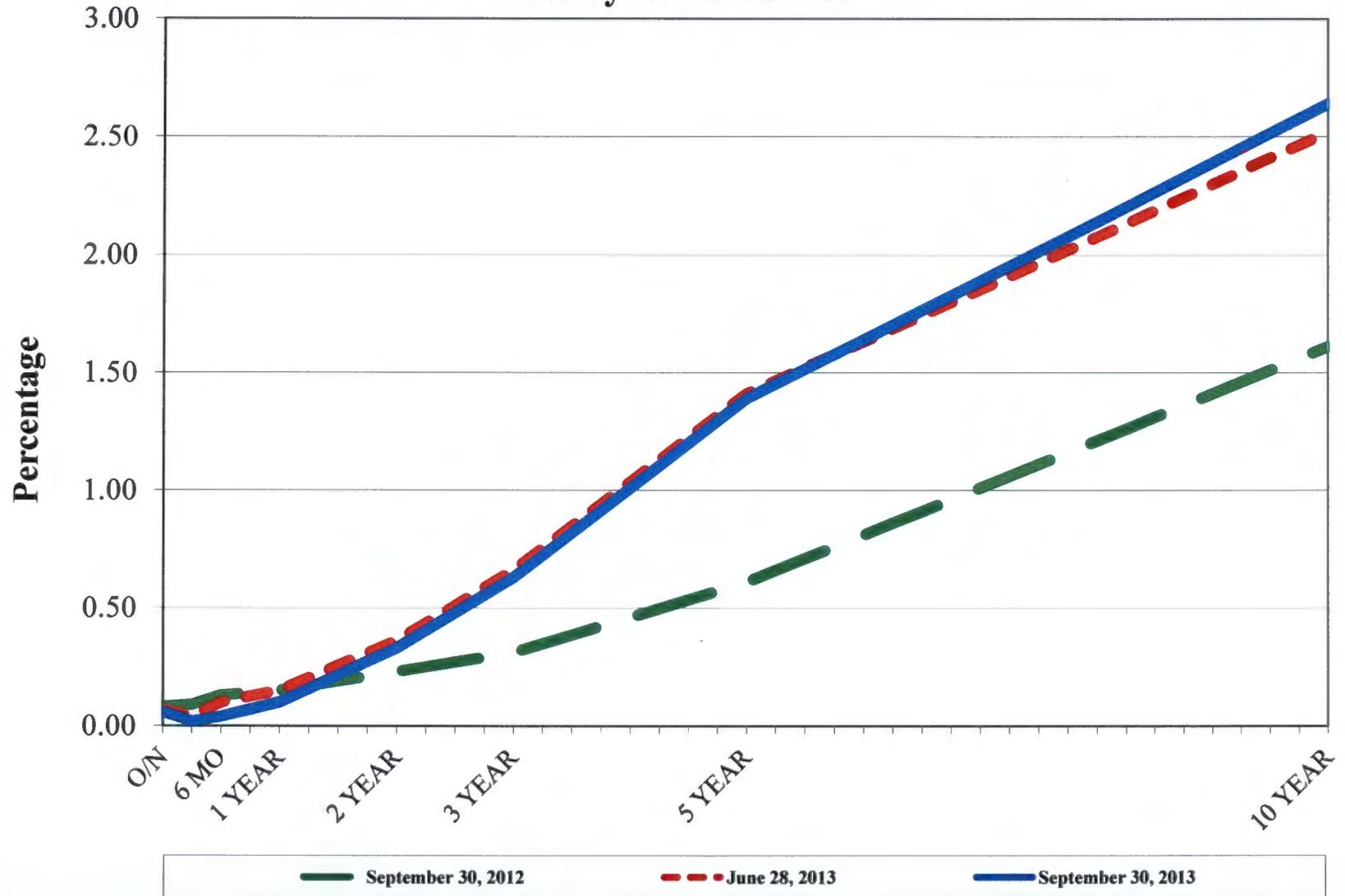
| <u>Asset Type</u> | <u>Ave. Yield</u> | <u>September 30, 2013</u> | | <u>June 30, 2013</u> | |
|-------------------|-------------------|---------------------------|----------------------|----------------------|----------------------|
| | | <u>Book Value</u> | <u>Market Value</u> | <u>Book Value</u> | <u>Market Value</u> |
| DDA | 0.00% | \$ 500,000 | \$ 500,000 | \$ 500,000 | \$ 500,000 |
| MMA/NOW/Pools | 0.15% | 28,028,715 | 28,028,715 | 28,845,291 | 28,845,291 |
| CDs/Securities | 0.39% | 17,038,686 | 17,038,686 | 20,036,701 | 20,036,701 |
| Totals | | \$ 45,567,401 | \$ 45,567,401 | \$ 49,381,992 | \$ 49,381,992 |

| <u>Average Yield (1)</u> | | <u>Fiscal Year-to-Date Average Yield (2)</u> | |
|--------------------------------|------------|--|-------|
| Total Portfolio | 0.24% | Total Portfolio | 0.28% |
| Rolling Three Mo. Treas. Yield | 0.03% | Rolling Three Mo. Treas. Yield | 0.07% |
| Rolling Six Mo. Treas. Yield | 0.08% | Rolling Six Mo. Treas. Yield | 0.11% |
| | | Quarterly TexPool Yield | 0.09% |
| Quarterly Interest Income | \$ 30,499 | Approximate | |
| Year-to-date Interest Income | \$ 129,498 | Approximate | |

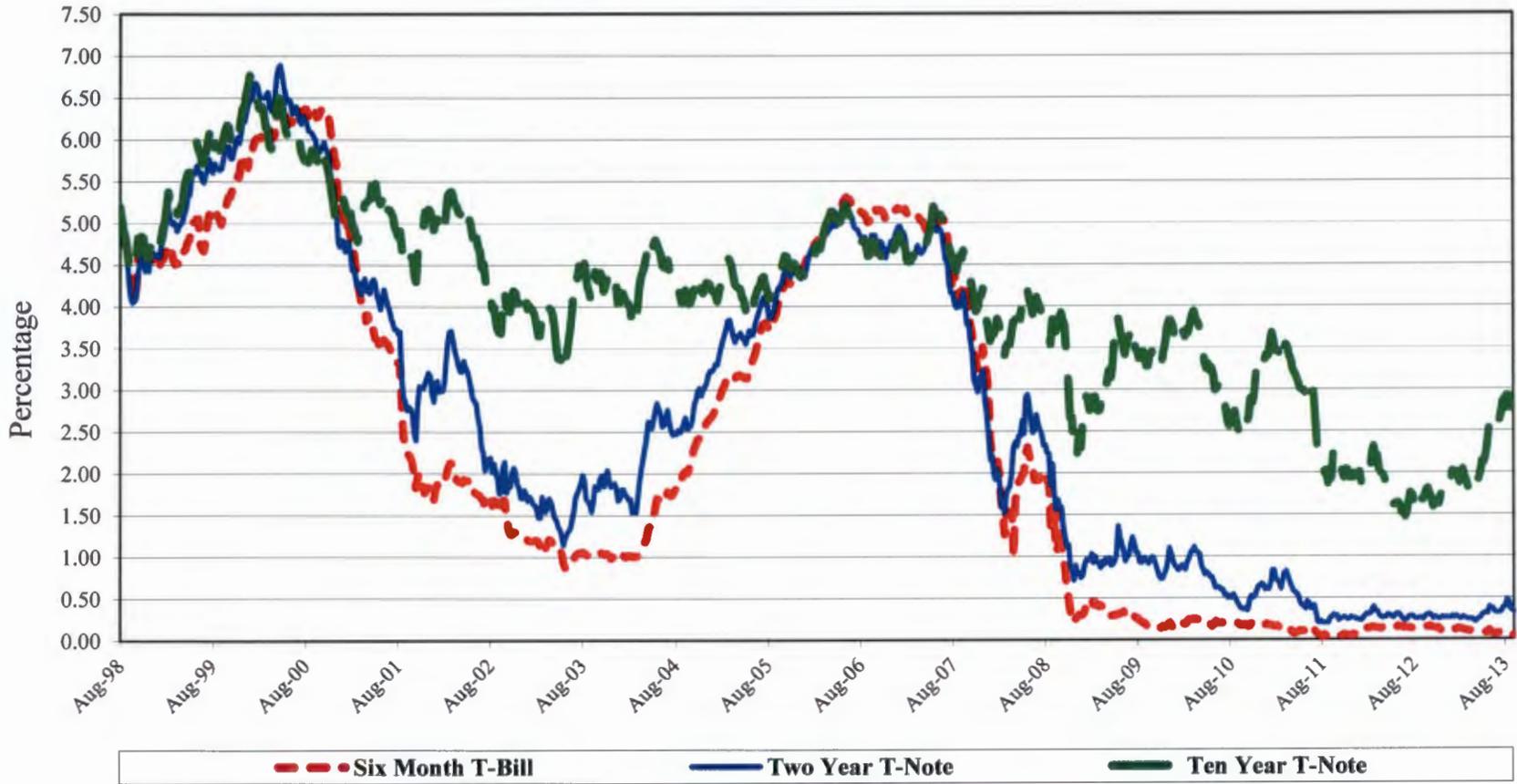
(1) Average Yield calculated using quarter end report yields and adjusted book values and does not reflect a total return analysis or account for advisory fees.

(2) Fiscal Year-to-Date Average Yields calculated using quarter end report yields and adjusted book values and does not reflect a total return analysis or account for advisory fees.

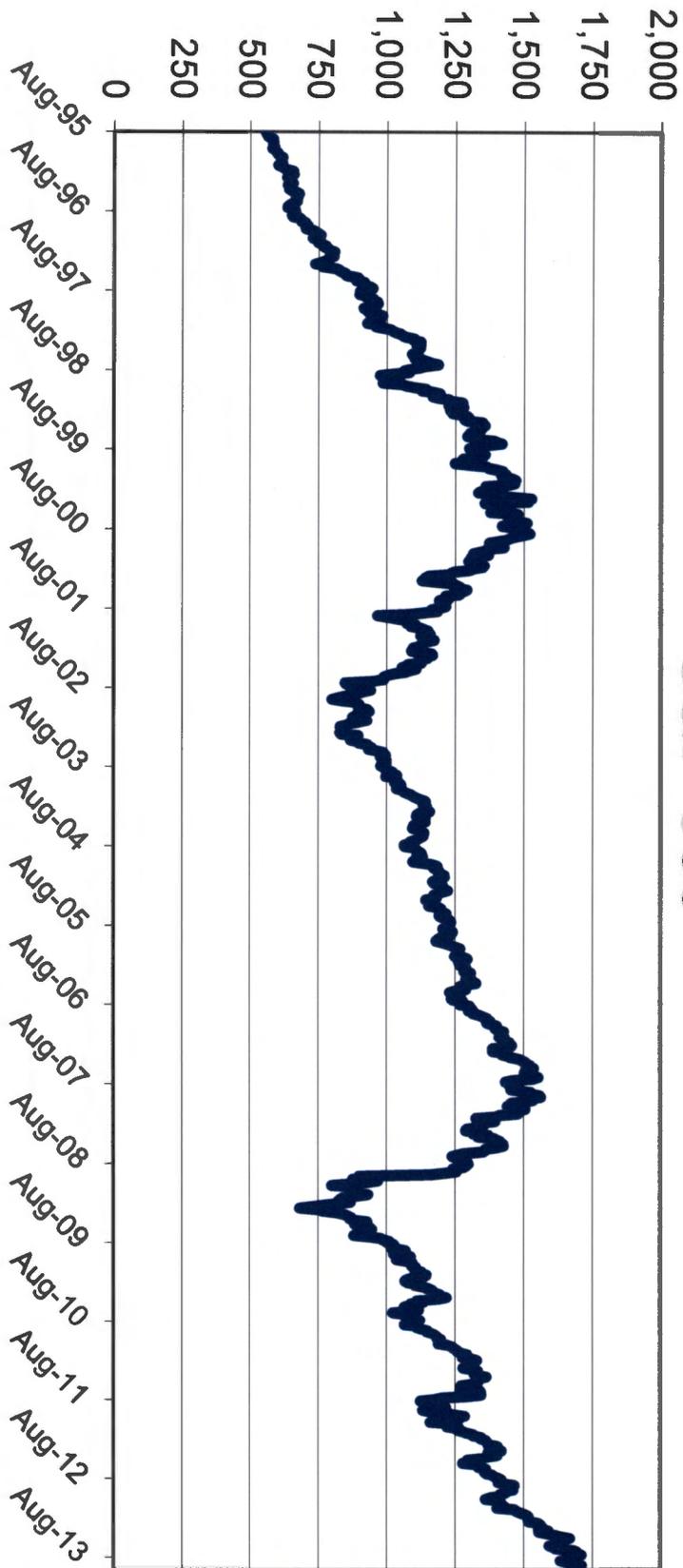
Treasury Yield Curves



US Treasury Historical Yields



S&P 500



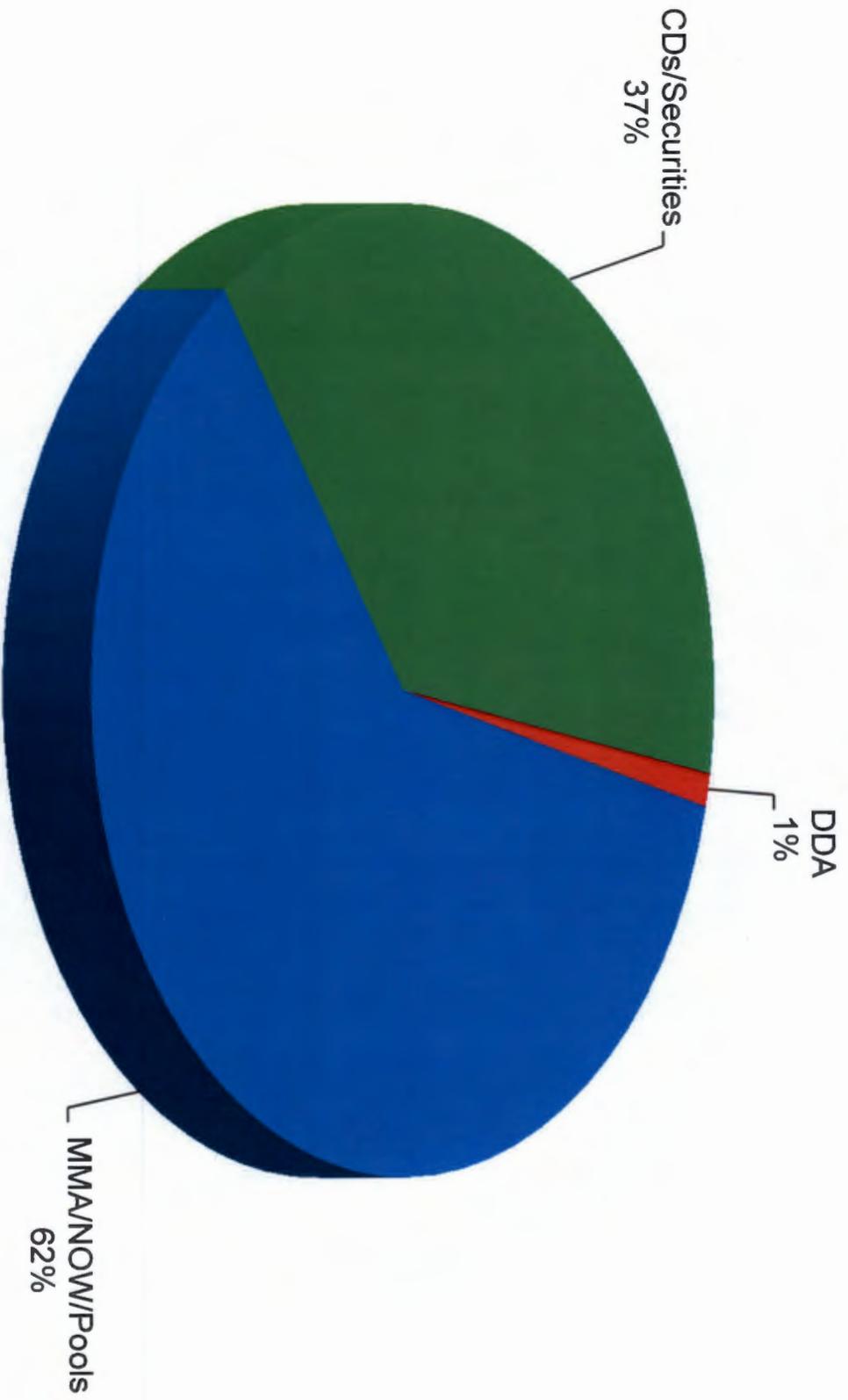
Detail of Investment Holdings September 30, 2013

| Description | Ratings | Coupon/ Discount | Maturity Date | Settlement Date | Par Value | Book Value | Market Price | Market Value | Life (days) | Yield |
|------------------------|---------|---------------------|------------------|--------------------|------------|----------------------|-----------------|----------------------|----------------|--------------|
| Wells Fargo DDA | | 0.00% | 10/01/13 | 09/30/13 | \$ 500,000 | \$ 500,000 | 1 | \$ 500,000 | 1 | 0.00% |
| Wells Fargo MMA | | 0.22% | 10/01/13 | 09/30/13 | 10,217,710 | 10,217,710 | 1 | 10,217,710 | 1 | 0.22% |
| Southside Bank MMA | | 0.19% | 10/01/13 | 09/30/13 | 4,013,132 | 4,013,132 | 1 | 4,013,132 | 1 | 0.19% |
| Texas Class | AAAm | 0.09% | 10/01/13 | 09/30/13 | 12,119,921 | 12,119,921 | 1 | 12,119,921 | 1 | 0.09% |
| TexPool | AAAm | 0.04% | 10/01/13 | 09/30/13 | 1,677,951 | 1,677,951 | 1 | 1,677,951 | 1 | 0.04% |
| Comerica CD | | 0.39% | 10/22/13 | 10/22/12 | 1,003,585 | 1,003,585 | 100 | 1,003,585 | 22 | 0.39% |
| Comerica CD | | 0.27% | 02/06/14 | 02/06/13 | 2,003,139 | 2,003,139 | 100 | 2,003,139 | 129 | 0.27% |
| Comerica CD | | 0.28% | 03/07/14 | 03/07/13 | 2,003,255 | 2,003,255 | 100 | 2,003,255 | 158 | 0.28% |
| Comerica CD | | 0.29% | 04/07/14 | 04/07/13 | 2,003,371 | 2,003,371 | 100 | 2,003,371 | 189 | 0.29% |
| Comerica CD | | 0.30% | 05/07/14 | 05/07/13 | 2,003,488 | 2,003,488 | 100 | 2,003,488 | 219 | 0.30% |
| Comerica CD | | 0.64% | 06/02/14 | 07/02/12 | 2,014,992 | 2,014,992 | 100 | 2,014,992 | 245 | 0.64% |
| Texas Security Bank CD | | 0.40% | 06/21/14 | 06/21/13 | 1,001,008 | 1,001,008 | 100 | 1,001,008 | 264 | 0.40% |
| Texas Security Bank CD | | 0.48% | 12/21/14 | 06/21/13 | 1,001,210 | 1,001,210 | 100 | 1,001,210 | 447 | 0.48% |
| Comerica CD | | 0.43% | 03/16/15 | 06/14/13 | 3,003,253 | 3,003,253 | 100 | 3,003,253 | 532 | 0.43% |
| Texas Security Bank CD | | 0.55% | 06/21/15 | 06/21/13 | 1,001,386 | 1,001,386 | 100 | 1,001,386 | 629 | 0.55% |
| \$ 45,567,401 | | | | | | \$ 45,567,401 | | \$ 45,567,401 | 107 | 0.24% |
| | | | | | | | | | (1) | (2) |

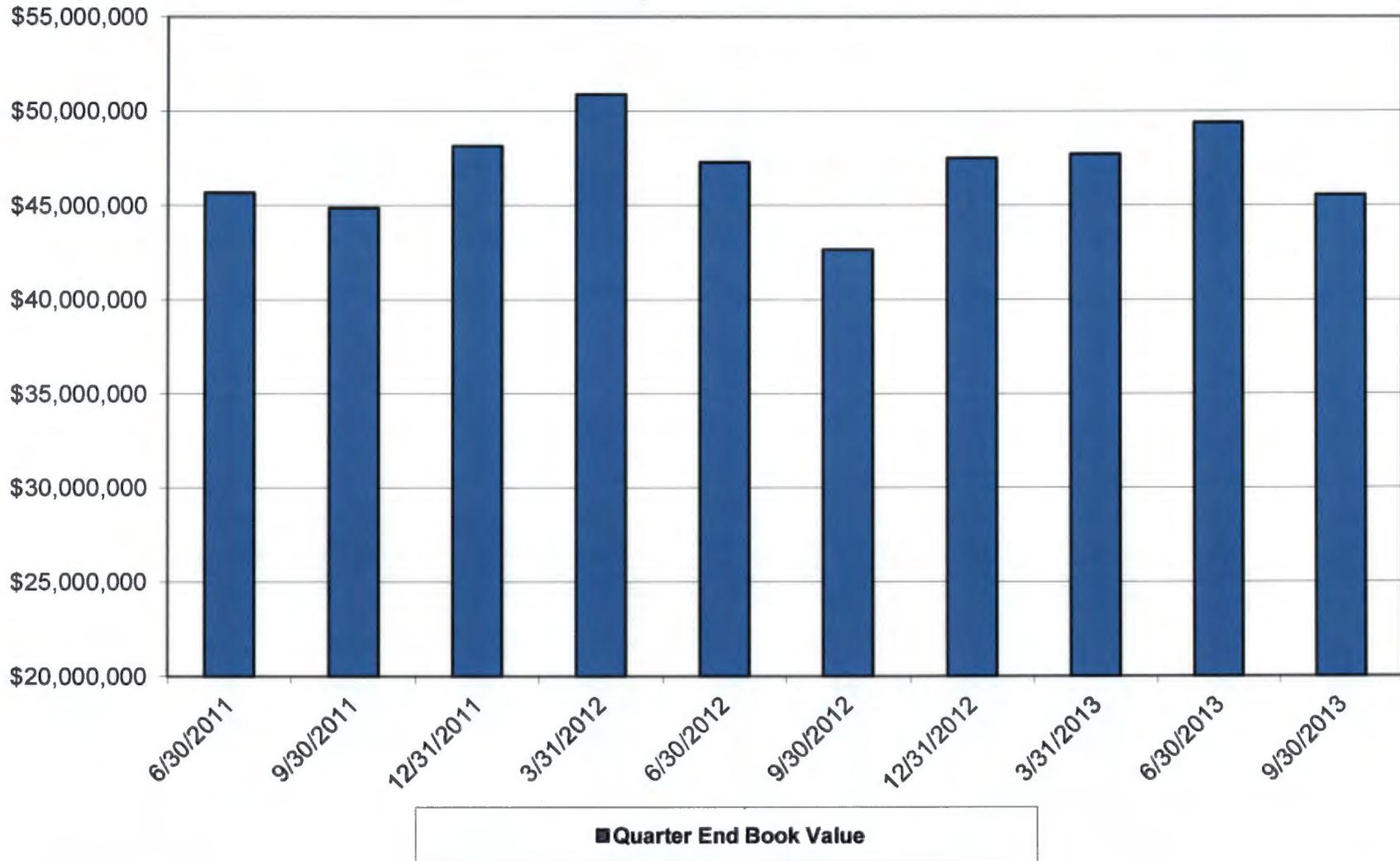
(1) **Weighted average life** - For purposes of calculating weighted average life, bank accounts, pools and money market funds are assumed to have an one day maturity.

(2) **Weighted average yield to maturity** - The weighted average yield to maturity is based on adjusted book value, realized and unrealized gains/losses and investment advisory fees are not considered. The yield for the reporting month is used for bank accounts, pools and money market funds.

Portfolio Composition



Total Portfolio



Book Value Comparison

| Description | Coupon/ Discount | Maturity Date | June 30, 2013 | | Purchases/ Adjustments | Sales/Adjust/ Call/Maturity | September 30, 2013 | |
|------------------------|---------------------|------------------|----------------------|----------------------|---------------------------|--------------------------------|----------------------|----------------------|
| | | | Par Value | Book Value | | | Par Value | Book Value |
| Wells Fargo DDA | 0.00% | 10/01/13 | \$ 500,000 | \$ 500,000 | \$ - | \$ - | \$ 500,000 | \$ 500,000 |
| Wells Fargo MMA | 0.22% | 10/01/13 | 9,495,317 | 9,495,317 | 722,392 | | 10,217,710 | 10,217,710 |
| Southside Bank MMA | 0.36% | 10/01/13 | 4,011,142 | 4,011,142 | 1,990 | | 4,013,132 | 4,013,132 |
| Texas Class | 0.09% | 10/01/13 | 12,409,071 | 12,409,071 | | (289,149) | 12,119,921 | 12,119,921 |
| TexPool | 0.04% | 10/01/13 | 2,929,762 | 2,929,762 | | (1,251,810) | 1,677,951 | 1,677,951 |
| Comerica CD | 0.54% | 09/03/13 | 3,014,858 | 3,014,858 | | (3,014,858) | | |
| Comerica CD | 0.39% | 10/22/13 | 1,002,599 | 1,002,599 | 986 | | 1,003,585 | 1,003,585 |
| Comerica CD | 0.27% | 02/06/14 | 2,001,776 | 2,001,776 | 1,363 | | 2,003,139 | 2,003,139 |
| Comerica CD | 0.28% | 03/07/14 | 2,001,842 | 2,001,842 | 1,413 | | 2,003,255 | 2,003,255 |
| Comerica CD | 0.29% | 04/07/14 | 2,001,908 | 2,001,908 | 1,464 | | 2,003,371 | 2,003,371 |
| Comerica CD | 0.30% | 05/07/14 | 2,001,973 | 2,001,973 | 1,514 | | 2,003,488 | 2,003,488 |
| Comerica CD | 0.64% | 06/02/14 | 2,011,745 | 2,011,745 | 3,247 | | 2,014,992 | 2,014,992 |
| Texas Security Bank CD | 0.40% | 06/21/14 | 1,000,000 | 1,000,000 | 1,008 | | 1,001,008 | 1,001,008 |
| Texas Security Bank CD | 0.48% | 12/21/14 | 1,000,000 | 1,000,000 | 1,210 | | 1,001,210 | 1,001,210 |
| Comerica CD | 0.43% | 03/16/15 | 3,000,000 | 3,000,000 | 3,253 | | 3,003,253 | 3,003,253 |
| Texas Security Bank CD | 0.55% | 06/21/15 | 1,000,000 | 1,000,000 | 1,386 | | 1,001,386 | 1,001,386 |
| TOTAL | | | \$ 49,381,992 | \$ 49,381,992 | \$ 741,226 | \$ (4,555,818) | \$ 45,567,401 | \$ 45,567,401 |

Market Value Comparison

| Description | Coupon/ Discount | Maturity Date | June 30, 2013 | | Qtr to Qtr Change | September 30, 2013 | |
|------------------------|---------------------|------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|
| | | | Par Value | Market Value | | Par Value | Market Value |
| Wells Fargo DDA | 0.00% | 10/01/13 | \$ 500,000 | \$ 500,000 | \$ - | \$ 500,000 | \$ 500,000 |
| Wells Fargo MMA | 0.22% | 10/01/13 | 9,495,317 | 9,495,317 | 722,392 | 10,217,710 | 10,217,710 |
| Southside Bank MMA | 0.36% | 10/01/13 | 4,011,142 | 4,011,142 | 1,990 | 4,013,132 | 4,013,132 |
| Texas Class | 0.09% | 10/01/13 | 12,409,071 | 12,409,071 | (289,149) | 12,119,921 | 12,119,921 |
| TexPool | 0.04% | 10/01/13 | 2,929,762 | 2,929,762 | (1,251,810) | 1,677,951 | 1,677,951 |
| Comerica CD | 0.54% | 09/03/13 | 3,014,858 | 3,014,858 | (3,014,858) | | |
| Comerica CD | 0.39% | 10/22/13 | 1,002,599 | 1,002,599 | 986 | 1,003,585 | 1,003,585 |
| Comerica CD | 0.27% | 02/06/14 | 2,001,776 | 2,001,776 | 1,363 | 2,003,139 | 2,003,139 |
| Comerica CD | 0.28% | 03/07/14 | 2,001,842 | 2,001,842 | 1,413 | 2,003,255 | 2,003,255 |
| Comerica CD | 0.29% | 04/07/14 | 2,001,908 | 2,001,908 | 1,464 | 2,003,371 | 2,003,371 |
| Comerica CD | 0.30% | 05/07/14 | 2,001,973 | 2,001,973 | 1,514 | 2,003,488 | 2,003,488 |
| Comerica CD | 0.64% | 06/02/14 | 2,011,745 | 2,011,745 | 3,247 | 2,014,992 | 2,014,992 |
| Texas Security Bank CD | 0.40% | 06/21/14 | 1,000,000 | 1,000,000 | 1,008 | 1,001,008 | 1,001,008 |
| Texas Security Bank CD | 0.48% | 12/21/14 | 1,000,000 | 1,000,000 | 1,210 | 1,001,210 | 1,001,210 |
| Comerica CD | 0.43% | 03/16/15 | 3,000,000 | 3,000,000 | 3,253 | 3,003,253 | 3,003,253 |
| Texas Security Bank CD | 0.55% | 06/21/15 | 1,000,000 | 1,000,000 | 1,386 | 1,001,386 | 1,001,386 |
| TOTAL | | | \$ 49,381,992 | \$ 49,381,992 | \$ (3,814,591) | \$ 45,567,401 | \$ 45,567,401 |

Allocation
September 30, 2013

| Book and Market Value | Totals | Wells Fargo DDA | Wells Fargo MMA | Southside Bank MMA | Texas Class | TexPool | Comerica CD 10/22/13 | Comerica CD 2/6/14 |
|-------------------------------|----------------------|----------------------------|----------------------------|-------------------------------|----------------------|---------------------|---------------------------------|-------------------------------|
| Concentration Fund | \$ 34,817,549 | \$ 500,000 | \$ 10,217,710 | \$ 3,010,702 | \$ 5,418,578 | \$ 1,635,477 | \$ 1,003,585 | \$ 2,003,139 |
| 2006 Drainage Improvements | 50,374 | | | | 50,374 | | | |
| 2007 Street Improvements | 369,444 | | | | 369,444 | | | |
| 2008 Street Improvements | 305,309 | | | | 305,309 | | | |
| 2009 Street Improvements | 3,316,068 | | | | 3,316,068 | | | |
| 2009 Water CIP CO | 1,649,928 | | | 1,002,430 | 647,498 | | | |
| 2011A Heliport CO | 50,262 | | | | 50,262 | | | |
| 2011B CO - Water CIP | 1,011,052 | | | | 1,011,052 | | | |
| 2013 Water-Sewer CIP | 3,803,881 | | | | 800,276 | | | |
| Corner Theatre - 2011 | 151,060 | | | | 151,060 | | | |
| DPDC Bonds | 8,032 | | | | | 8,032 | | |
| Health Facilities Corporation | 13,080 | | | | | 13,080 | | |
| Industrial Development Board | 21,363 | | | | | 21,363 | | |
| Investment Total | \$ 45,567,401 | \$ 500,000 | \$ 10,217,710 | \$ 4,013,132 | \$ 12,119,921 | \$ 1,677,951 | \$ 1,003,585 | \$ 2,003,139 |

Allocation
September 30, 2013

| Book and Market Value | Comerica CD 3/7/14 | Comerica CD 4/7/14 | Comerica CD 5/7/14 | Comerica CD 6/2/14 | Texas Security Bank CD 6/21/14 | Texas Security Bank CD 12/21/14 | Comerica CD 3/16/15 | Texas Security Bank CD 6/21/15 |
|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|---|--|--------------------------------|---|
| Concentration Fund | \$ 2,003,255 | \$ 2,003,371 | \$ 2,003,488 | \$ 2,014,992 | \$ - | \$ - | \$ 3,003,253 | \$ - |
| 2006 Drainage Improvements | | | | | | | | |
| 2007 Street Improvements | | | | | | | | |
| 2008 Street Improvements | | | | | | | | |
| 2009 Street Improvements | | | | | | | | |
| 2009 Water CIP CO | | | | | | | | |
| 2011A Heliport CO | | | | | | | | |
| 2011B CO - Water CIP | | | | | | | | |
| 2013 Water-Sewer CIP | | | | | 1,001,008.22 | 1,001,209.86 | | 1,001,386.30 |
| Corner Theatre - 2011 | | | | | | | | |
| D ² DC Bonds | | | | | | | | |
| Health Facilities Corporation | | | | | | | | |
| Industrial Development Board | | | | | | | | |
| Investment Total | \$ 2,003,255 | \$ 2,003,371 | \$ 2,003,488 | \$ 2,014,992 | \$ 1,001,008 | \$ 1,001,210 | \$ 3,003,253 | \$ 1,001,386 |

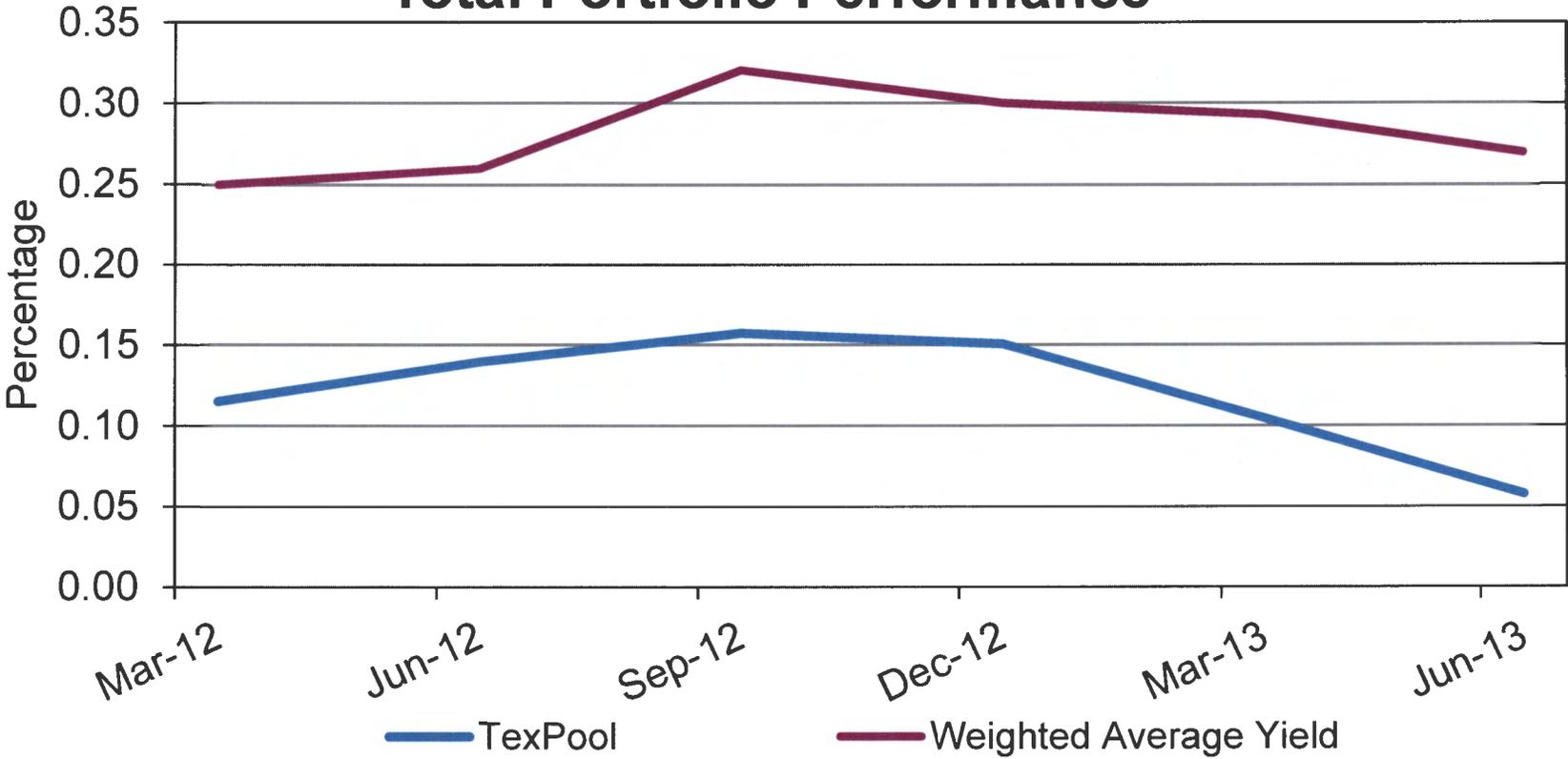
**Allocation
June 30, 2013**

| Book and Market Value | Totals | Wells Fargo DDA | Wells Fargo MMA | Southside Bank MMA | Texas Class | TexPool | Comerica CD 9/3/13 | Comerica CD 10/22/13 | Comerica CD 2/6/14 |
|-------------------------------|----------------------|----------------------------|----------------------------|-------------------------------|----------------------|---------------------|-------------------------------|---------------------------------|-------------------------------|
| Concentration Fund | \$ 38,638,130 | \$ 500,000 | \$ 9,495,317 | \$ 3,009,209 | \$ 5,709,611 | \$ 2,887,292 | \$ 3,014,858 | \$ 1,002,599 | \$ 2,001,776 |
| 2006 Drainage Improvements | 50,360 | | | | 50,360 | | | | |
| 2007 Street Improvements | 369,340 | | | | 369,340 | | | | |
| 2008 Street Improvements | 305,223 | | | | 305,223 | | | | |
| 2009 Street Improvements | 3,315,136 | | | | 3,315,136 | | | | |
| 2009 Water CIP CO | 1,649,249 | | | 1,001,933 | 647,316 | | | | |
| 2011A Heliport CO | 50,248 | | | | 50,248 | | | | |
| 2011B CO - Water CIP | 1,010,767 | | | | 1,010,767 | | | | |
| 2013 Water-Sewer CIP | 3,800,051 | | | | 800,051 | | | | |
| Corner Theatre - 2011 | 151,018 | | | | 151,018 | | | | |
| DPDC Bonds | 8,031 | | | | | 8,031 | | | |
| Health Facilities Corporation | 13,078 | | | | | 13,078 | | | |
| Industrial Development Board | 21,361 | | | | | 21,361 | | | |
| Investment Total | \$ 49,381,992 | \$ 500,000 | \$ 9,495,317 | \$ 4,011,142 | \$ 12,409,071 | \$ 2,929,762 | \$ 3,014,858 | \$ 1,002,599 | \$ 2,001,776 |

Allocation
June 30, 2013

| Book and Market Value | Comerica CD 3/7/14 | Comerica CD 4/7/14 | Comerica CD 5/7/14 | Comerica CD 6/2/14 | Texas Security Bank CD 6/21/14 | Texas Security Bank CD 12/21/14 | Comerica CD 3/16/15 | Texas Security Bank CD 6/21/15 |
|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|---|--|--------------------------------|---|
| Concentration Fund | \$ 2,001,842 | \$ 2,001,908 | \$ 2,001,973 | \$ 2,011,745 | \$ - | \$ - | \$ 3,000,000 | \$ - |
| 2006 Drainage Improvements | | | | | | | | |
| 2007 Street Improvements | | | | | | | | |
| 2008 Street Improvements | | | | | | | | |
| 2009 Street Improvements | | | | | | | | |
| 2009 Water CIP CO | | | | | | | | |
| 2011A Heliport CO | | | | | | | | |
| 2011B CO - Water CIP | | | | | | | | |
| 2013 Water-Sewer CIP | | | | | 1,000,000.00 | 1,000,000.00 | | 1,000,000.00 |
| Corner Theatre - 2011 | | | | | | | | |
| DPDC Bonds | | | | | | | | |
| Health Facilities Corporation | | | | | | | | |
| Industrial Development Board | | | | | | | | |
| Investment Total | \$ 2,001,842 | \$ 2,001,908 | \$ 2,001,973 | \$ 2,011,745 | \$ 1,000,000 | \$ 1,000,000 | \$ 3,000,000 | \$ 1,000,000 |

Total Portfolio Performance



Market Outlook

October 4, 2013

September trumps all previous months in terms of a complicated market climate and October is promising to heighten the drama. As this update is going to print, the Federal government is shut down and the Legislative and Executive branches of the Federal government are verbally sniping at each other with no clear end in sight, while one of the most perilous economic deadlines that we have seen in almost two decades is looming within the next couple of weeks. The U.S. economic recovery has proven to be resilient despite a difficult summer, but it is hard to imagine that it could remain so if the Federal government does not increase the debt ceiling by the time it runs out of money. The U.S. Treasury may face the ominous decision to default on debt payments in the worst-case scenario, which could have a dire rippling effect throughout both the national and the global economies. Meanwhile, with government offices closed, many of the economic reports have been delayed and the market is feeling it's way through to estimate many of the critical indicators, like Employment, that have yet to be released.

The U.S. Housing Sector appeared positive in the September-released reports, but the National Association of Realtors warned that it might be the "last hurrah" due to rising mortgage rates. In the insert

graph, it is noticeable how dramatically mortgage rates have risen since May 2013 (red line on the chart). Existing Home Sales rose an additional 1.7% in August after surging 6.5% in July. The average price of Existing Homes slipped slightly and supply fell to 4.9 months versus 5.1 months in July's report. The average price of Existing Homes is up 13.2% from the same period in 2012. New Home Sales rose 7.9% in August after declining 12% in July. Housing Starts improved 1.0% in August, but Housing Permits fell 4.0%. These indicators all suggest that prospective home buyers are reacting to the possibility of more mortgage rate



increases and are speeding up their purchasing plans. If the housing sector is poised for a cool down, it is likely that the entire economy will also slow because of the tremendous multiplier effect that housing has on many other sectors of the market. When consumers stop purchasing homes, they reduce the earnings potential for a large segment of the economy (home builders, realtors, construction workers) and also impact retailers who sell and manufacturers that produce home goods such as appliances, furnishings and other household necessities.



The production side of the economy, as reported during September, was mixed and it appears that producers are cautiously waiting to see how consumers' moods swing as we enter into the fall and winter sales periods. The Gross Domestic Product (GDP) for the second quarter was adjusted higher to +2.5% from the previously reported 2.1%. Durable Goods Orders rose only 0.1% in August, but this is a dramatic improvement over the decline of 8.1% that was reported for July. Industrial Production improved by 0.4% in July

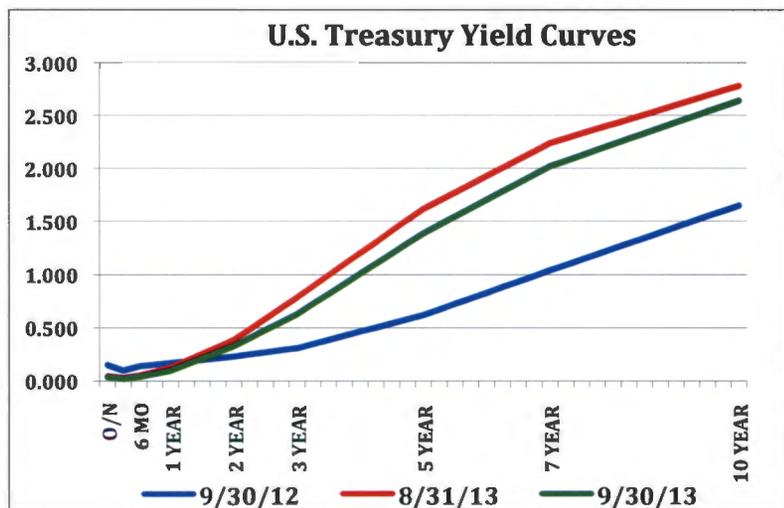
following an increase of 0.1% in June and Business Inventories rose 0.4% in July after a 0.1% increase in June. All of these reports seem to indicate that producers are not ramping up significantly for the Holiday period. Purchasing Managers in the Manufacturing sector were slightly more optimistic in September, but their peers in the Service sector reported a slip in the degree of their optimism. The Producer Price Index rose 0.3% in August after remaining flat in July. Overall, corporate profits had a strong second quarter, reporting a rise of 5.3% over first quarter or \$1.821 trillion compared to \$1.785 trillion reported in the first quarter.

On the consumption side of the economic equation, the reports were not remarkable. The Retail Sales number for August rose 0.2% following an increase of 0.4% in July. Back to school results were not as robust as the market had expected. Consumer Spending was a little better in August, rising 0.3% after rising only 0.2% in July, but the mood of the consumer, as measured by the Consumer Sentiment and the Consumer Confidence surveys appears to be in decline. It will be very critical to have improvement in the consumers' attitudes as we head into the final months of the year.

The September Employment report was a no-show due to the Federal government shutdown. Although a few of the other economic releases were delayed during the first week of October, this is the first critically relevant indicator that the shutdown has blocked. Economists and market participants were left to estimate and project how the jobs segment of the economy is holding up and the impact the true results might have on the trajectory of the recovery. There have been a few of the non-Federally issued reports (ex. ADP Employment) that have been closely scrutinized for clues, but the correlation between these reports and the actual Employment numbers released at the Federal level is historically spotty. Placing a great deal of faith in the privately released numbers can be perilous. However, if the ADP release is to be believed, the U.S. added approximately 160,000 jobs during September and that is not a significant result. The Bloomberg poll of market economists is expecting the September Employment report to show 184,000 jobs added as compared to the August report of 169,000 jobs.

The Federal Open Markets Committee (FOMC) met September 17th and 18th and threw the markets a curve with the announcement of their intent to continue with the current pace of quantitative easing. Many in the market had anticipated that the Fed would begin to withdraw the proverbial punch bowl and start the transition to a free market environment. But the FOMC announcement and Chairman Ben Bernanke's press conference held immediately after adjournment stated that the Committee remains concerned about the fragility of the recovery and its vulnerability to current threats. It is apparent that the FOMC is highly concerned about the current state of the Federal budget impasse and the damage that inaction may have upon the nation's economy.

Current Government Security Investment Pool rates during September fell to the 0.033% to 0.048% range. Certificates of Deposit rates are currently around 0.20% to 0.25% for one-year collateralized positions, which is about 5 basis-points lower than August. CDs still represent the best value for public fund investors. The yield curve is beginning to steepen, which could provide opportunities for higher Agency rates in the future. Strategy for public funds should continue to favor CDs. In some portfolios, municipal issues have been able to enhance return, but generally for longer-term maturity strategies.



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