



City of DeSoto

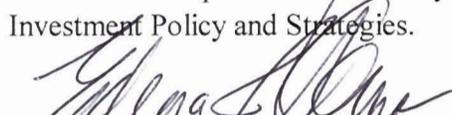
QUARTERLY INVESTMENT REPORT

For the Quarter Ended

September 30, 2015

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

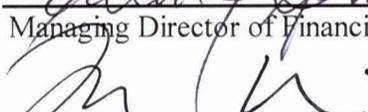
The investment portfolio of the City of DeSoto is in compliance with the Public Funds Investment Act and the Investment Policy and Strategies.



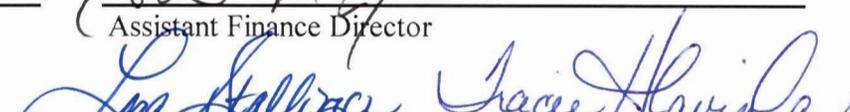
Managing Director of Financial Services



Assistant Finance Director



City Manager



Assistant City Managers

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.

Summary:

Quarter End Results by Investment Category:

<u>Asset Type</u>	<u>Ave. Yield</u>	<u>September 30, 2015</u>		<u>June 30, 2015</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	0.27%	21,865,825	21,865,825	24,411,694	24,411,694
Pools	0.19%	10,148,111	10,148,111	10,744,014	10,744,014
CDs/Securities	0.81%	23,845,855	23,848,134	22,578,375	22,578,089
Totals		\$ 56,359,790	\$ 56,362,070	\$ 58,234,083	\$ 58,233,797

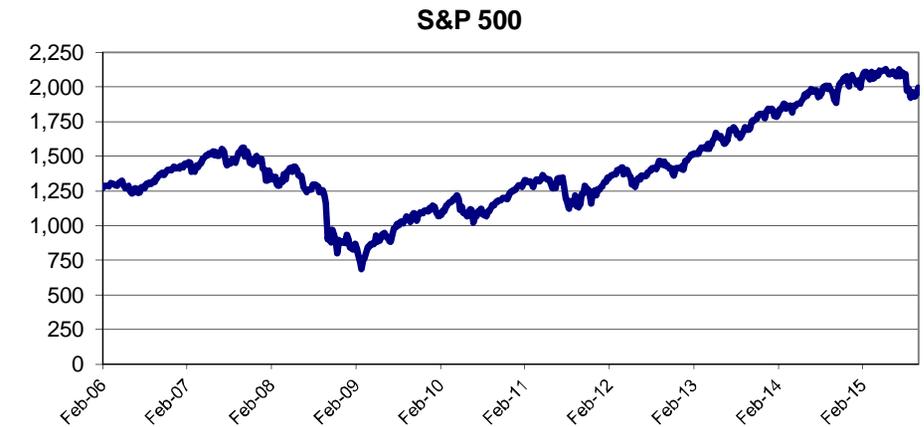
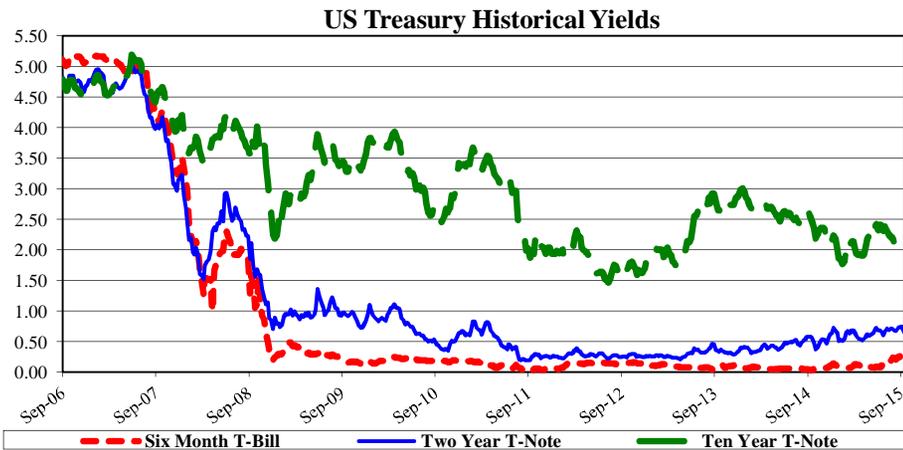
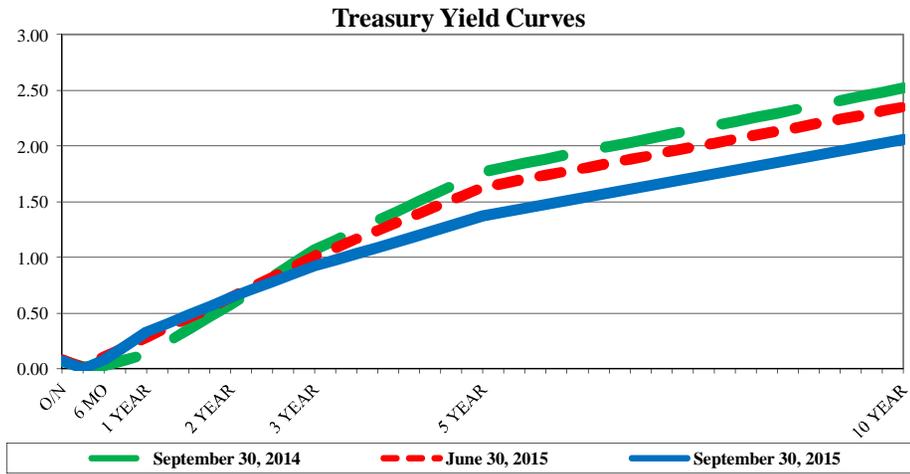
<u>Average Yield (1)</u>		<u>Fiscal Year-to-Date Average Yield (2)</u>	
Total Portfolio	0.48%	Total Portfolio	0.42%
Rolling Three Mo. Treas. Yield	0.04%	Rolling Three Mo. Treas. Yield	0.03%
Rolling Six Mo. Treas. Yield	0.13%	Rolling Six Mo. Treas. Yield	0.09%
		Quarterly TexPool Yield	0.06%

Quarterly Interest Income \$ 65,544 Approximate
 Year-to-date Interest Income \$ 222,259 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.

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 met 9/16 & 17 and chose to delay "lift-off" citing global economic concerns for the first time. The September new payroll numbers were a disappointing +142k and included downward Aug and July revisions. The overall unemployment rate remained 5.1%. US stock markets experienced volatility, but did stem the decline and advanced slightly. Chinese stock market and economic concerns continue. Continuing to ladder provides strategic advantage. Municipal bonds and financial institution deposits generally provide the best interest earnings opportunity, if available. Short to medium term US Government security yields fell on the non-FOMC action and, then again, on the September payroll weakness.



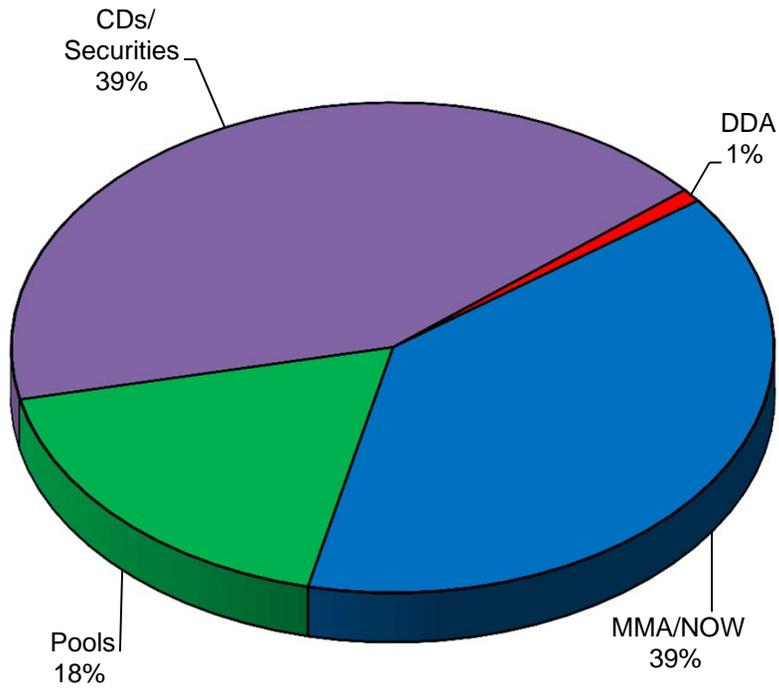
Detail of Investment Holdings September 30, 2015

Description	Ratings	Coupon/ Discount	Maturity Date	Settlement Date	Par Value	Book Value	Market Price	Market Value	Life (days)	Yield
Wells Fargo DDA		0.00%	10/01/15	09/30/15	\$ 500,000	\$ 500,000	1	\$ 500,000	1	0.00%
Wells Fargo MMA		0.24%	10/01/15	09/30/15	17,571,197	17,571,197	1	17,571,197	1	0.24%
BTH Bank MMA		0.64%	10/01/15	09/30/15	245,129	245,129	1	245,129	1	0.64%
BTH Bank ICS		0.58%	10/01/15	09/30/15	1,723,011	1,723,011	1	1,723,011	1	0.58%
Southside Bank MMA		0.23%	10/01/15	09/30/15	2,326,488	2,326,488	1	2,326,488	1	0.23%
Texas Class	AAAm	0.19%	10/01/15	09/30/15	9,934,422	9,934,422	1	9,934,422	1	0.19%
TexPool	AAAm	0.09%	10/01/15	09/30/15	213,689	213,689	1	213,689	1	0.09%
Comerica Bank		0.55%	10/22/15	10/22/13	2,021,203	2,021,203	100	2,021,203	22	0.55%
Comerica Bank		0.56%	02/08/16	02/06/14	1,715,113	1,715,113	100	1,715,113	131	0.56%
Inter National Bank		0.63%	05/08/16	05/08/14	504,195	504,195	100	504,195	221	0.63%
BTH Bank		0.70%	05/20/16	11/20/14	1,006,059	1,006,059	100	1,006,059	233	0.70%
Inter National Bank		0.90%	08/08/16	05/08/14	1,012,033	1,012,033	100	1,012,033	313	0.90%
BTH Bank		0.75%	08/20/16	11/20/14	1,006,494	1,006,494	100	1,006,494	325	0.75%
Independent Bank		0.50%	08/26/16	08/26/15	1,000,000	1,000,000	100	1,000,000	331	0.50%
Comerica Bank		0.50%	09/13/16	03/13/15	2,005,046	2,005,046	100	2,005,046	349	0.50%
Inter National Bank		0.95%	11/08/16	05/08/14	1,519,166	1,519,166	100	1,519,166	405	0.95%
BTH Bank		0.85%	11/20/16	11/20/14	1,007,363	1,007,363	100	1,007,363	417	0.85%
FHLB		0.63%	11/23/16	08/26/15	946,465	946,465	100	946,395	420	0.49%
Dallas Co Schools - Muni	Aa3	1.50%	12/01/16	05/22/14	1,035,000	1,041,199	101	1,043,549	428	0.98%
Inter National Bank		1.05%	02/08/17	05/08/14	2,028,262	2,028,262	100	2,028,262	497	1.05%
Southside Bank		0.58%	02/27/17	08/25/15	1,000,000	1,000,000	100	1,000,000	516	0.58%
Comerica Bank		0.86%	03/13/17	03/13/15	1,004,343	1,004,343	100	1,004,343	530	0.86%
Inter National Bank		1.35%	05/08/17	05/08/14	1,018,203	1,018,203	100	1,018,203	586	1.35%
Comerica Bank		0.99%	06/13/17	03/13/15	1,005,001	1,005,001	100	1,005,001	622	0.99%
Texas Security Bank		1.10%	08/25/17	08/25/15	1,000,000	1,000,000	100	1,000,000	695	1.10%
Comerica Bank		1.13%	09/13/17	03/13/15	1,005,710	1,005,710	100	1,005,710	714	1.13%
Texas Security Bank		1.15%	11/25/18	08/25/15	1,000,000	1,000,000	100	1,000,000	1,152	1.15%
					\$ 56,353,591	\$ 56,359,790		\$ 56,362,070	178	0.48%
									(1)	(2)

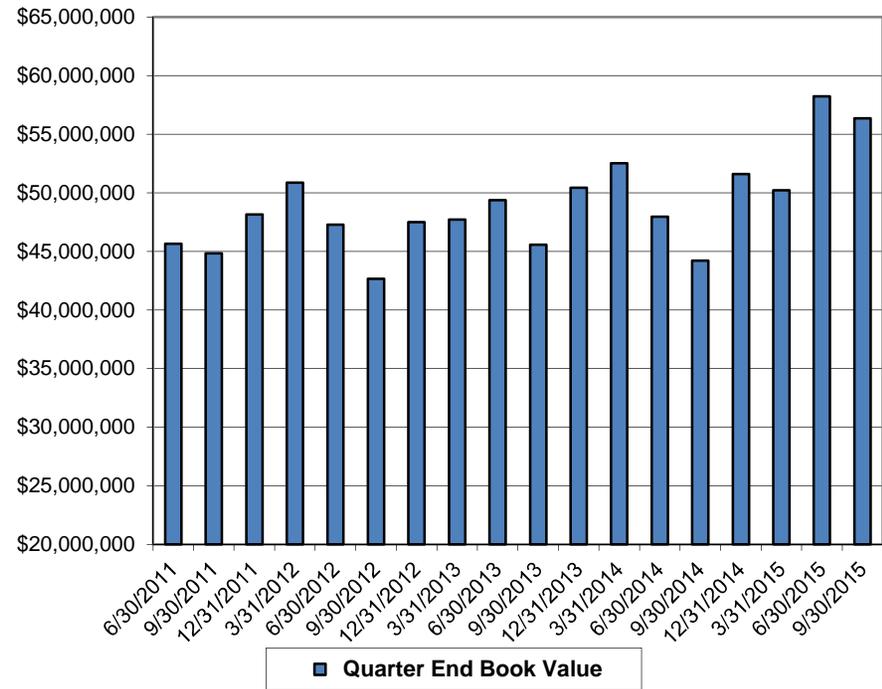
(1) **Weighted average life** - For purposes of calculating weighted average life, bank accounts, pools and money market funds are assumed to have an one day maturity.

(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, 2015		Purchases/ Adjustments	Sales/Adjust/ Call/Maturity	September 30, 2015	
			Par Value	Book Value			Par Value	Book Value
Wells Fargo DDA	0.00%	10/01/15	\$ 500,000	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ 500,000
Wells Fargo MMA	0.24%	10/01/15	18,821,838	18,821,838		(1,250,641)	17,571,197	17,571,197
BTH Bank MMA	0.64%	10/01/15	245,099	245,099	30		245,129	245,129
BTH Bank ICS	0.58%	10/01/15	3,019,566	3,019,566		(1,296,555)	1,723,011	1,723,011
Southside Bank MMA	0.23%	10/01/15	2,325,191	2,325,191	1,296		2,326,488	2,326,488
Texas Class	0.19%	10/01/15	10,664,368	10,664,368		(729,945)	9,934,422	9,934,422
TexPool	0.09%	10/01/15	79,647	79,647	134,042		213,689	213,689
Comerica Bank	0.29%	08/06/15	1,003,860	1,003,860		(1,003,860)	-	-
Comerica Bank	0.29%	08/06/15	2,710,423	2,710,423		(2,710,423)	-	-
Comerica Bank	0.55%	10/22/15	2,018,403	2,018,403	2,799		2,021,203	2,021,203
Comerica Bank	0.56%	02/08/16	1,712,694	1,712,694	2,419		1,715,113	1,715,113
Inter National Bank	0.63%	05/08/16	503,401	503,401	793		504,195	504,195
BTH Bank	0.70%	05/20/16	1,004,286	1,004,286	1,773		1,006,059	1,006,059
Inter National Bank	0.90%	08/08/16	1,009,754	1,009,754	2,280		1,012,033	1,012,033
BTH Bank	0.75%	08/20/16	1,004,593	1,004,593	1,901		1,006,494	1,006,494
Independent Bank	0.50%	08/26/16			1,000,000		1,000,000	1,000,000
Comerica Bank	0.50%	09/13/16	2,002,522	2,002,522	2,525		2,005,046	2,005,046
Inter National Bank	0.95%	11/08/16	1,515,534	1,515,534	3,632		1,519,166	1,519,166
BTH Bank	0.85%	11/20/16	1,005,207	1,005,207	2,156		1,007,363	1,007,363
FHLB	0.63%	11/23/16			946,465		946,465	946,465
Dallas Co Schools - Muni	1.50%	12/01/16	1,035,000	1,042,531		(1,332)	1,035,000	1,041,199
Inter National Bank	1.05%	02/08/17	2,022,904	2,022,904	5,358		2,028,262	2,028,262
Southside Bank	0.58%	02/27/17			1,000,000		1,000,000	1,000,000
Comerica Bank	0.86%	03/13/17	1,002,169	1,002,169	2,174		1,004,343	1,004,343
Inter National Bank	1.35%	05/08/17	1,014,746	1,014,746	3,457		1,018,203	1,018,203
Comerica Bank	0.99%	06/13/17	1,002,497	1,002,497	2,504		1,005,001	1,005,001
Texas Security Bank	1.10%	08/25/17			1,000,000		1,000,000	1,000,000
Comerica Bank	1.13%	09/13/17	1,002,851	1,002,851	2,859		1,005,710	1,005,710
Texas Security Bank	1.15%	11/25/18			1,000,000		1,000,000	1,000,000
TOTAL			\$ 58,226,552	\$ 58,234,083	\$ 5,118,464	\$ (6,992,757)	\$ 56,353,591	\$ 56,359,790

Market Value Comparison

Description	Coupon/ Discount	Maturity Date	June 30, 2015		Qtr to Qtr Change	September 30, 2015	
			Par Value	Market Value		Par Value	Market Value
Wells Fargo DDA	0.00%	10/01/15	\$ 500,000	\$ 500,000	\$ —	\$ 500,000	\$ 500,000
Wells Fargo MMA	0.24%	10/01/15	18,821,838	18,821,838	(1,250,641)	17,571,197	17,571,197
BTH Bank MMA	0.64%	10/01/15	245,099	245,099	30	245,129	245,129
BTH Bank ICS	0.58%	10/01/15	3,019,566	3,019,566	(1,296,555)	1,723,011	1,723,011
Southside Bank MMA	0.23%	10/01/15	2,325,191	2,325,191	1,296	2,326,488	2,326,488
Texas Class	0.19%	10/01/15	10,664,368	10,664,368	(729,945)	9,934,422	9,934,422
TexPool	0.09%	10/01/15	79,647	79,647	134,042	213,689	213,689
Comerica Bank	0.29%	08/06/15	1,003,860	1,003,860	(1,003,860)	—	—
Comerica Bank	0.29%	08/06/15	2,710,423	2,710,423	(2,710,423)	—	—
Comerica Bank	0.55%	10/22/15	2,018,403	2,018,403	2,799	2,021,203	2,021,203
Comerica Bank	0.56%	02/08/16	1,712,694	1,712,694	2,419	1,715,113	1,715,113
Inter National Bank	0.63%	05/08/16	503,401	503,401	793	504,195	504,195
BTH Bank	0.70%	05/20/16	1,004,286	1,004,286	1,773	1,006,059	1,006,059
Inter National Bank	0.90%	08/08/16	1,009,754	1,009,754	2,280	1,012,033	1,012,033
BTH Bank	0.75%	08/20/16	1,004,593	1,004,593	1,901	1,006,494	1,006,494
Independent Bank	0.75%	08/26/16			1,000,000	1,000,000	1,000,000
Comerica Bank	0.75%	09/13/16	2,002,522	2,002,522	2,525	2,005,046	2,005,046
Inter National Bank	0.95%	11/08/16	1,515,534	1,515,534	3,632	1,519,166	1,519,166
BTH Bank	0.75%	11/20/16	1,005,207	1,005,207	2,156	1,007,363	1,007,363
FHLB	0.75%	11/20/16			946,395	946,465	946,395
Dallas Co Schools - Muni	1.50%	12/01/16	1,035,000	1,042,245	1,304	1,035,000	1,043,549
Inter National Bank	1.05%	02/08/17	2,022,904	2,022,904	5,358	2,028,262	2,028,262
Southside Bank	0.58%	02/27/17			1,000,000	1,000,000	1,000,000
Comerica Bank	0.86%	03/13/17	1,002,169	1,002,169	2,174	1,004,343	1,004,343
Inter National Bank	1.35%	05/08/17	1,014,746	1,014,746	3,457	1,018,203	1,018,203
Comerica Bank	0.99%	06/13/17	1,002,497	1,002,497	2,504	1,005,001	1,005,001
Texas Security Bank	1.10%	08/25/17			1,000,000	1,000,000	1,000,000
Comerica Bank	1.13%	09/13/17	1,002,851	1,002,851	2,859	1,005,710	1,005,710
Texas Security Bank	1.15%	11/25/18			1,000,000	1,000,000	1,000,000
TOTAL			\$ 58,226,552	\$ 58,233,797	\$ (1,871,727)	\$ 56,353,591	\$ 56,362,070

**Book Value
September 30, 2015**

	Maturity	Total	Concentration Fund	Capital Projects	Health Facilities Corporation	Health Finance Corporation	Industrial Development Board
Demand Accounts		\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -	\$ -
Wells Fargo MMA		17,571,197	17,571,197				
BTH Bank MMA		245,129	245,129				
BTH Bank ICS		1,723,011	1,723,011				
Southside Bank MMA		2,326,488	1,320,192	1,006,295			
Texas Class		9,934,422	1,868,251	8,066,171			
TexPool		213,689	171,178	8,040	13,091		21,380
Comerica Bank	10/22/15	2,021,203	2,021,203				
Comerica Bank	02/08/16	1,715,113	1,715,113				
Inter National Bank	05/08/16	504,195	504,195				
BTH Bank	05/20/16	1,006,059	1,006,059				
Inter National Bank	08/08/16	1,012,033	1,012,033				
BTH Bank	08/20/16	1,006,494	1,006,494				
Independent Bank	08/26/16	1,000,000	1,000,000				
Comerica Bank	09/13/16	2,005,046	2,005,046				
Inter National Bank	11/08/16	1,519,166	1,519,166				
BTH Bank	11/20/16	1,007,363	1,007,363				
FHLB	11/23/16	946,465	946,465				
Dallas Co Schools - Muni	12/01/16	1,041,199	1,041,199				
Inter National Bank	02/08/17	2,028,262	2,028,262				
Southside Bank	02/27/17	1,000,000	1,000,000				
Comerica Bank	03/13/17	1,004,343	1,004,343				
Inter National Bank	05/08/17	1,018,203	1,018,203				
Comerica Bank	06/13/17	1,005,001	1,005,001				
Texas Security Bank	08/25/17	1,000,000	1,000,000				
Comerica Bank	09/13/17	1,005,710	905,139			100,571	
Texas Security Bank	11/25/18	1,000,000	1,000,000				
Total		\$ 56,359,790	\$ 47,144,242	\$ 9,080,506	\$ 13,091	\$ 100,571	\$ 21,380

**Market Value
September 30, 2015**

	Maturity	Total	Concentration Fund	Capital Projects	Health Facilities Corporation	Health Finance Corporation	Industrial Development Board
Wells Fargo DDA		\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -	\$ -
Wells Fargo MMA		17,571,197	17,571,197				
BTH Bank MMA		245,129	245,129				
BTH Bank ICS		1,723,011	1,723,011				
Southside Bank MMA		2,326,488	1,320,192	1,006,295			
Texas Class		9,934,422	1,868,251	8,066,171			
TexPool		213,689	171,178	8,040	13,091		21,380
		-					
Comerica Bank	10/22/15	2,021,203	2,021,203				
Comerica Bank	02/08/16	1,715,113	1,715,113				
Inter National Bank	05/08/16	504,195	504,195				
BTH Bank	05/20/16	1,006,059	1,006,059				
Inter National Bank	08/08/16	1,012,033	1,012,033				
BTH Bank	08/20/16	1,006,494	1,006,494				
Independent Bank	08/26/16	1,000,000	1,000,000				
Comerica Bank	09/13/16	2,005,046	2,005,046				
Inter National Bank	11/08/16	1,519,166	1,519,166				
BTH Bank	11/20/16	1,007,363	1,007,363				
FHLB	11/23/16	946,395	946,395				
Dallas Co Schools - Muni	12/01/16	1,043,549	1,043,549				
Inter National Bank	02/08/17	2,028,262	2,028,262				
Southside Bank	02/27/17	1,000,000	1,000,000				
Comerica Bank	03/13/17	1,004,343	1,004,343				
Inter National Bank	05/08/17	1,018,203	1,018,203				
Comerica Bank	06/13/17	1,005,001	1,005,001				
Texas Security Bank	08/25/17	1,000,000	1,000,000				
Comerica Bank	09/13/17	1,005,710	905,139			100,571	
Texas Security Bank	11/25/18	1,000,000	1,000,000				
Total		\$ 56,362,070	\$ 47,146,521	\$ 9,080,506	\$ 13,091	\$ 100,571	\$ 21,380

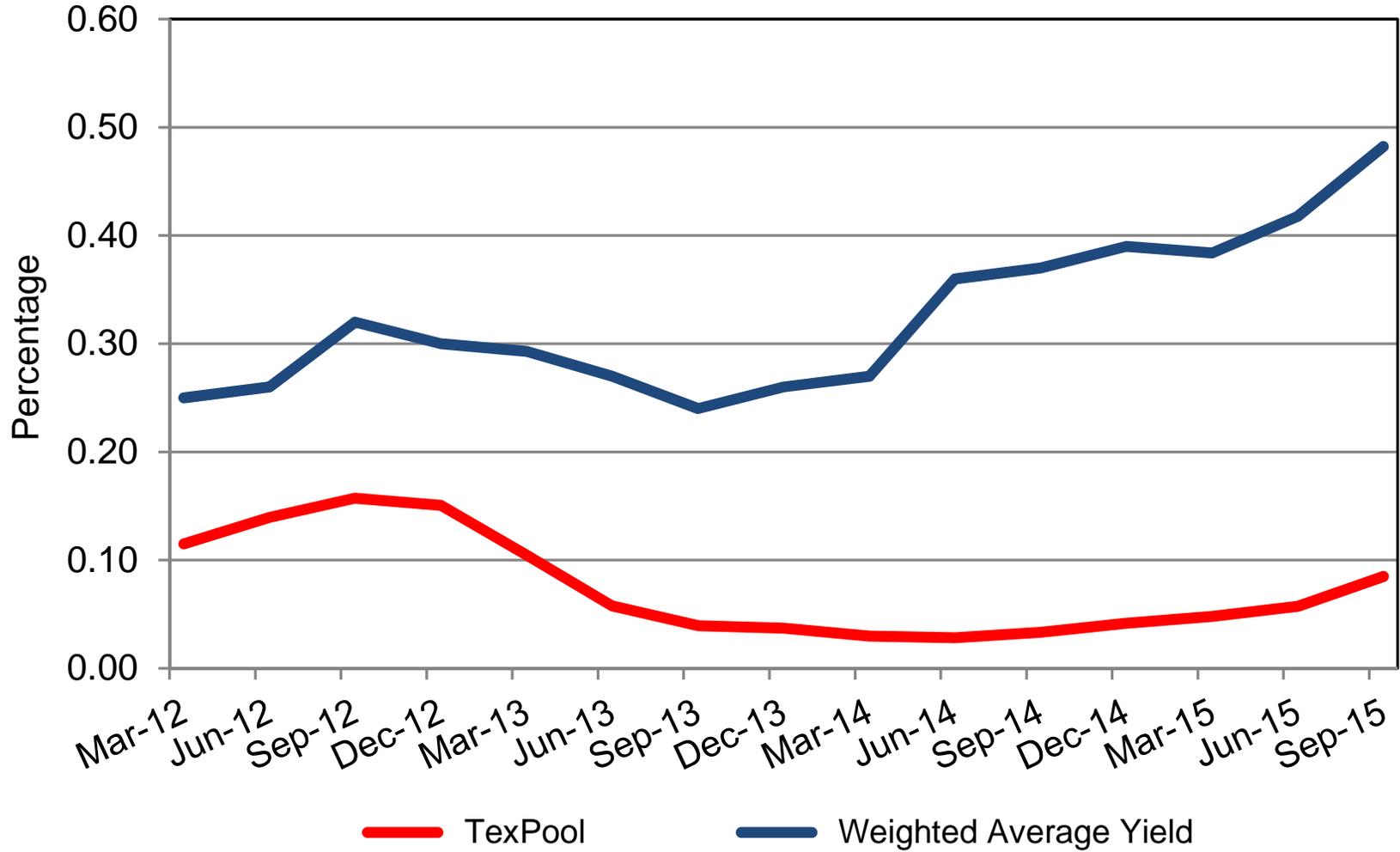
**Book Value
June 30, 2015**

	Maturity	Total	Concentration Fund	Capital Projects	Health Facilities Corporation	Health Finance Corporation	Industrial Development Board
Wells Fargo DDA		\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -	\$ -
Wells Fargo MMA		18,821,838	18,821,838				
Bank Texas MMA		245,099	245,099				
Bank Texas ICS		3,019,566	3,019,566				
Southside Bank MMA		2,325,191	1,319,457	1,005,735			
Texas Class		10,664,368	994,013	9,670,355			
TexPool		79,647	37,143	8,038	13,088		21,378
Comerica CD	08/06/15	1,003,860	1,003,860				
Comerica CD	08/06/15	2,710,423	2,710,423				
Comerica CD	10/22/15	2,018,403	2,018,403				
Comerica CD	02/08/16	1,712,694	1,712,694				
Inter National Bank CD	05/08/16	503,401	503,401				
BTH Bank CD	05/20/16	1,004,286	1,004,286				
Inter National Bank CD	08/08/16	1,009,754	1,009,754				
BTH Bank CD	08/20/16	1,004,593	1,004,593				
Comerica CD	09/13/16	2,002,522	2,002,522				
Inter National Bank CD	11/08/16	1,515,534	1,515,534				
BTH Bank CD	11/20/16	1,005,207	1,005,207				
Dallas Co Schools - Muni	12/01/16	1,042,531	1,042,531				
Inter National Bank CD	02/08/17	2,022,904	2,022,904				
Comerica CD	03/13/17	1,002,169	1,002,169				
Inter National Bank CD	05/08/17	1,014,746	1,014,746				
Comerica CD	06/13/17	1,002,497	1,002,497				
Comerica CD	09/13/17	1,002,851	902,566			100,285	
Total		\$ 58,234,083	\$ 47,415,204	\$ 10,684,128	\$ 13,088	\$ 100,285	\$ 21,378

**Market Value
June 30, 2015**

	Maturity	Total	Concentration Fund	Capital Projects	Health Facilities Corporation	Health Finance Corporation	Industrial Development Board
Wells Fargo DDA		\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -	\$ -
Bank Texas MMA		245,099	245,099				
Bank Texas ICS		3,019,566	3,019,566				
Wells Fargo MMA		18,821,838	18,821,838				
Southside Bank MMA		2,325,191	1,319,457	1,005,735			
Texas Class		10,664,368	994,013	9,670,355			
TexPool		79,647	37,143	8,038	13,088		21,378
Comerica CD	08/06/15	1,003,860	1,003,860				
Comerica CD	08/06/15	2,710,423	2,710,423				
Comerica CD	10/22/15	2,018,403	2,018,403				
Comerica CD	02/08/16	1,712,694	1,712,694				
Inter National Bank CD	05/08/16	503,401	503,401				
BTH Bank CD	05/20/16	1,004,286	1,004,286				
Inter National Bank CD	08/08/16	1,009,754	1,009,754				
BTH Bank CD	08/20/16	1,004,593	1,004,593				
Comerica CD	09/13/16	2,002,522	2,002,522				
Inter National Bank CD	11/08/16	1,515,534	1,515,534				
BTH Bank CD	11/20/16	1,005,207	1,005,207				
Dallas Co Schools - Muni	12/01/16	1,042,245	1,042,245				
Inter National Bank CD	02/08/17	2,022,904	2,022,904				
Comerica CD	03/13/17	1,002,169	1,002,169				
Inter National Bank CD	05/08/17	1,014,746	1,014,746				
Comerica CD	06/13/17	1,002,497	1,002,497				
Comerica CD	09/13/17	1,002,851	902,566			100,285	
Total		\$ 58,233,797	\$ 47,414,918	\$ 10,684,128	\$ 13,088	\$ 100,285	\$ 21,378

Total Portfolio Performance





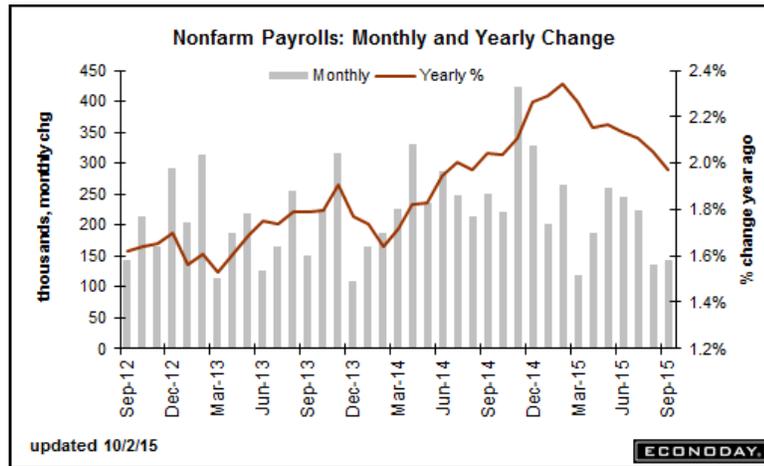
Valley View Consulting, L.L.C.

Market Outlook

October 2, 2015

Fasten your seat belts. This roller coaster ride is likely to remain wild for the rest of the year. The Federal Open Market Committee (FOMC) is not confirming a positive economic outlook by raising the Fed Funds Rate and is causing concerns that either the global situation is playing a huge role in their decision or that they see signs that the domestic recovery is losing strength. The FOMC has historically based their actions on domestic strength or weakness, but recent conditions were also considered in delaying liftoff. Many economists are speculating that the FOMC missed an opportunity to raise rates several months ago and now face an increasing headwind from the International Monetary Fund (IMF), the World Bank, and others that plead the case that a U.S. rate increase would further destabilize world markets. But after their decision to defer an increase, the U.S. markets have experienced volatility not seen since the recovery began. Day-to-day swings in stock prices and interest rates depict a market that cannot seem to find its compass and the uncertainty is scaring away investors looking for safety and stability. Nervousness ramped up as the Employment numbers for September were a major disappointment and July/August reports were adjusted downward. The market has been shocked by the Employment report and speculation is shifting the next FOMC action into 2016.

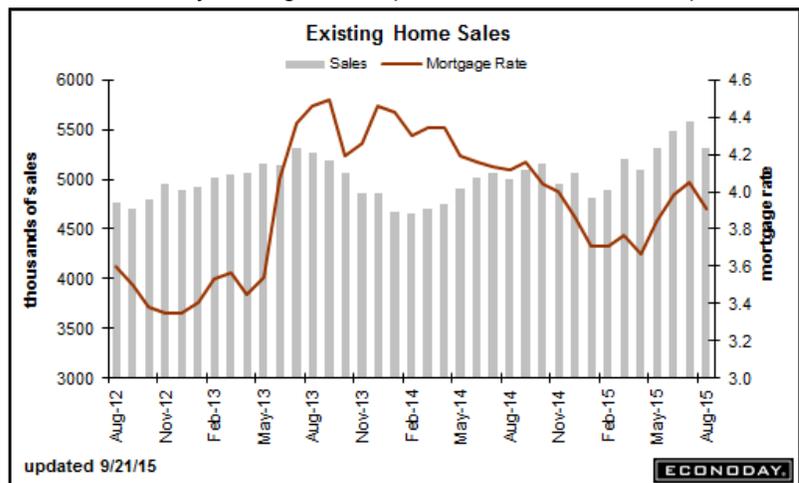
The Employment report for September was much weaker than expected. August reported that 142,000



jobs were created (compared to 200,000 anticipated). The previous two reports were revised downward, with August at +136,000 (previously reported at +173,000) and July revised to +223,000 (previously reported at +245,000). Over the last three months, the average monthly gain is +167,000. The Unemployment Rate remained at 5.1%. The Average Hourly Earnings Rate was flat in August. The U6 rate (or the under-employed rate) dropped to 10% from the previous 10.3%. This is the lowest level since May 2008.

The housing sector has had a good summer with realtors and homebuilders reporting optimism for the near-term. The Housing Market Index was at a 10-year high in September and realtors report that

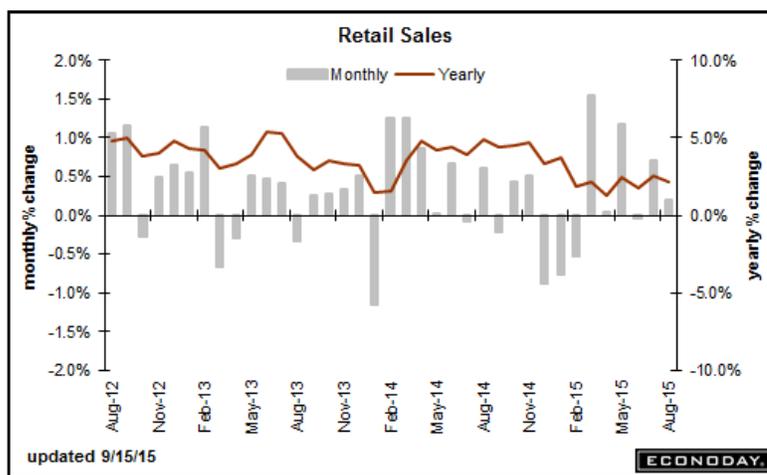
showings continue to increase. Housing Starts fell 3% in August, but followed very strong reports for June/July. Housing Permits surged 3.5% in August and the number of issued permits is at the highest level since 2008. Existing Home Sales fell 4.8% in August, but the softness follows very strong reports during June/July (July saw an eight-year high). Supply of Existing Homes rose to 5.2 months in August from July's report of 4.9 months. The median price of Existing homes sold rose 4.7%. New Home Sales rose 5.7% in August after rising 5.4% in July.



The August report was the best since February 2008. Year-over-year, the New Homes Sales are up 22.0%. Supply of New Homes has fallen to 4.7 months from the 4.9 months reported for July and the median price rose 0.5% in August. But on the disappointing side, the S&P Case-Shiller report of home prices in the 20 metropolitan areas saw a contraction of 0.2% in July, with twelve of the twenty cities showing price declines. However, the Federal Housing Finance Agency (FHFA), the entity that analyzes all domestic home prices, reported an increase of 0.6% during July.

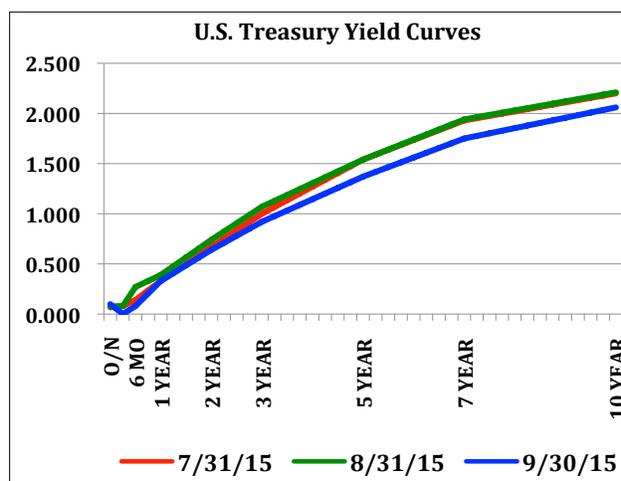
The production side of the economy was mixed during the period. The final release of Gross Domestic Product (GDP) for second quarter was reported at +3.7% or a dramatic improvement from the +0.6% report for the first quarter. Business Inventories rose 0.1% in July and were on the heavy side, but most of the build-up was in the auto sector. (When the auto companies posted that sales rose double digits in September, it appears that the inventory build was justified). Durable Goods Orders declined 0.2% in August after rising 1.9% in July and once again the auto and aircraft industries were skewing results. On the less positive side, purchasing managers on both the manufacturing and service side seem less optimistic about future production prospects. The Producer Price Index (PPI) was flat in August (following a rise of 0.2% in July) and the Consumer Price Index fell 0.1% in August after rising 0.1% in July.

On the consumption front, Retail Sales rose 0.2% in August after rising 0.7% in July. Again the automotive sector reports bode well for continued improvement in the September sales numbers. Consumers' attitudes (as measured by the Consumer Confidence and Consumer Sentiment reports) show that consumers are upbeat and seemingly unaffected by the market volatility that we have seen lately. Consumer Credit reports (credit card purchases) have had the best results during the recovery and demonstrate a consumer that is willing to spend. The critical Holiday period will benefit if this attitude continues.



When the FOMC met during September and decided to keep the Fed Funds rate unchanged, they cited uncertainties related to global economic conditions as one of their reasons for waiting. In the quarterly release of FOMC outlook following adjournment of the meeting, the FOMC acknowledged that the labor market has seen "solid improvement", but wage pressures are moving lower. They lowered their projections for the pace of near-term growth.

Current Government Security Investment Pool rates increased, ranging in the +/-0.07% to +/-0.13% area in September. Certificate of Deposit rates finished September with the 2-year between 0.72% and 1.00%, better than August's 0.72% to 0.85%. U.S. Treasury and Agency rates moved up and down during the month. The 1-year Treasury hit a high of 0.47%, but fell back to 0.33% (after starting the month at 0.39%). The two-year rose to 0.82% before falling back to 0.64% by the end of September (after starting the month at 0.70%). As this piece is going to print, interest rates across the curve are experiencing a significant drop following Employment reports and October is likely to be a challenging month.



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