



*City of DeSoto*

**QUARTERLY INVESTMENT REPORT**

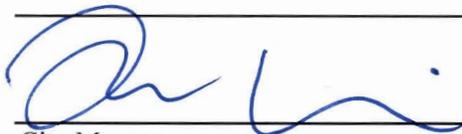
**For the Quarter Ended**

**March 31, 2016**

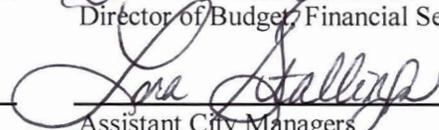
**Prepared by**

**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.

  
\_\_\_\_\_  
City Manager

  
\_\_\_\_\_  
Director of Budget, Financial Services Department

  
\_\_\_\_\_  
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>March 31, 2016</u>		<u>December 31, 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	0.22%	37,335,419	37,335,419	33,170,260	33,170,260
Pools	0.54%	8,439,970	8,439,970	10,029,405	10,029,405
CDs/Securities	0.86%	20,424,124	20,424,770	22,109,324	22,104,845
<b>Totals</b>		<b>\$ 66,699,513</b>	<b>\$ 66,700,159</b>	<b>\$ 65,808,989</b>	<b>\$ 65,804,510</b>

Average Yield (1)		Fiscal Year-to-Date Average Yield (2)	
Total Portfolio	0.45%	Total Portfolio	0.43%
Rolling Three Mo. Treas. Yield	0.29%	Rolling Three Mo. Treas. Yield	0.21%
Rolling Six Mo. Treas. Yield	0.39%	Rolling Six Mo. Treas. Yield	0.32%
		Quarterly TexPool Yield	0.26%
Quarterly Interest Income	\$ 71,947	Approximate	
Year-to-date Interest Income	\$ 137,633	Approximate	

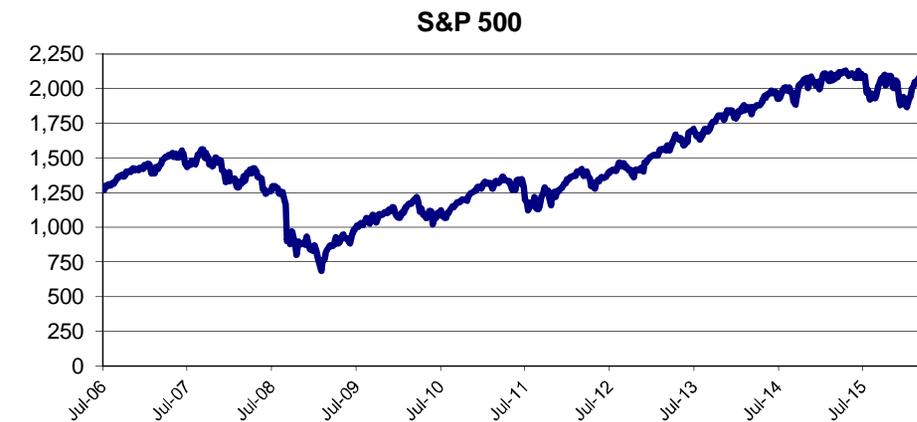
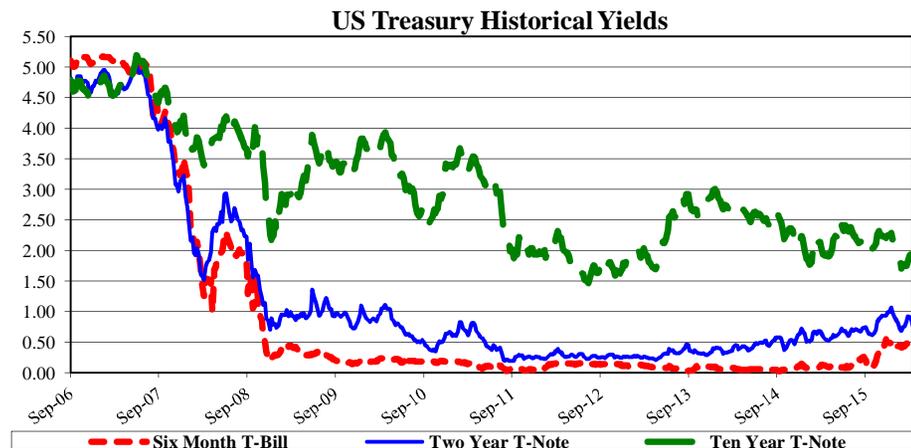
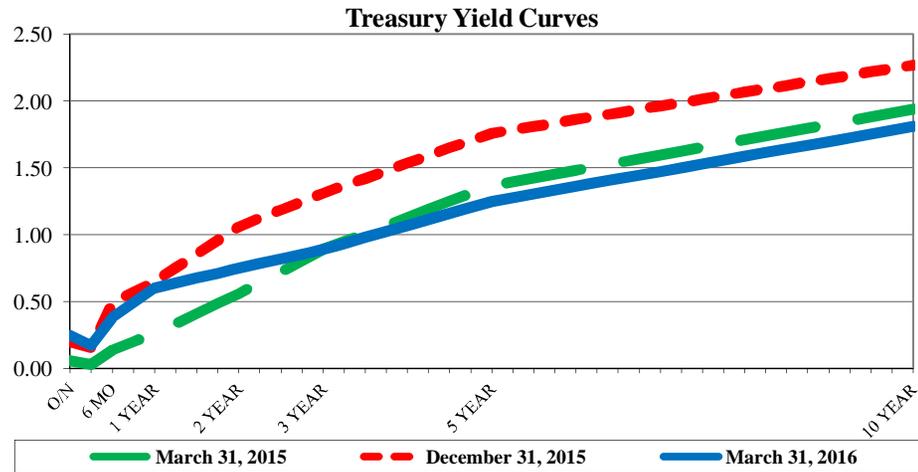
(1) Average Yield calculated using quarter end report yields and adjusted book values and does not reflect a total return analysis or account for advisory fees.

(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.

## Economic Overview

3/31/2016

The Federal Open Market Committee (FOMC) maintained the Fed Funds target range of 0.25% - 0.50% (actual Fed Funds are trading +/-37 bps). The March FOMC Meeting Statement (and subsequent releases) indicated concerns about economic growth prospects and reported lower projections than previously set. The futures market anticipates limited probability of additional rate increases prior to December. International concerns dominate the uncertainty. US data reflects continuing, modest US growth. The Yield Curve flattened due to the longer-term, lackluster worldwide expansion outlook. Taxable municipal bonds or CDs offer the best interest earnings opportunity, if available.



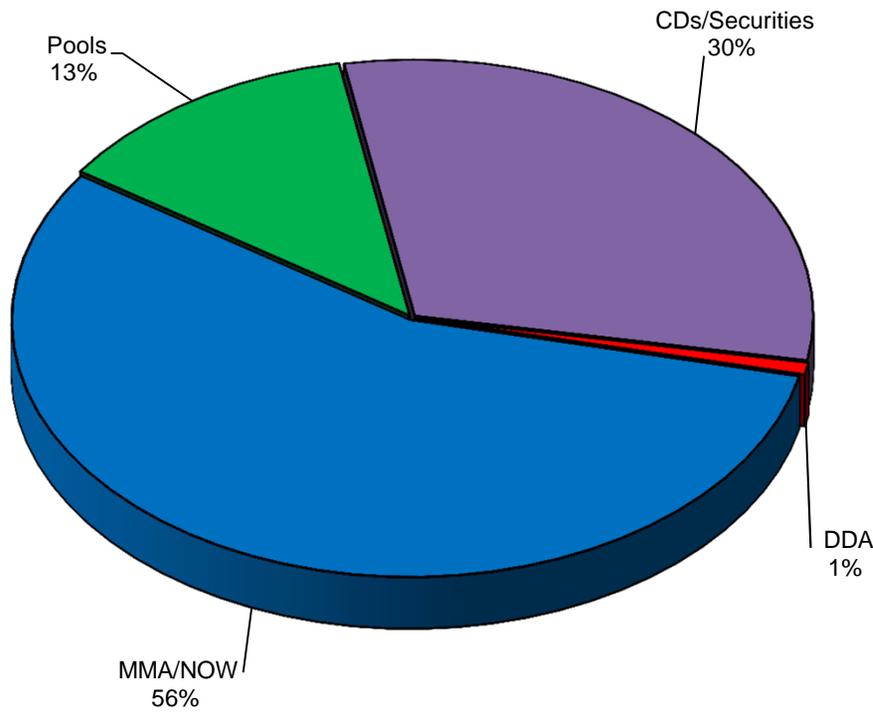
**Detail of Investment Holdings**  
**March 31, 2016**

Description	Ratings	Coupon/ Discount	Maturity Date	Settlement Date	Par Value	Book Value	Market Price	Market Value	Life (days)	Yield
Wells Fargo DDA		0.00%	04/01/16	03/31/16	\$ 500,000	\$ 500,000	1	\$ 500,000	1	0.00%
Wells Fargo MMA		0.10%	04/01/16	03/31/16	28,028,247	28,028,247	1	28,028,247	1	0.10%
BTH Bank MMA		0.87%	04/01/16	03/31/16	245,181	245,181	1	245,181	1	0.87%
BTH Bank ICS		0.87%	04/01/16	03/31/16	1,729,908	1,729,908	1	1,729,908	1	0.87%
Southside Bank MMA		0.48%	04/01/16	03/31/16	7,332,083	7,332,083	1	7,332,083	1	0.48%
Texas Class	AAAm	0.54%	04/01/16	03/31/16	8,319,255	8,319,255	1	8,319,255	1	0.54%
TexPool	AAAm	0.33%	04/01/16	03/31/16	120,715	120,715	1	120,715	1	0.33%
Inter National Bank CD		0.63%	05/08/16	05/08/14	505,768	505,768	100.00	505,768	38	0.63%
BTH Bank CDARS		0.70%	05/20/16	11/20/14	1,009,596	1,009,596	100.00	1,009,596	50	0.70%
Inter National Bank CD		0.90%	08/08/16	05/08/14	1,016,558	1,016,558	100.00	1,016,558	130	0.90%
BTH Bank CDARS		0.75%	08/20/16	11/20/14	1,010,285	1,010,285	100.00	1,010,285	142	0.75%
Independent Bank CD		0.50%	08/26/16	08/26/15	1,002,522	1,002,522	100.00	1,002,522	148	0.50%
Comerica Bank CD		0.50%	09/13/16	03/13/15	2,010,050	2,010,050	100.00	2,010,050	166	0.50%
Inter National Bank CD		0.95%	11/08/16	05/08/14	1,526,376	1,526,376	100.00	1,526,376	222	0.95%
BTH Bank CDARS		0.85%	11/20/16	11/20/14	1,011,665	1,011,665	100.00	1,011,665	234	0.85%
FHLB	Aaa/AA+	0.63%	11/23/16	08/26/15	945,000	945,827	100.05	945,444	237	0.49%
Dallas Co Schools - Muni	Aa3	1.50%	12/01/16	05/22/14	1,035,000	1,038,548	100.38	1,038,912	245	0.98%
Inter National Bank CD		1.05%	02/08/17	05/08/14	2,038,905	2,038,905	100.00	2,038,905	314	1.05%
Southside Bank CD		0.58%	02/27/17	08/25/15	1,002,926	1,002,926	100.00	1,002,926	333	0.58%
Comerica Bank CD		0.86%	03/13/17	03/13/15	1,008,658	1,008,658	100.00	1,008,658	347	0.86%
Univ of N. TX - Muni	Aa2	1.04%	04/15/17	10/21/15	250,000	250,000	100.27	250,665	380	1.04%
Inter National Bank CD		1.35%	05/08/17	05/08/14	1,025,076	1,025,076	100.00	1,025,076	403	1.35%
Comerica Bank CD		0.99%	06/13/17	03/13/15	1,009,972	1,009,972	100.00	1,009,972	439	0.99%
Texas Security Bank CD		1.10%	08/25/17	08/25/15	1,000,000	1,000,000	100.00	1,000,000	512	1.10%
Comerica Bank CD		1.13%	09/13/17	03/13/15	1,011,390	1,011,390	100.00	1,011,390	531	1.13%
Texas Security Bank CD		1.15%	11/25/17	08/25/15	1,000,000	1,000,000	100.00	1,000,000	604	1.15%
					<b>\$ 66,695,138</b>	<b>\$ 66,699,513</b>		<b>\$ 66,700,159</b>	<b>88</b>	<b>0.45%</b>
									<b>(1)</b>	<b>(2)</b>

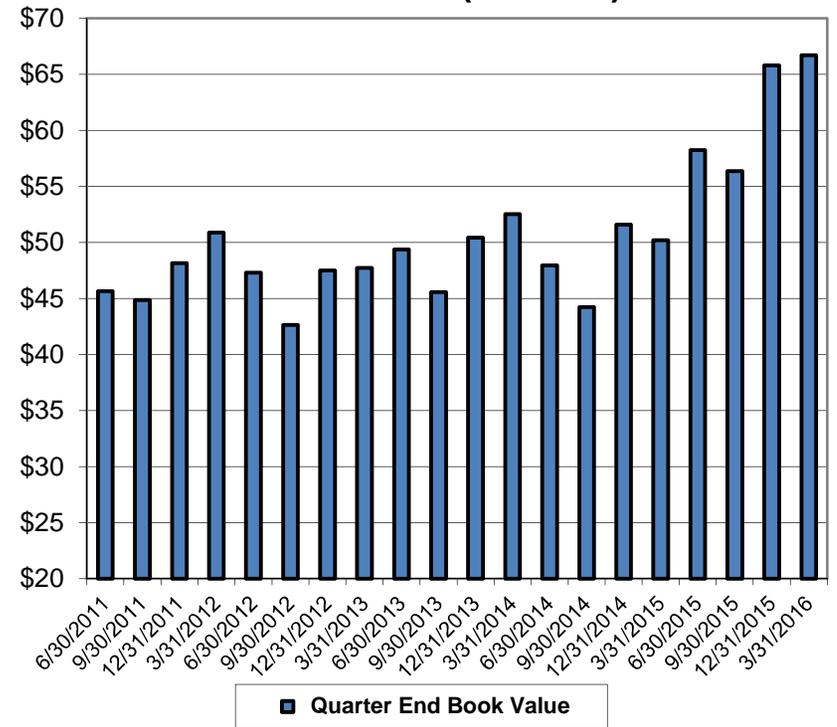
(1) **Weighted average life** - For purposes of calculating weighted average life, bank accounts, pools and money market funds are assumed to have an one day maturity.

(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 (Millions)



## Book Value Comparison

Description	Coupon/ Discount	Maturity Date	December 31, 2015		Purchases/ Adjustments	Sales/Adjust/ Call/Maturity	March 31, 2016	
			Par Value	Book Value			Par Value	Book Value
Wells Fargo DDA	0.00%	04/01/16	\$ 500,000	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ 500,000
Wells Fargo MMA	0.10%	04/01/16	28,871,096	28,871,096		(842,849)	28,028,247	28,028,247
BTH Bank MMA	0.87%	04/01/16	245,158	245,158	23		245,181	245,181
BTH Bank ICS	0.87%	04/01/16	1,725,900	1,725,900	4,008		1,729,908	1,729,908
Southside Bank MMA	0.48%	04/01/16	2,328,106	2,328,106	5,003,977		7,332,083	7,332,083
Texas Class	0.54%	04/01/16	9,815,644	9,815,644		(1,496,389)	8,319,255	8,319,255
TexPool	0.33%	04/01/16	213,761	213,761		(93,046)	120,715	120,715
Comerica Bank CD	0.56%	02/08/16	1,717,508	1,717,508		(1,717,508)	-	-
Inter National Bank CD	0.63%	05/08/16	504,981	504,981	787		505,768	505,768
BTH Bank CDARS	0.70%	05/20/16	1,007,836	1,007,836	1,760		1,009,596	1,009,596
Inter National Bank CD	0.90%	08/08/16	1,014,293	1,014,293	2,265		1,016,558	1,016,558
BTH Bank CDARS	0.75%	08/20/16	1,008,398	1,008,398	1,887		1,010,285	1,010,285
Independent Bank CD	0.50%	08/26/16	1,001,260	1,001,260	1,262		1,002,522	1,002,522
Comerica Bank CD	0.50%	09/13/16	2,007,547	2,007,547	2,504		2,010,050	2,010,050
Inter National Bank CD	0.95%	11/08/16	1,522,767	1,522,767	3,610		1,526,376	1,526,376
BTH Bank CDARS	0.85%	11/20/16	1,009,523	1,009,523	2,142		1,011,665	1,011,665
FHLB	0.63%	11/23/16	945,000	946,144		(318)	945,000	945,827
Dallas Co Schools - Muni	1.50%	12/01/16	1,035,000	1,039,866		(1,318)	1,035,000	1,038,548
Inter National Bank CD	1.05%	02/08/17	2,033,576	2,033,576	5,328		2,038,905	2,038,905
Southside Bank CD	0.58%	02/27/17	1,001,462	1,001,462	1,464		1,002,926	1,002,926
Comerica Bank CD	0.86%	03/13/17	1,006,498	1,006,498	2,160		1,008,658	1,008,658
Univ of N. TX - Muni	1.04%	04/15/17	250,000	250,000			250,000	250,000
Inter National Bank CD	1.35%	05/08/17	1,021,634	1,021,634	3,442		1,025,076	1,025,076
Comerica Bank CD	0.99%	06/13/17	1,007,484	1,007,484	2,489		1,009,972	1,009,972
Texas Security Bank CD	1.10%	08/25/17	1,000,000	1,000,000			1,000,000	1,000,000
Comerica Bank CD	1.13%	09/13/17	1,008,546	1,008,546	2,844		1,011,390	1,011,390
Texas Security Bank CD	1.15%	11/25/17	1,000,000	1,000,000			1,000,000	1,000,000
<b>TOTAL</b>			<b>\$ 65,802,978</b>	<b>\$ 65,808,989</b>	<b>\$ 5,041,951</b>	<b>\$ (4,151,427)</b>	<b>\$ 66,695,138</b>	<b>\$ 66,699,513</b>

## Market Value Comparison

Description	Coupon/ Discount	Maturity Date	December 31, 2015		Qtr to Qtr Change	March 31, 2016	
			Par Value	Market Value		Par Value	Market Value
Wells Fargo DDA	0.00%	04/01/16	\$ 500,000	\$ 500,000	\$ —	\$ 500,000	\$ 500,000
Wells Fargo MMA	0.10%	04/01/16	28,871,096	28,871,096	(842,849)	28,028,247	28,028,247
BTH Bank MMA	0.87%	04/01/16	245,158	245,158	23	245,181	245,181
BTH Bank ICS	0.87%	04/01/16	1,725,900	1,725,900	4,008	1,729,908	1,729,908
Southside Bank MMA	0.48%	04/01/16	2,328,106	2,328,106	5,003,977	7,332,083	7,332,083
Texas Class	0.54%	04/01/16	9,815,644	9,815,644	(1,496,389)	8,319,255	8,319,255
TexPool	0.33%	04/01/16	213,761	213,761	(93,046)	120,715	120,715
Comerica Bank CD	0.56%	02/08/16	1,717,508	1,717,508	(1,717,508)	—	—
Inter National Bank CD	0.63%	05/08/16	504,981	504,981	787	505,768	505,768
BTH Bank CDARS	0.70%	05/20/16	1,007,836	1,007,836	1,760	1,009,596	1,009,596
Inter National Bank CD	0.90%	08/08/16	1,014,293	1,014,293	2,265	1,016,558	1,016,558
BTH Bank CDARS	0.75%	08/20/16	1,008,398	1,008,398	1,887	1,010,285	1,010,285
Independent Bank CD	0.50%	08/26/16	1,001,260	1,001,260	1,262	1,002,522	1,002,522
Comerica Bank CD	0.50%	09/13/16	2,007,547	2,007,547	2,504	2,010,050	2,010,050
Inter National Bank CD	0.95%	11/08/16	1,522,767	1,522,767	3,610	1,526,376	1,526,376
BTH Bank CDARS	0.85%	11/20/16	1,009,523	1,009,523	2,142	1,011,665	1,011,665
FHLB	0.63%	11/23/16	945,000	943,149	2,295	945,000	945,444
Dallas Co Schools - Muni	1.50%	12/01/16	1,035,000	1,039,078	(166)	1,035,000	1,038,912
Inter National Bank CD	1.05%	02/08/17	2,033,576	2,033,576	5,328	2,038,905	2,038,905
Southside Bank CD	0.58%	02/27/17	1,001,462	1,001,462	1,464	1,002,926	1,002,926
Comerica Bank CD	0.86%	03/13/17	1,006,498	1,006,498	2,160	1,008,658	1,008,658
Univ of N. TX - Muni	1.04%	04/15/17	250,000	249,305	1,360	250,000	250,665
Inter National Bank CD	1.35%	05/08/17	1,021,634	1,021,634	3,442	1,025,076	1,025,076
Comerica Bank CD	0.99%	06/13/17	1,007,484	1,007,484	2,489	1,009,972	1,009,972
Texas Security Bank CD	1.10%	08/25/17	1,000,000	1,000,000		1,000,000	1,000,000
Comerica Bank CD	1.13%	09/13/17	1,008,546	1,008,546	2,844	1,011,390	1,011,390
Texas Security Bank CD	1.15%	11/25/17	1,000,000	1,000,000		1,000,000	1,000,000
<b>TOTAL</b>			<b>\$ 65,802,978</b>	<b>\$ 65,804,510</b>	<b>\$ 895,649</b>	<b>\$ 66,695,138</b>	<b>\$ 66,700,159</b>

**Book Value**  
**March 31, 2016**

	<b>Maturity</b>	<b>Total</b>	<b>Concentration Fund</b>	<b>Capital Projects</b>	<b>Health Facilities Corporation</b>	<b>Housing Finance Corporation</b>	<b>Industrial Development Authority</b>
Wells Fargo DDA		\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -	\$ -
Wells Fargo MMA		28,028,247	28,028,247				
BTH Bank MMA		245,181	245,181				
BTH Bank ICS		1,729,908	1,729,908				
Southside Bank MMA		7,332,083	6,323,969	1,008,114			
Texas Class		8,319,255	413,526	7,905,729			
TexPool		120,715	78,157	8,048	13,105		21,405
Inter National Bank CD	05/08/16	505,768	505,768				
BTH Bank CDARS	05/20/16	1,009,596	1,009,596				
Inter National Bank CD	08/08/16	1,016,558	1,016,558				
BTH Bank CDARS	08/20/16	1,010,285	1,010,285				
Independent Bank CD	08/26/16	1,002,522	1,002,522				
Comerica Bank CD	09/13/16	2,010,050	2,010,050				
Inter National Bank CD	11/08/16	1,526,376	1,526,376				
BTH Bank CDARS	11/20/16	1,011,665	1,011,665				
FHLB	11/23/16	945,827	945,827				
Dallas Co Schools - Muni	12/01/16	1,038,548	1,038,548				
Inter National Bank CD	02/08/17	2,038,905	2,038,905				
Southside Bank CD	02/27/17	1,002,926	1,002,926				
Comerica Bank CD	03/13/17	1,008,658	1,008,658				
Univ of N. TX - Muni	04/15/17	250,000	250,000				
Inter National Bank CD	05/08/17	1,025,076	1,025,076				
Comerica Bank CD	06/13/17	1,009,972	1,009,972				
Texas Security Bank CD	08/25/17	1,000,000	1,000,000				
Comerica Bank CD	09/13/17	1,011,390	910,251			101,139	
Texas Security Bank CD	11/25/17	1,000,000	1,000,000				
<b>Total</b>		<b>\$ 66,699,513</b>	<b>\$ 57,641,972</b>	<b>\$ 8,921,892</b>	<b>\$ 13,105</b>	<b>\$ 101,139</b>	<b>\$ 21,405</b>

**Market Value  
March 31, 2016**

	<b>Maturity</b>	<b>Total</b>	<b>Concentration Fund</b>	<b>Capital Projects</b>	<b>Health Facilities Corporation</b>	<b>Housing Finance Corporation</b>	<b>Industrial Development Authority</b>
Wells Fargo DDA		\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -	\$ -
Wells Fargo MMA		28,028,247	28,028,247				
BTH Bank MMA		245,181	245,181				
BTH Bank ICS		1,729,908	1,729,908				
Southside Bank MMA		7,332,083	6,323,969	1,008,114			
Texas Class		8,319,255	413,526	7,905,729			
TexPool		120,715	78,157	8,048	13,105		21,405
Inter National Bank CD	05/08/16	505,768	505,768				
BTH Bank CDARS	05/20/16	1,009,596	1,009,596				
Inter National Bank CD	08/08/16	1,016,558	1,016,558				
BTH Bank CDARS	08/20/16	1,010,285	1,010,285				
Independent Bank CD	08/26/16	1,002,522	1,002,522				
Comerica Bank CD	09/13/16	2,010,050	2,010,050				
Inter National Bank CD	11/08/16	1,526,376	1,526,376				
BTH Bank CDARS	11/20/16	1,011,665	1,011,665				
FHLB	11/23/16	945,444	945,444				
Dallas Co Schools - Muni	12/01/16	1,038,912	1,038,912				
Inter National Bank CD	02/08/17	2,038,905	2,038,905				
Southside Bank CD	02/27/17	1,002,926	1,002,926				
Comerica Bank CD	03/13/17	1,008,658	1,008,658				
Univ of N. TX - Muni	04/15/17	250,665	250,665				
Inter National Bank CD	05/08/17	1,025,076	1,025,076				
Comerica Bank CD	06/13/17	1,009,972	1,009,972				
Texas Security Bank CD	08/25/17	1,000,000	1,000,000				
Comerica Bank CD	09/13/17	1,011,390	910,251			101,139	
Texas Security Bank CD	11/25/17	1,000,000	1,000,000				
<b>Total</b>		<b>\$ 66,700,159</b>	<b>\$ 57,642,619</b>	<b>\$ 8,921,892</b>	<b>\$ 13,105</b>	<b>\$ 101,139</b>	<b>\$ 21,405</b>

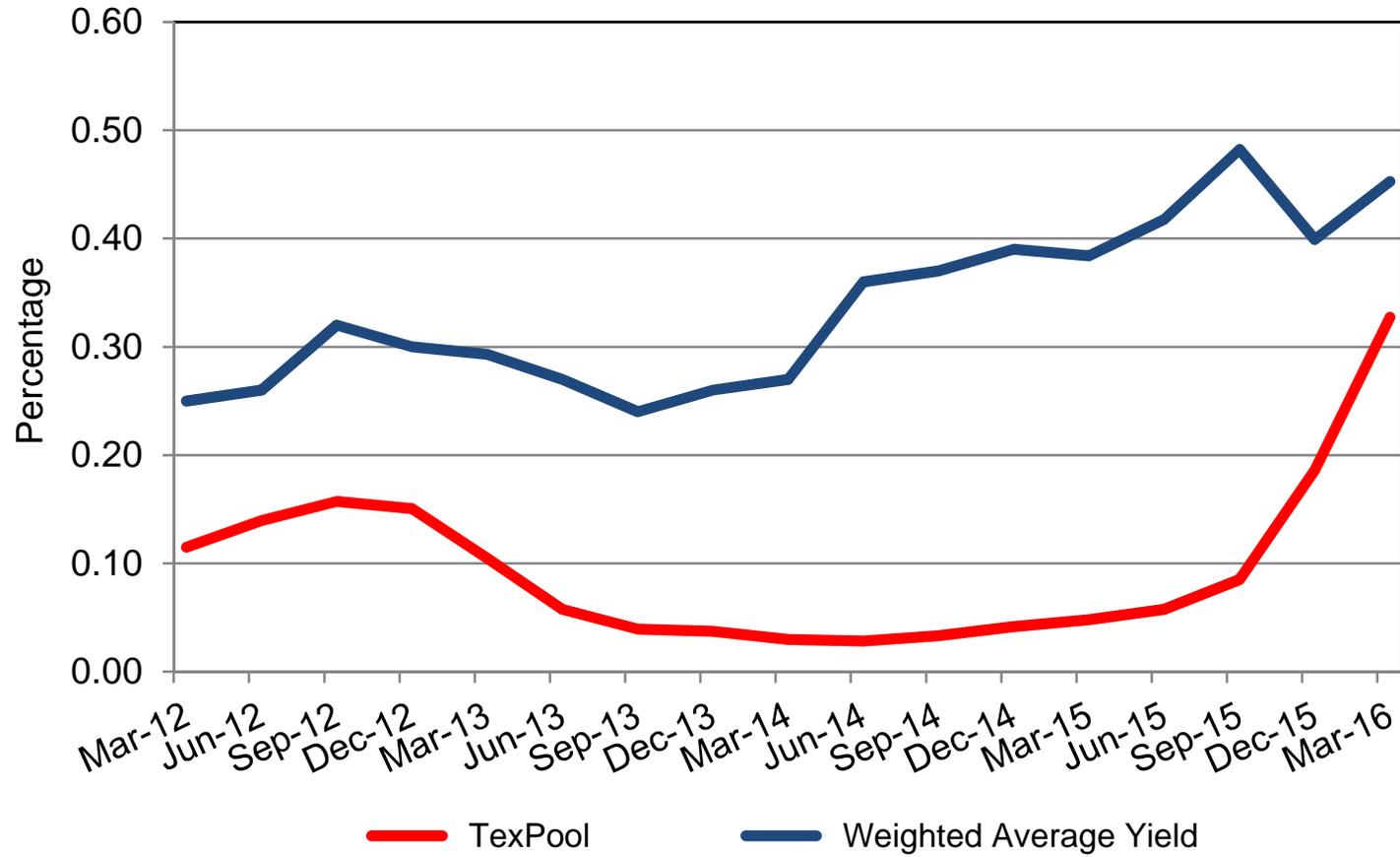
**Book Value  
December 31, 2015**

	<b>Maturity</b>	<b>Total</b>	<b>Concentration Fund</b>	<b>Capital Projects</b>	<b>Health Facilities Corporation</b>	<b>Housing Finance Corporation</b>	<b>Industrial Development Authority</b>
Wells Fargo DDA		\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -	\$ -
Wells Fargo MMA		28,871,096	28,871,096				
BTH Bank MMA		245,158	245,158				
BTH Bank ICS		1,725,900	1,725,900				
Southside Bank MMA		2,328,106	1,321,106	1,007,000			
Texas Class		9,815,644	1,869,425	7,946,219			
TexPool		213,761	171,235	8,042	13,095		21,389
Comerica Bank CD	02/08/16	1,717,508	1,717,508				
Inter National Bank CD	05/08/16	504,981	504,981				
BTH Bank CDARS	05/20/16	1,007,836	1,007,836				
Inter National Bank CD	08/08/16	1,014,293	1,014,293				
BTH Bank CDARS	08/20/16	1,008,398	1,008,398				
Independent Bank CD	08/26/16	1,001,260	1,001,260				
Comerica Bank CD	09/13/16	2,007,547	2,007,547				
Inter National Bank CD	11/08/16	1,522,767	1,522,767				
BTH Bank CDARS	11/20/16	1,009,523	1,009,523				
FHLB	11/23/16	946,144	946,144				
Dallas Co Schools - Muni	12/01/16	1,039,866	1,039,866				
Inter National Bank CD	02/08/17	2,033,576	2,033,576				
Southside Bank CD	02/27/17	1,001,462	1,001,462				
Comerica Bank CD	03/13/17	1,006,498	1,006,498				
Univ of N. TX - Muni	04/15/17	250,000	250,000				
Inter National Bank CD	05/08/17	1,021,634	1,021,634				
Comerica Bank CD	06/13/17	1,007,484	1,007,484				
Texas Security Bank CD	08/25/17	1,000,000	1,000,000				
Comerica Bank CD	09/13/17	1,008,546	907,691			100,855	
Texas Security Bank CD	11/25/17	1,000,000	1,000,000				
<b>Total</b>		<b>\$ 65,808,989</b>	<b>\$ 56,712,390</b>	<b>\$ 8,961,261</b>	<b>\$ 13,095</b>	<b>\$ 100,855</b>	<b>\$ 21,389</b>

**Market Value  
December 31, 2015**

	<b>Maturity</b>	<b>Total</b>	<b>Concentration Fund</b>	<b>Capital Projects</b>	<b>Health Facilities Corporation</b>	<b>Housing Finance Corporation</b>	<b>Industrial Development Authority</b>
Wells Fargo DDA		\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -	\$ -
Wells Fargo MMA		28,871,096	28,871,096				
BTH Bank MMA		245,158	245,158				
BTH Bank ICS		1,725,900	1,725,900				
Southside Bank MMA		2,328,106	1,321,106	1,007,000			
Texas Class		9,815,644	1,869,425	7,946,219			
TexPool		213,761	171,235	8,042	13,095		21,389
Comerica Bank CD	02/08/16	1,717,508	1,717,508				
Inter National Bank CD	05/08/16	504,981	504,981				
BTH Bank CDARS	05/20/16	1,007,836	1,007,836				
Inter National Bank CD	08/08/16	1,014,293	1,014,293				
BTH Bank CDARS	08/20/16	1,008,398	1,008,398				
Independent Bank CD	08/26/16	1,001,260	1,001,260				
Comerica Bank CD	09/13/16	2,007,547	2,007,547				
Inter National Bank CD	11/08/16	1,522,767	1,522,767				
BTH Bank CDARS	11/20/16	1,009,523	1,009,523				
FHLB	11/23/16	943,149	943,149				
Dallas Co Schools - Muni	12/01/16	1,039,078	1,039,078				
Inter National Bank CD	02/08/17	2,033,576	2,033,576				
Southside Bank CD	02/27/17	1,001,462	1,001,462				
Comerica Bank CD	03/13/17	1,006,498	1,006,498				
Univ of N. TX - Muni	04/15/17	249,305	249,305				
Inter National Bank CD	05/08/17	1,021,634	1,021,634				
Comerica Bank CD	06/13/17	1,007,484	1,007,484				
Texas Security Bank CD	08/25/17	1,000,000	1,000,000				
Comerica Bank CD	09/13/17	1,008,546	907,691			100,855	
Texas Security Bank CD	11/25/17	1,000,000	1,000,000				
<b>Total</b>		<b>\$ 65,804,510</b>	<b>\$ 56,707,910</b>	<b>\$ 8,961,261</b>	<b>\$ 13,095</b>	<b>\$ 100,855</b>	<b>\$ 21,389</b>

## Total Portfolio Performance





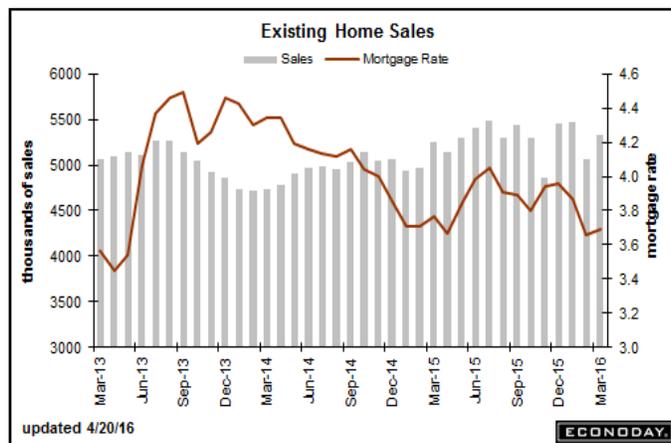
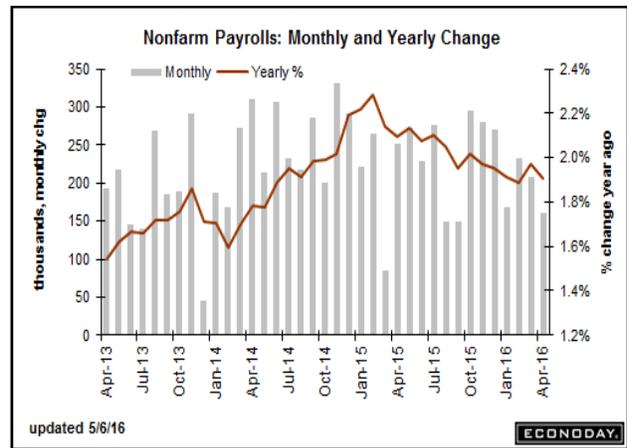
Valley View Consulting, L.L.C.

## Market Outlook

May 6, 2016

The news in April suggested that the economy is not improving. This raised the possibility that the Federal Open Market Committee (FOMC) will keep the Fed Funds Rate unchanged until much later in the year, and possibly throughout 2016. Disappointments in the manufacturing sector continued and consumer has retrenched. Global conditions have raised additional concerns about the ability of foreign economies to develop economic strategies that will turn their situations around. Although the FOMC's announcement following their recent meeting did not specifically mention global risks impacting the U.S. economy and the Committee's future actions, it is safe to say that any pain suffered by our trading partners is likely to cause at least some domestic pain. Globally, China's recent reports have become less optimistic and appear to be deteriorating. The Bank of Japan chose to abandon their plan to insert more stimuli into their economy (at least for now). The European Union is destabilizing again as the United Kingdom considers a vote to secede from the Euro. The price of oil has been allowed to float higher following a meeting of some oil producing nations, which was the only glimmer of good global news. As this article is written, oil has reached \$44.63 per barrel after closing at \$36.21 in February. The U.S. Employment condition appears less robust than earlier in the year and economists called the April results "lackluster".

The Employment report for April showed that 160,000 jobs were added. Revisions to March (revised to +208,000 from the previously reported +215,000) and February (revised to +233,000 from the previous report of +245,000) resulted in a net decrease of 19,000 jobs. The April report was the lowest pace of job creation in seven months. The report decreased the three-month average to +200,000 versus the previous +208,000 average in March. The Unemployment Rate remained unchanged at 5.0%. The Labor Participation Rate, a measure of the percentage of eligible workers that hold jobs, dipped slightly to 62.8% versus the 63% result in March. The U6 rate (or the under-employed rate – those that are either over qualified for their job or working fewer hours than they desire) fell slightly to 9.7% versus 9.8% in March. Average Hourly Earnings rose 0.3% in April after rising 0.3% in March and is 2.5% higher than a year ago. FOMC Chair Janet Yellen cites the goal of raising the Earnings Rate component of the Employment report as a priority.



The housing sector reports were mixed. Existing Home Sales rose 5.1% in March after falling 7.3% in February. Compared to last year, the report was 1.5% higher. Prices rose significantly by 5.0%, and are 5.7% higher than last year. Supply rose slightly to 4.5 months from February's 4.4 months but remains seriously below the healthy balance of 6-months. We should expect improvement due to a combination of the time of year (early spring generally brings more homes into the market) and the lure of higher sales prices. New Home Sales fell 0.2% in March following a rise of 3.7% in February (a massive adjustment to the February results

made it one of the best reports since 2008). The March report is up 5.4% from last year. The prices of

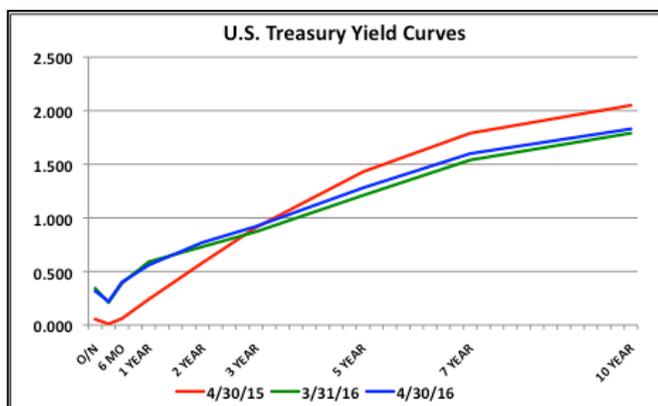
new homes slipped an average of 3.2% in March and are 1.5% lower than last year's report. Supply of new homes rose to 5.8 months compared to 5.6 months in February. The S&P Case-Shiller report of home prices in the 20 metropolitan areas and the Federal Housing Finance Agency (FHFA), the entity that analyzes all domestic home prices, both showed meaningful increases during February. The Housing Starts report showed an 8.8% decrease during March, while Permits fell 7.7%. Even with the decline, Starts are up 14.2% over this time last year and Permits are up 4.6%. Construction Spending rose 0.3% during March, while February's number was dramatically revised up to +1.0% from the previous report of down 0.5%. The National Association of Homebuilders (NAHB) indicated that the outlook remains unchanged for a solid and continued appetite for new construction.

The production and manufacturing sector were weak. The advance release of Gross Domestic Product (GDP) for first quarter showed a rise of 0.5% (lower than the fourth quarter result of +1.4%). Business Inventories dipped slightly by 0.1% in February after a similar decline in January. Sales also declined and the sales to inventory ratio remains uncomfortably high. Factory Orders rose 1.1% in March after declining 1.9% in February. Durable Goods Orders had another negative reading, and fell 3.1% in February. The report of the purchasing managers' assessment for manufacturing fell to just above the 50-level in April coming in at 50.8. The 50-level is the balance point for optimism versus pessimism. Above 50 is optimistic and below 50 is more pessimistic. The purchasing managers for the service sector rose slightly in April to 55.7 from 54.8 in March. The Producer Price Index (PPI) fell 0.1% in March (following flat result in February). The Consumer Price Index (CPI) rose 0.1% after a 0.2% decline in February. Year-over-year CPI is +0.9%. Core CPI, or the results after food and energy numbers are excluded (due to price volatility), posted a +0.3% monthly increase and a +2.2% year-over-year improvement.

On the consumption front, Retail Sales fell 0.3% in March compared to a flat February result. The report indicated a significant drop in discretionary spending, such as restaurant, apparel and auto sales. Non-discretionary purchases held steady. Consumers' attitudes (as measured by the Consumer Confidence and Consumer Sentiment reports) showed declines. The economy needs for consumers to become more willing to spend and this does not seem to be occurring. The consumer may be experiencing an "aura of anxiety and uncertainty", as described by one economist. He noted that consumers are being bombarded by negative assessments of the current economy and future outlook by politicians and the political media and are worried about what may lie ahead. As the race and rhetoric heats up, we may see further retrenchment until after the November elections.

The FOMC met on April 26<sup>th</sup> and 27<sup>th</sup> and their prepared statement had a dovish undertone. Although global risks were not mentioned (as they were in March), the Committee stated that the economy "appears to have slowed". They cited that household spending has moderated and that exports and business investment is soft. The more positive comments were that the labor market and housing are improved. As expected, the Committee opted to keep the Fed Funds Rate range unchanged at 0.25% to 0.50%. After the release, speculation of a rate change in June has become more subdued but the expectation of a late-summer or early-fall move is still on the table.

Current Government Security Investment Pool rates held fairly steady in April, ranging in the +/-0.30% to +/-0.41. With the weakness in many of the economic reports, the U.S. Treasury and Agency markets bumped around throughout the month. After closing March with a rate of 0.58%, the 1-year Treasury closed April at 0.56% and is currently 0.51%. The two-year Treasury closed April at 0.77% or about 4 basis points higher than the March close, but it is currently back down to 0.74%. Certificate of Deposit rates finished April with the 2-year between 0.80% and 1.00%, the same as in February and March. Banks appear to have appetite for deposits and have not adjusted their rates downward.



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