



*City of DeSoto*  
**QUARTERLY INVESTMENT REPORT**

**For the Quarter Ended**

**June 30, 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.

A blue ink signature of the Director of Finance, written over a horizontal line.

Director of Finance

A blue ink signature of the City Manager, written over a horizontal line.

City Manager

A blue ink signature of the Director of Budget, written over a horizontal line.

Director of Budget

A blue ink signature of the Assistant City Manager, written over a horizontal line.

Assistant 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.

## Summary

### Quarter End Results by Investment Category:

<u>Asset Type</u>	<u>Ave. Yield</u>	<u>June 30, 2016</u>		<u>March 31, 2016</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	0.30%	33,758,963	33,758,963	37,335,419	37,335,419
Pools	0.63%	8,387,375	8,387,375	8,439,970	8,439,970
CDs/Securities	0.88%	18,938,805	18,939,836	20,424,124	20,424,770
<b>Totals</b>		<b>\$ 61,585,142</b>	<b>\$ 61,586,173</b>	<b>\$ 66,699,513</b>	<b>\$ 66,700,159</b>

Average Yield (1)		Fiscal Year-to-Date Average Yield (2)	
Total Portfolio	0.52%	Total Portfolio	0.46%
Rolling Three Mo. Treas. Yield	0.26%	Rolling Three Mo. Treas. Yield	0.23%
Rolling Six Mo. Treas. Yield	0.42%	Rolling Six Mo. Treas. Yield	0.35%
		Quarterly TexPool Yield	0.29%
Quarterly Interest Income	\$ 75,093	Approximate	
Year-to-date Interest Income	\$ 212,726	Approximate	

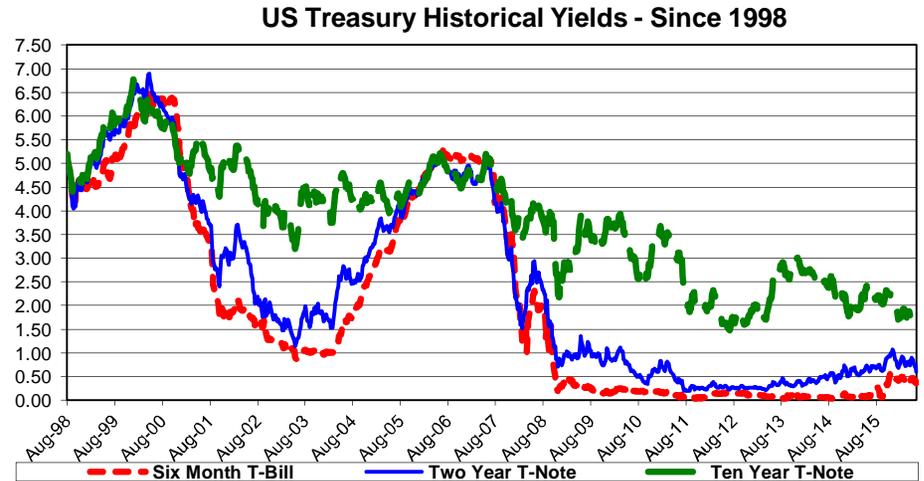
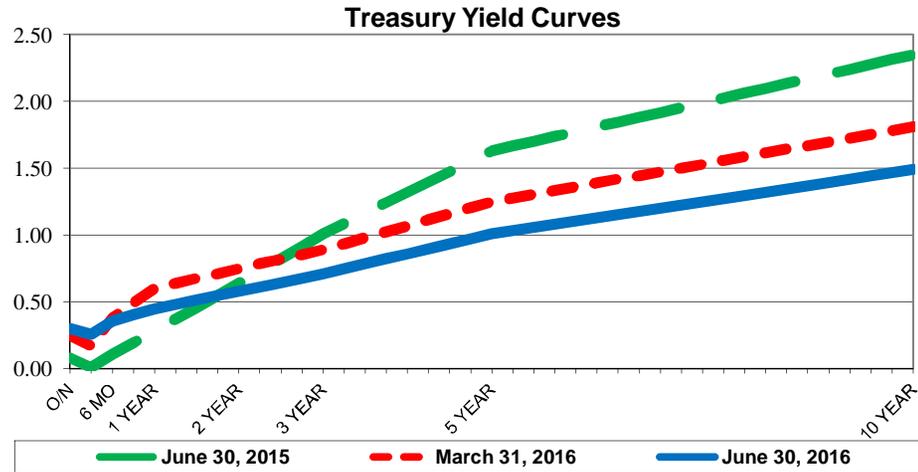
(1) Average Yield calculated using quarter end report yields and adjusted book values and does not reflect a total return analysis or account for advisory fees.

(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

6/30/2016

The Federal Open Market Committee (FOMC) maintained the Fed Funds target range of 0.25% - 0.50% (actual Fed Funds trading +/-35 to 40 bps). The June FOMC meeting expressed concerns over reduced economic expectation. First Quarter US GDP was revised up to +1.1% (final revision). The June Non-Farm Payroll surged 287k new jobs, although other unemployment data remained modest. The British "Brexit" vote to leave the European Union Global jolted the markets. The US Stock markets plunged, then recovered. Treasury yields dove on the flight to quality. Taxable municipal bonds or CDs offer the best interest earnings opportunity, if available.



## Detail of Investment Holdings

June 30, 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%	07/01/16	06/30/16	\$ 500,000	\$ 500,000	1	\$ 500,000	1	0.00%
Wells Fargo MMA		0.10%	07/01/16	06/30/16	19,438,205	19,438,205	1	19,438,205	1	0.10%
BTH Bank MMA		0.93%	07/01/16	06/30/16	245,187	245,187	1	245,187	1	0.93%
BTH Bank ICS		0.93%	07/01/16	06/30/16	1,734,140	1,734,140	1	1,734,140	1	0.93%
Southside Bank MMA		0.51%	07/01/16	06/30/16	12,341,430	12,341,430	1	12,341,430	1	0.51%
Texas Class	AAAm	0.63%	07/01/16	06/30/16	8,266,555	8,266,555	1	8,266,555	1	0.63%
TexPool	AAAm	0.36%	07/01/16	06/30/16	120,819	120,819	1	120,819	1	0.36%
Inter National Bank CD		0.90%	08/08/16	05/08/14	1,018,853	1,018,853	100.00	1,018,853	39	0.90%
BTH Bank CDARS		0.75%	08/20/16	11/20/14	1,012,176	1,012,176	100.00	1,012,176	51	0.75%
Independent Bank CD		0.50%	08/26/16	08/26/15	1,003,758	1,003,758	100.00	1,003,758	57	0.50%
Comerica Bank CD		0.50%	09/13/16	03/13/15	2,012,585	2,012,585	100.00	2,012,585	75	0.50%
Inter National Bank CD		0.95%	11/08/16	05/08/14	1,530,034	1,530,034	100.00	1,530,034	131	0.95%
BTH Bank CDARS		0.85%	11/20/16	11/20/14	1,013,811	1,013,811	100.00	1,013,811	143	0.85%
FHLB	Aaa/AA+	0.63%	11/23/16	08/26/15	945,000	945,509	100.05	945,507	146	0.49%
Dallas Co Schools - Muni	Aa3	1.50%	12/01/16	05/22/14	1,035,000	1,037,230	100.22	1,037,318	154	0.98%
Inter National Bank CD		1.05%	02/08/17	05/08/14	2,044,305	2,044,305	100.00	2,044,305	223	1.05%
Southside Bank CD		0.58%	02/27/17	08/25/15	1,004,360	1,004,360	100.00	1,004,360	242	0.58%
Comerica Bank CD		0.86%	03/13/17	03/13/15	1,010,846	1,010,846	100.00	1,010,846	256	0.86%
Univ of N. TX - Muni	Aa2	1.04%	04/15/17	10/21/15	250,000	250,000	100.38	250,945	289	1.04%
Inter National Bank CD		1.35%	05/08/17	05/08/14	1,028,568	1,028,568	100.00	1,028,568	312	1.35%
Comerica Bank CD		0.99%	06/13/17	03/13/15	1,012,495	1,012,495	100.00	1,012,495	348	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	421	1.10%
Comerica Bank CD		1.13%	09/13/17	03/13/15	1,014,273	1,014,273	100.00	1,014,273	440	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	513	1.15%

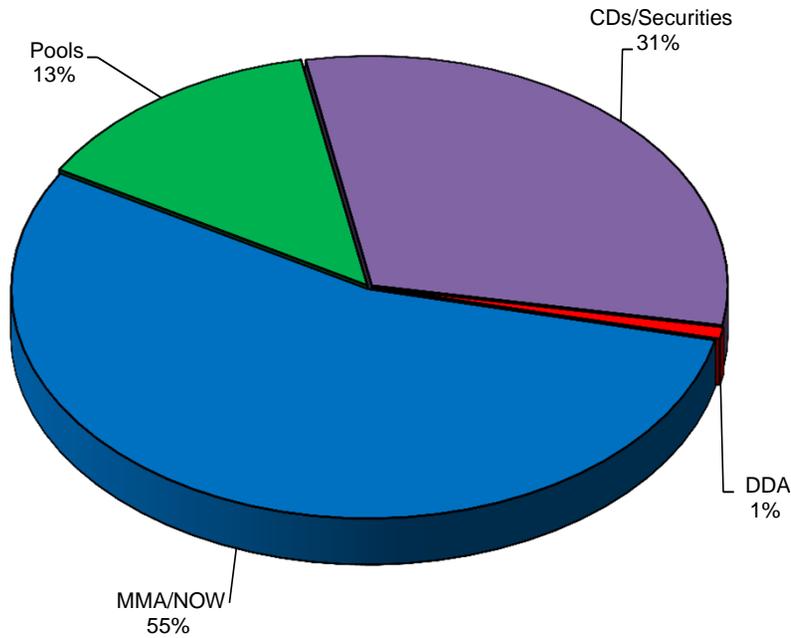
<b>\$ 61,582,402</b>	<b>\$ 61,585,142</b>	<b>\$ 61,586,173</b>	<b>66</b>	<b>0.52%</b>
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(1) (2)

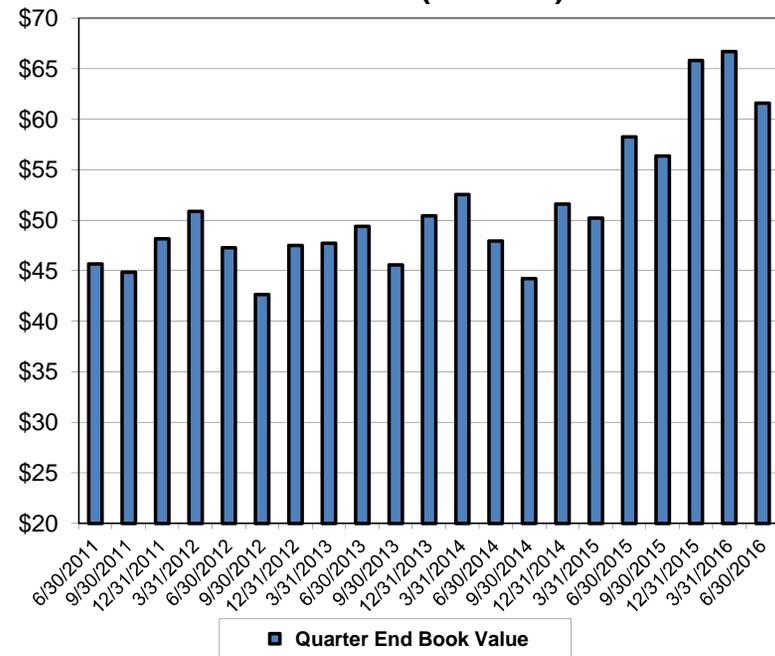
(1) **Weighted average life** - For purposes of calculating weighted average life, bank accounts, pools and money market funds are assumed to have an one day maturity.

(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.

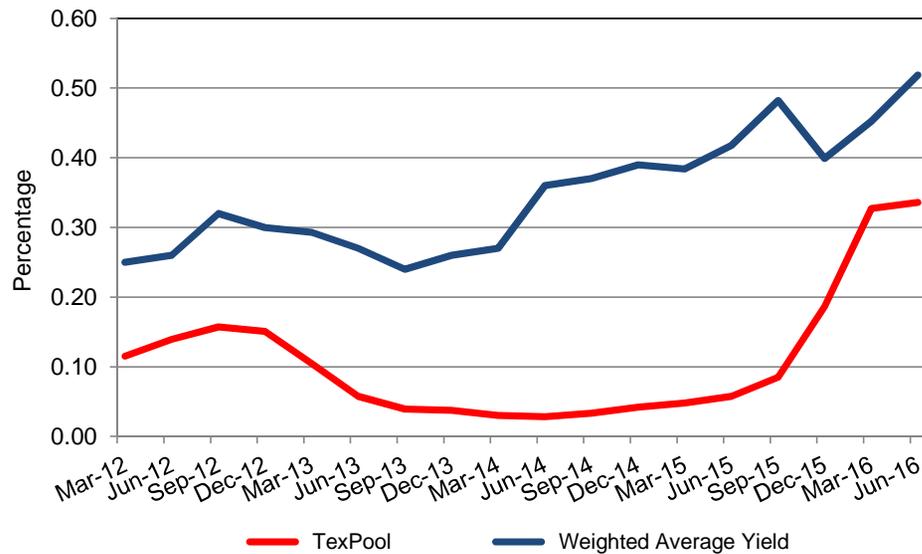
### Portfolio Composition



### Total Portfolio (Millions)



### Total Portfolio Performance



## Book Value Comparison

Description	Coupon/ Discount	Maturity Date	March 31, 2016			June 30, 2016		
			Par Value	Book Value	Purchases/ Adjustments	Sales/Adjust/ Call/Maturity	Par Value	Book Value
Wells Fargo DDA	0.00%	07/01/16	\$ 500,000	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ 500,000
Wells Fargo MMA	0.10%	07/01/16	28,028,247	28,028,247		(8,590,042)	19,438,205	19,438,205
BTH Bank MMA	0.93%	07/01/16	245,181	245,181	6		245,187	245,187
BTH Bank ICS	0.93%	07/01/16	1,729,908	1,729,908	4,232		1,734,140	1,734,140
Southside Bank MMA	0.51%	07/01/16	7,332,083	7,332,083	5,009,347		12,341,430	12,341,430
Texas Class	0.63%	07/01/16	8,319,255	8,319,255		(52,700)	8,266,555	8,266,555
TexPool	0.36%	07/01/16	120,715	120,715	104		120,819	120,819
Inter National Bank CD	0.63%	05/08/16	505,768	505,768		(505,768)	-	-
BTH Bank CDARS	0.70%	05/20/16	1,009,596	1,009,596		(1,009,596)	-	-
Inter National Bank CD	0.90%	08/08/16	1,016,558	1,016,558	2,295		1,018,853	1,018,853
BTH Bank CDARS	0.75%	08/20/16	1,010,285	1,010,285	1,891		1,012,176	1,012,176
Independent Bank CD	0.50%	08/26/16	1,002,522	1,002,522	1,236		1,003,758	1,003,758
Comerica Bank CD	0.50%	09/13/16	2,010,050	2,010,050	2,534		2,012,585	2,012,585
Inter National Bank CD	0.95%	11/08/16	1,526,376	1,526,376	3,658		1,530,034	1,530,034
BTH Bank CDARS	0.85%	11/20/16	1,011,665	1,011,665	2,146		1,013,811	1,013,811
FHLB	0.63%	11/23/16	945,000	945,827		(318)	945,000	945,509
Dallas Co Schools - Muni	1.50%	12/01/16	1,035,000	1,038,548		(1,318)	1,035,000	1,037,230
Inter National Bank CD	1.05%	02/08/17	2,038,905	2,038,905	5,401		2,044,305	2,044,305
Southside Bank CD	0.58%	02/27/17	1,002,926	1,002,926	1,434		1,004,360	1,004,360
Comerica Bank CD	0.86%	03/13/17	1,008,658	1,008,658	2,188		1,010,846	1,010,846
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	1,025,076	1,025,076	3,492		1,028,568	1,028,568
Comerica Bank CD	0.99%	06/13/17	1,009,972	1,009,972	2,522		1,012,495	1,012,495
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	1,011,390	1,011,390	2,883		1,014,273	1,014,273
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>\$ 66,695,138</b>	<b>\$ 66,699,513</b>	<b>\$ 5,045,371</b>	<b>\$ (10,159,741)</b>	<b>\$ 61,582,402</b>	<b>\$ 61,585,142</b>

## Market Value Comparison

Description	Coupon/ Discount	Maturity Date	March 31, 2016		Qtr to Qtr Change	June 30, 2016	
			Par Value	Market Value		Par Value	Market Value
Wells Fargo DDA	0.00%	07/01/16	\$ 500,000	\$ 500,000	\$ -	\$ 500,000	\$ 500,000
Wells Fargo MMA	0.10%	07/01/16	28,028,247	28,028,247	(8,590,042)	19,438,205	19,438,205
BTH Bank MMA	0.93%	07/01/16	245,181	245,181	6	245,187	245,187
BTH Bank ICS	0.93%	07/01/16	1,729,908	1,729,908	4,232	1,734,140	1,734,140
Southside Bank MMA	0.51%	07/01/16	7,332,083	7,332,083	5,009,347	12,341,430	12,341,430
Texas Class	0.63%	07/01/16	8,319,255	8,319,255	(52,700)	8,266,555	8,266,555
TexPool	0.36%	07/01/16	120,715	120,715	104	120,819	120,819
Inter National Bank CD	0.63%	05/08/16	505,768	505,768	(505,768)	-	-
BTH Bank CDARS	0.70%	05/20/16	1,009,596	1,009,596	(1,009,596)	-	-
Inter National Bank CD	0.90%	08/08/16	1,016,558	1,016,558	2,295	1,018,853	1,018,853
BTH Bank CDARS	0.75%	08/20/16	1,010,285	1,010,285	1,891	1,012,176	1,012,176
Independent Bank CD	0.50%	08/26/16	1,002,522	1,002,522	1,236	1,003,758	1,003,758
Comerica Bank CD	0.50%	09/13/16	2,010,050	2,010,050	2,534	2,012,585	2,012,585
Inter National Bank CD	0.95%	11/08/16	1,526,376	1,526,376	3,658	1,530,034	1,530,034
BTH Bank CDARS	0.85%	11/20/16	1,011,665	1,011,665	2,146	1,013,811	1,013,811
FHLB	0.63%	11/23/16	945,000	945,444	63	945,000	945,507
Dallas Co Schools - Muni	1.50%	12/01/16	1,035,000	1,038,912	(1,594)	1,035,000	1,037,318
Inter National Bank CD	1.05%	02/08/17	2,038,905	2,038,905	5,401	2,044,305	2,044,305
Southside Bank CD	0.58%	02/27/17	1,002,926	1,002,926	1,434	1,004,360	1,004,360
Comerica Bank CD	0.86%	03/13/17	1,008,658	1,008,658	2,188	1,010,846	1,010,846
Univ of N. TX - Muni	1.04%	04/15/17	250,000	250,665	280	250,000	250,945
Inter National Bank CD	1.35%	05/08/17	1,025,076	1,025,076	3,492	1,028,568	1,028,568
Comerica Bank CD	0.99%	06/13/17	1,009,972	1,009,972	2,522	1,012,495	1,012,495
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	1,011,390	1,011,390	2,883	1,014,273	1,014,273
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>\$ 66,695,138</b>	<b>\$ 66,700,159</b>	<b>\$ (5,113,986)</b>	<b>\$ 61,582,402</b>	<b>\$ 61,586,173</b>

**Fund Allocation - Book Value  
June 30, 2016**

	Maturity	Total	Concentration Fund	Capital Projects	Health Facilities Corporation	Housing Finance Corporation	Industrial Development Authority
Wells Fargo DDA		\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -	\$ -
Wells Fargo MMA		19,438,205	19,438,205				
BTH Bank MMA		245,187	245,187				
BTH Bank ICS		1,734,140	1,734,140				
Southside Bank MMA		12,341,430	11,332,072	1,009,358			
Texas Class		8,266,555	414,141	7,852,414			
TexPool		120,819	78,225	8,055	13,116		21,423
Inter National Bank CD	08/08/16	1,018,853	1,018,853				
BTH Bank CDARS	08/20/16	1,012,176	1,012,176				
Independent Bank CD	08/26/16	1,003,758	1,003,758				
Comerica Bank CD	09/13/16	2,012,585	2,012,585				
Inter National Bank CD	11/08/16	1,530,034	1,530,034				
BTH Bank CDARS	11/20/16	1,013,811	1,013,811				
FHLB	11/23/16	945,509	945,509				
Dallas Co Schools - Muni	12/01/16	1,037,230	1,037,230				
Inter National Bank CD	02/08/17	2,044,305	2,044,305				
Southside Bank CD	02/27/17	1,004,360	1,004,360				
Comerica Bank CD	03/13/17	1,010,846	1,010,846				
Univ of N. TX - Muni	04/15/17	250,000	250,000				
Inter National Bank CD	05/08/17	1,028,568	1,028,568				
Comerica Bank CD	06/13/17	1,012,495	1,012,495				
Texas Security Bank CD	08/25/17	1,000,000	1,000,000				
Comerica Bank CD	09/13/17	1,014,273	912,846			101,427	
Texas Security Bank CD	11/25/17	1,000,000	1,000,000				
<b>Total</b>		<b>\$ 61,585,142</b>	<b>\$ 52,579,348</b>	<b>\$ 8,869,828</b>	<b>\$ 13,116</b>	<b>\$ 101,427</b>	<b>\$ 21,423</b>

**Fund Allocation - Market Value  
June 30, 2016**

	Maturity	Total	Concentration Fund	Capital Projects	Health Facilities Corporation	Housing Finance Corporation	Industrial Development Authority
Wells Fargo DDA		\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -	\$ -
Wells Fargo MMA		19,438,205	19,438,205				
BTH Bank MMA		245,187	245,187				
BTH Bank ICS		1,734,140	1,734,140				
Southside Bank MMA		12,341,430	11,332,072	1,009,358			
Texas Class		8,266,555	414,141	7,852,414			
TexPool		120,819	78,225	8,055	13,116		21,423
Inter National Bank CD	08/08/16	1,018,853	1,018,853				
BTH Bank CDARS	08/20/16	1,012,176	1,012,176				
Independent Bank CD	08/26/16	1,003,758	1,003,758				
Comerica Bank CD	09/13/16	2,012,585	2,012,585				
Inter National Bank CD	11/08/16	1,530,034	1,530,034				
BTH Bank CDARS	11/20/16	1,013,811	1,013,811				
FHLB	11/23/16	945,507	945,507				
Dallas Co Schools - Muni	12/01/16	1,037,318	1,037,318				
Inter National Bank CD	02/08/17	2,044,305	2,044,305				
Southside Bank CD	02/27/17	1,004,360	1,004,360				
Comerica Bank CD	03/13/17	1,010,846	1,010,846				
Univ of N. TX - Muni	04/15/17	250,945	250,945				
Inter National Bank CD	05/08/17	1,028,568	1,028,568				
Comerica Bank CD	06/13/17	1,012,495	1,012,495				
Texas Security Bank CD	08/25/17	1,000,000	1,000,000				
Comerica Bank CD	09/13/17	1,014,273	912,846			101,427	
Texas Security Bank CD	11/25/17	1,000,000	1,000,000				
<b>Total</b>		<b>\$ 61,586,173</b>	<b>\$ 52,580,379</b>	<b>\$ 8,869,828</b>	<b>\$ 13,116</b>	<b>\$ 101,427</b>	<b>\$ 21,423</b>

**Fund Allocation - 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>

**Fund Allocation - Market Value  
March 31, 2016**

	Maturity	Total	Concentration Fund	Capital Projects	Health Facilities Corporation	Housing Finance Corporation	Industrial Development Authority
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>



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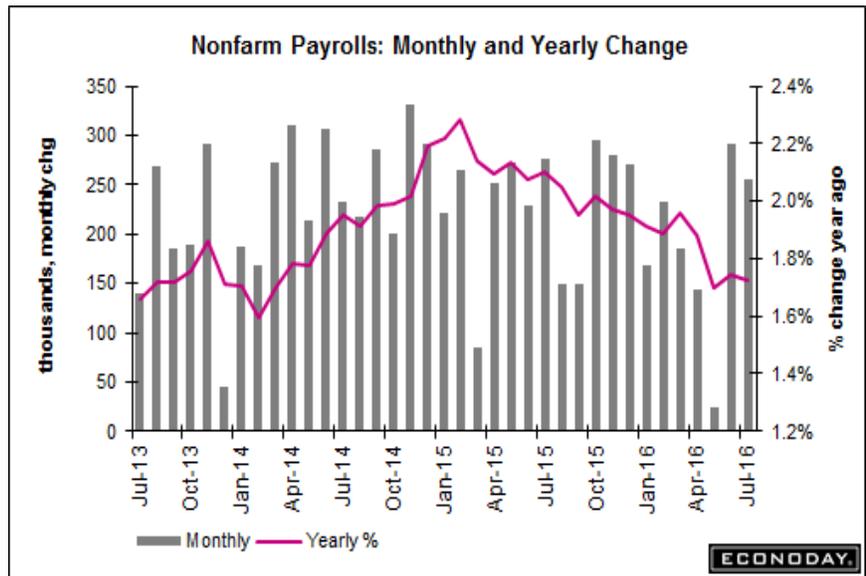
## Market Outlook

August 5, 2016

The markets have moved beyond the initial Brexit turmoil and are now focusing more on U.S political and economic news. The United Kingdom has taken great strides to temper the concerns regarding the implication of the vote to remove themselves from the European Union. The new UK leadership is in place and the Bank of England took steps on August 3<sup>rd</sup> to add stimulus to the banking system, bolstering confidence that the global markets should not experience significant fall out. The U.S. economic reports were mostly improved and July Employment numbers were a positive surprise. At their meeting in late July, the Federal Open Market Committee (FOMC) released a more upbeat assessment of the economy, raising new hopes that they will move short-term interest rates higher, possibly as early as September.

The Employment report for July illustrated a strengthening job market after a very weak Spring. July reported that 255,000 jobs were added and the June report (previously showing 287,000 additions) was revised higher to +292,000.

The May report that previously reflected +11,000 jobs was also revised higher to +24,000 jobs. The July report and revisions to May/June raised the three-month average to +190,000 versus the previous +147,000 level and above the worker population growth average of +129,000. The Unemployment Rate remained at 4.9%. The Labor Participation Rate, a measure of the percentage of eligible workers that hold jobs, rose to 62.8% versus the 62.7% result in June. The U6 rate (or the under-



employed rate – those that are either over qualified for their job or working fewer hours than they desire) rose slightly to 9.7% from June’s 9.6%. Average Hourly Earnings (AHE) rose 0.3% in July after rising 0.1% in June. Year-over-year, the AHE is at +2.6%, the highest level since the “Great Recession”. FOMC Chair Janet Yellen cites the goal of raising the Earnings Rate component of the Employment report as a priority.

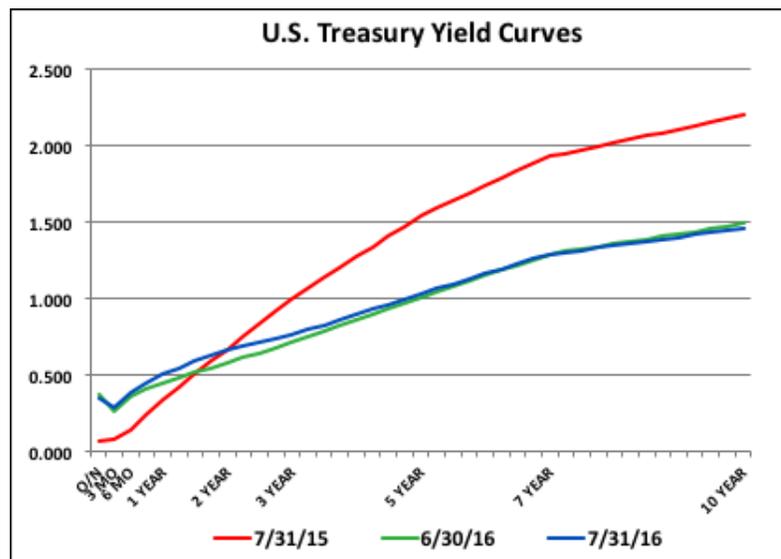
The housing sector reports were mostly improved. Existing Home Sales rose 1.1% in June after rising 1.5% in May. Compared to last year, the report was 3.0% higher. Prices rose by 3.7% (after rising 3.8% last month), and are 4.7% higher than last year. Supply dipped to 4.6 months from 4.7 months in May and is seriously below the healthy balance of 6-months. New Home Sales rose 3.5% in June following a negative 2.2% result in May (adjusted higher from the previously reported negative 6.6%). Year-over-year, the sales results in June were 25% higher. The prices of new homes rose an average of 6.2% in June. Supply of new homes fell to 4.9 months compared to 5.1 months in May. The S&P Case-Shiller report of home prices in the 20 metropolitan areas indicated that prices fell an average of 0.1% in May following a rise of 0.5% in April. The Federal Housing Finance Agency (FHFA), the entity that analyzes all domestic home prices, showed an increase of 0.2% in May following an increase of 0.3% in April. Both the S&P and the FHFA indicators are suggesting a moderation in the increase of home values. The Housing Starts report showed an increase of 4.8% in June after a 0.3% decline during May while Permits rose 1.5% in June after increasing 0.7% in May. Construction Spending fell 0.6% during June, after falling 0.1% in May. The National Association of Homebuilders (NAHB) indicated that a decrease in foot traffic in new homes is causing builders to be slightly less optimistic than in previous surveys.

The production and manufacturing sector were disappointing this month. The final release of Gross Domestic Product (GDP) for first quarter showed a rise of only 0.8% (previously reported as +1.1%), and quite a bit lower than the fourth quarter result of +1.4%. The advance GDP number for the second quarter came in at +1.2%, but will likely be revised. Business Inventories rose 0.2% in May after rising 0.1% in April. Businesses managed to keep the inventory-to-sales ratio unchanged, despite the fact that sales were slower. Factory Orders fell another 1.5% in June after falling 1.2% in May. Durable Goods Orders fell 3.9% in June after falling 2.4% in May. The report of the purchasing managers' assessment for manufacturing fell to 52.6 in July after a reading of 53.2 in June. 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 also fell to 55.5 in July, compared to 56.5 in June. The Producer Price Index (PPI) rose 0.5% in June (following a 0.4% increase in May). The Consumer Price Index (CPI) rose 0.2% after a 0.2% rise in June. Year-over-year CPI is +1.0%. Core CPI, or the results after food and energy numbers are excluded (due to price volatility), posted a +0.2% monthly increase and a +2.3% year-over-year improvement.

On the consumption front, Retail Sales continued on a positive path and rose 0.6% in June after rising at a 0.2% pace in May. Consumers' attitudes (as measured by the Consumer Confidence and Consumer Sentiment reports) both showed slight declines during July. This is frequently the case during the late stages of a presidential election campaign as consumers are subjected to continual (mostly negative) scrutiny of economic conditions by the candidates and the media. Once the election is behind us, we should get a more reasonable read of consumer attitudes.

The FOMC met on July 26<sup>th</sup> and 27<sup>th</sup> and the announcement that followed adjournment was more upbeat than previous releases. Although the Committee decided to leave the Federal Funds rate unchanged, the tone of the release illustrated that the expectations of the members had improved since their last meeting. The release cited a strengthening labor market (highlighting the "strong" June employment report) and that near-term risk to the U.S. economy from global markets (specifically Brexit) had diminished. The Committee expressed that gradual rate hikes should be expected and that inflation should rise to the 2% target in the medium term. After the release of the announcement, many economists felt that the Committee is telegraphing their intent to raise rates (as early as their mid-September meeting) and that the strong Employment report for July will ramp up such discussions.

Government Security Investment Pool rates rose slightly in July, averaging in the +/-0.36% to +/-0.45%, following the slight increase in the Treasury/Agency yields. After closing June with a rate of 0.45%, the 1-year Treasury closed July at 0.50%. The two-year Treasury closed July at 0.67% or about 8 basis points higher than the June close at 0.59%. The 2-year is currently yielding 0.72% after the favorable Employment Report. Certificate of Deposit rates finished July with the 2-year between 0.90% and 1.10%, or about 5 basis points higher than in June. To date, the Certificate of Deposit rates have not been materially impacted by the volatility in the Treasury markets and the offered rates have continued to be attractive. The more immediate concern is that banks will have decreasing capacity for new deposits. We have recently seen a decline in the number of banks responding to CD solicitations and we will soon be



approaching tax season where governmental entities experience a large inflow of revenues that will need to be invested/deposited. We are encouraging clients to continue to invest, when possible, and to submit tax proceeds for investment as soon as they are available.

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