



City of DeSoto
QUARTERLY INVESTMENT REPORT

For the Quarter Ended

September 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, Financial Services Department

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, Financial Services Department

Two blue ink signatures of Assistant City Managers, written over a horizontal line.

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.

City of DeSoto, Texas Annual Comparison of Portfolio Performance

FYE Results by Investment Category:

<u>Asset Type</u>	<u>September 30, 2016</u>			<u>September 30, 2015</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	\$ 500,000	0.00%	\$ 500,000	\$ 500,000
MMA/NOW	0.27%	30,856,490	30,856,490	0.27%	21,865,825	21,865,825
Pools	0.77%	10,955,113	10,955,113	0.19%	10,148,111	10,148,111
CDs/Securities	0.96%	14,914,658	14,914,928	0.81%	23,845,855	23,848,134
Totals		\$ 57,226,261	\$ 57,226,531		\$ 56,359,790	\$ 56,362,070

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Total Portfolio Average Yield (1)	0.48%	0.42%	0.06%
Rolling Three Mo. Treas. Yield	0.25%	0.03%	0.22%
Rolling Six Mo. Treas. Yield	0.37%	0.09%	0.28%
Quarterly TexPool Yield	0.31%	0.06%	0.26%

(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.

Summary

Quarter End Results by Investment Category:

<u>Asset Type</u>	<u>Ave. Yield</u>	<u>September 30, 2016</u>		<u>June 30, 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	0.27%	30,856,490	30,856,490	33,758,963	33,758,963
Pools	0.77%	10,955,113	10,955,113	8,387,375	8,387,375
CDs/Securities	0.96%	14,914,658	14,914,928	18,938,805	18,939,836
Totals		\$ 57,226,261	\$ 57,226,531	\$ 61,585,142	\$ 61,586,173

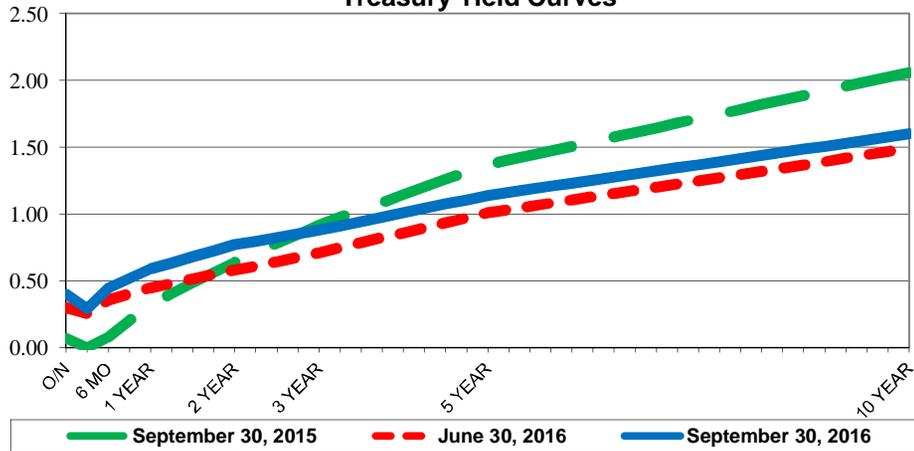
Average Yield (1)		Fiscal Year-to-Date Average Yield (2)	
Total Portfolio	0.54%	Total Portfolio	0.48%
Rolling Three Mo. Treas. Yield	0.30%	Rolling Three Mo. Treas. Yield	0.25%
Rolling Six Mo. Treas. Yield	0.42%	Rolling Six Mo. Treas. Yield	0.37%
		Quarterly TexPool Yield	0.31%
Quarterly Interest Income	\$ 77,368	Approximate	
Year-to-date Interest Income	\$ 290,094	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.

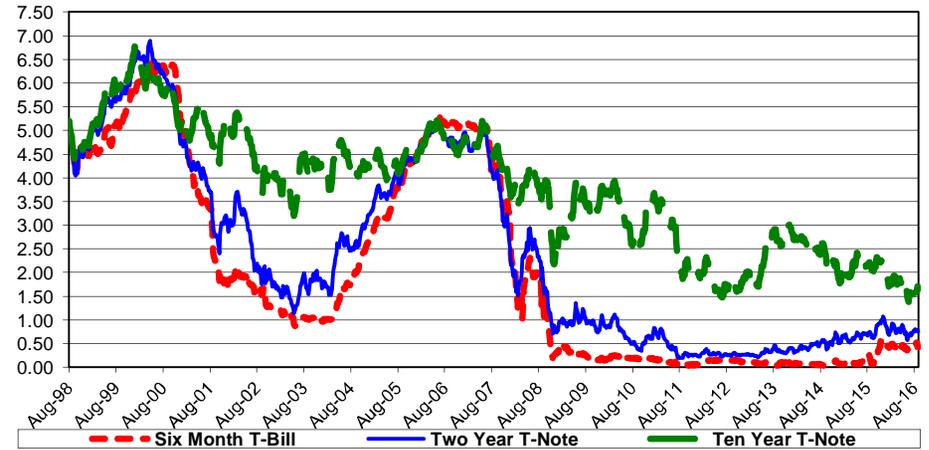
(2) Fiscal Year-to-Date Average Yields calculated using quarter end report yields and adjusted book values and does not reflect a total return analysis or account for advisory fees.

The Federal Open Market Committee (FOMC) maintained the Fed Funds target range of 0.25% - 0.50% (actual Fed Funds traded +/- 40 bps). The September FOMC meeting recorded dissenting votes for maintaining rates. More hawkish members wanted to raise the range by 0.25%. The current probability of a December FOMC meeting vote to raise the Fed Funds target is +/- 60%. Second Quarter US GDP revised to 1.4% (from 1.1%, no more revision is expected). Other economic data reflected modest, yet inconsistent, growth. The US Stock markets have maintained higher levels. Treasury yields drifted slightly higher on tightening rumors. Taxable municipal bonds or CDs offer the best interest earnings opportunity, if available.

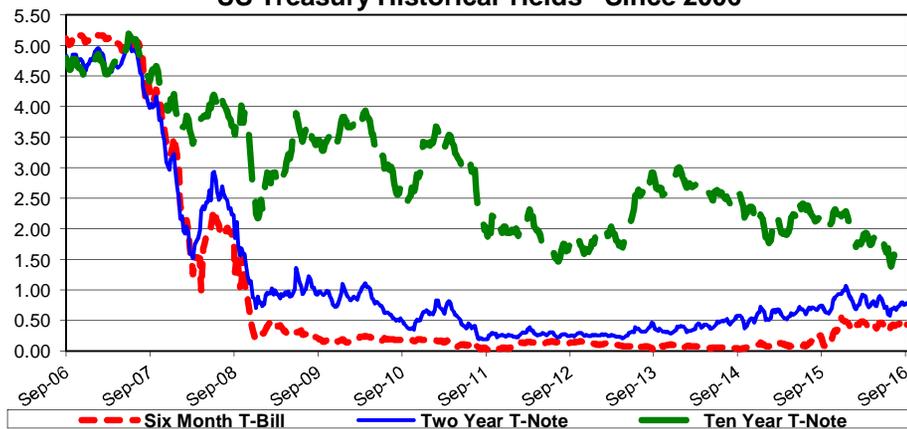
Treasury Yield Curves



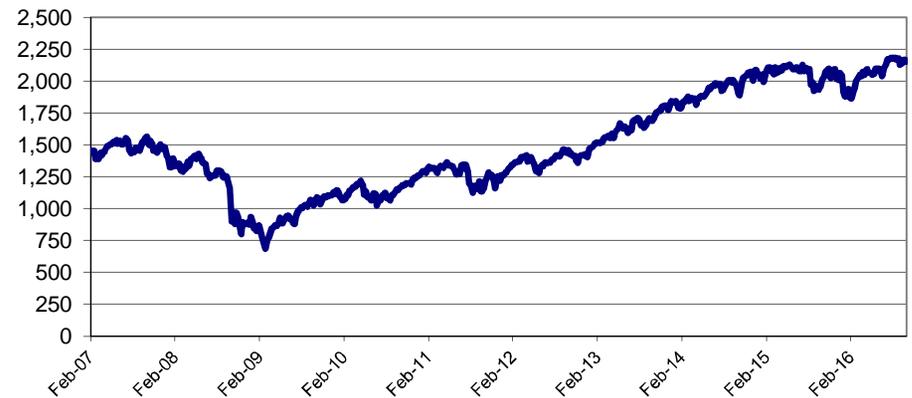
US Treasury Historical Yields - Since 1998



US Treasury Historical Yields - Since 2006



S&P 500



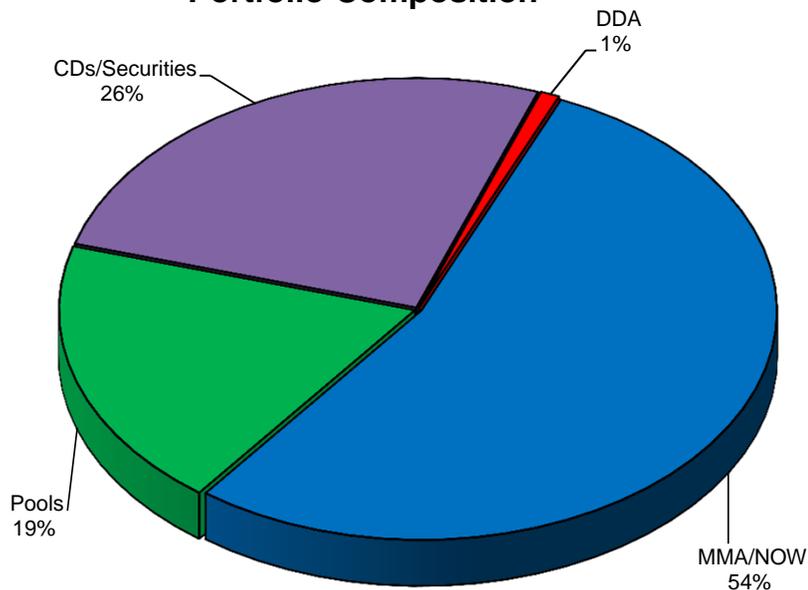
Investment Holdings
September 30, 2016

Description	Ratings	Coupon/ Discount	Maturity Date	Settlement Date	Par Value	Book Value	Market Price	Market Value	Life (days)	Yield
Wells Fargo DDA		0.00%	10/01/16	09/30/16	\$ 500,000	\$ 500,000	1	\$ 500,000	1	0.00%
Wells Fargo MMA		0.10%	10/01/16	09/30/16	20,194,063	20,194,063	1	20,194,063	1	0.10%
BTH Bank MMA		0.86%	10/01/16	09/30/16	245,173	245,173	1	245,173	1	0.86%
BTH Bank ICS		0.86%	10/01/16	09/30/16	1,737,994	1,737,994	1	1,737,994	1	0.86%
Southside Bank MMA		0.53%	10/01/16	09/30/16	8,679,259	8,679,259	1	8,679,259	1	0.53%
Texas Class	AAAm	0.77%	10/01/16	09/30/16	10,818,825	10,818,825	1	10,818,825	1	0.77%
TexPool	AAAm	0.38%	10/01/16	09/30/16	136,288	136,288	1	136,288	1	0.38%
Inter National Bank CD		0.95%	11/08/16	05/08/14	1,533,701	1,533,701	100.00	1,533,701	39	0.95%
BTH Bank CDARS		0.85%	11/17/16	11/20/14	1,015,985	1,015,985	100.00	1,015,985	48	0.85%
FHLB	Aaa/AA+	0.63%	11/23/16	08/26/15	945,000	945,188	100.05	945,435	54	0.49%
Dallas Co Schools - Muni	Aa3	1.50%	12/01/16	05/22/14	1,035,000	1,035,898	100.05	1,035,486	62	0.98%
Inter National Bank CD		1.05%	02/08/17	05/08/14	2,049,721	2,049,721	100.00	2,049,721	131	1.05%
Southside Bank CD		0.58%	02/27/17	08/25/15	1,005,829	1,005,829	100.00	1,005,829	150	0.58%
Comerica Bank CD		0.86%	03/13/17	03/13/15	1,013,038	1,013,038	100.00	1,013,038	164	0.86%
Univ of N. TX - Muni	Aa2	1.04%	04/15/17	10/21/15	250,000	250,000	100.17	250,435	197	1.04%
Inter National Bank CD		1.35%	05/08/17	05/08/14	1,032,072	1,032,072	100.00	1,032,072	220	1.35%
Comerica Bank CD		0.99%	06/13/17	03/13/15	1,015,023	1,015,023	100.00	1,015,023	256	0.99%
BTH Bank CDARS		0.86%	08/18/17	08/18/16	1,001,037	1,001,037	100.00	1,001,037	322	0.86%
Texas Security Bank CD		1.10%	08/25/17	08/25/15	1,000,000	1,000,000	100.00	1,000,000	329	1.10%
Comerica Bank CD		1.13%	09/13/17	03/13/15	1,017,165	1,017,165	100.00	1,017,165	348	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	421	1.15%
					\$ 57,225,175	\$ 57,226,261		\$ 57,226,531	49	0.54%
									(1)	(2)

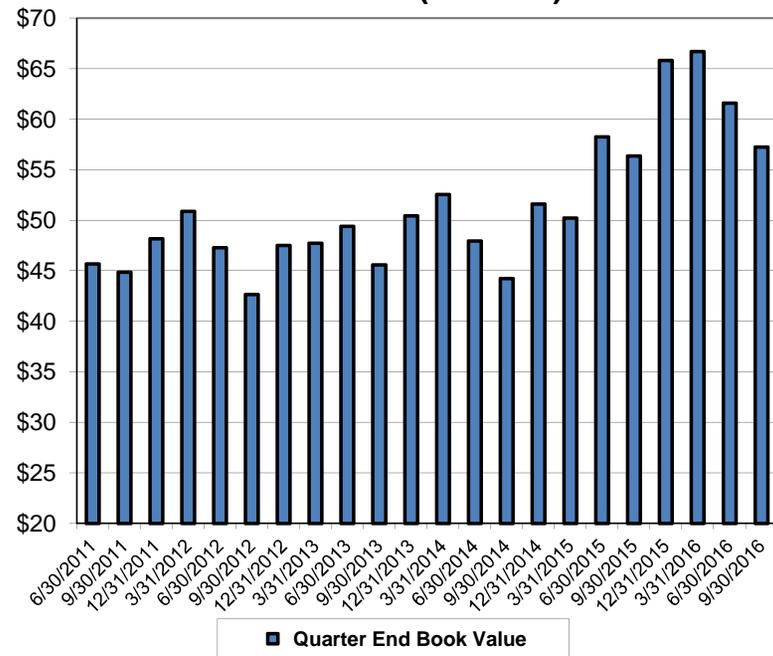
(1) **Weighted average life** - For purposes of calculating weighted average life, bank accounts, pools and money market funds are assumed to have an one day maturity.

(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.

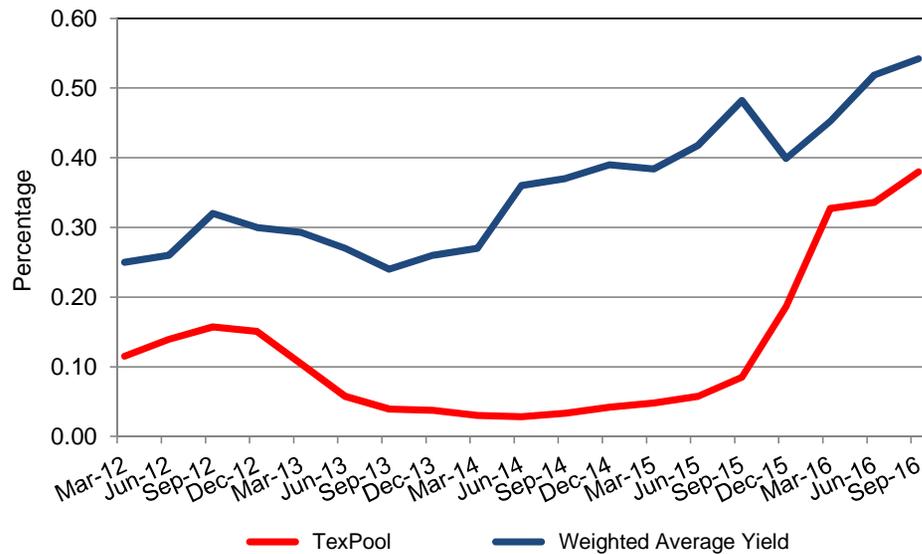
Portfolio Composition



Total Portfolio (Millions)



Total Portfolio Performance



Book Value Comparison

Description	Coupon/ Discount	Maturity Date	June 30, 2016		Purchases/ Adjustments	Sales/Adjust/ Call/Maturity	September 30, 2016	
			Par Value	Book Value			Par Value	Book Value
Wells Fargo DDA	0.00%	10/01/16	\$ 500,000	\$ 500,000	\$ —	\$ —	\$ 500,000	\$ 500,000
Wells Fargo MMA	0.10%	10/01/16	19,438,205	19,438,205	755,858		20,194,063	20,194,063
BTH Bank MMA	0.86%	10/01/16	245,187	245,187		(14)	245,173	245,173
BTH Bank ICS	0.86%	10/01/16	1,734,140	1,734,140	3,854		1,737,994	1,737,994
Southside Bank MMA	0.53%	10/01/16	12,341,430	12,341,430		(3,662,171)	8,679,259	8,679,259
Texas Class	0.77%	10/01/16	8,266,555	8,266,555	2,552,270		10,818,825	10,818,825
TexPool	0.38%	10/01/16	120,819	120,819	15,469		136,288	136,288
Inter National Bank CD	0.90%	08/08/16	1,018,853	1,018,853		(1,018,853)	—	—
BTH Bank CDARS	0.75%	08/20/16	1,012,176	1,012,176		(1,012,176)	—	—
Independent Bank CD	0.50%	08/26/16	1,003,758	1,003,758		(1,003,758)	—	—
Comerica Bank CD	0.50%	09/13/16	2,012,585	2,012,585		(2,012,585)	—	—
Inter National Bank CD	0.95%	11/08/16	1,530,034	1,530,034	3,667		1,533,701	1,533,701
BTH Bank CDARS	0.85%	11/17/16	1,013,811	1,013,811	2,174		1,015,985	1,015,985
FHLB	0.63%	11/23/16	945,000	945,509		(321)	945,000	945,188
Dallas Co Schools - Muni	1.50%	12/01/16	1,035,000	1,037,230		(1,332)	1,035,000	1,035,898
Inter National Bank CD	1.05%	02/08/17	2,044,305	2,044,305	5,415		2,049,721	2,049,721
Southside Bank CD	0.58%	02/27/17	1,004,360	1,004,360	1,468		1,005,829	1,005,829
Comerica Bank CD	0.86%	03/13/17	1,010,846	1,010,846	2,193		1,013,038	1,013,038
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	1,028,568	1,028,568	3,504		1,032,072	1,032,072
Comerica Bank CD	0.99%	06/13/17	1,012,495	1,012,495	2,529		1,015,023	1,015,023
BTH Bank CDARS	0.86%	08/18/17	—	—	1,001,037		1,001,037	1,001,037
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	1,014,273	1,014,273	2,892		1,017,165	1,017,165
Texas Security Bank CD	1.15%	11/25/17	1,000,000	1,000,000			1,000,000	1,000,000
TOTAL			\$ 61,582,402	\$ 61,585,142	\$ 4,352,330	\$ (8,711,211)	\$ 57,225,175	\$ 57,226,261

Market Value Comparison

Description	Coupon/ Discount	Maturity Date	June 30, 2016		Qtr to Qtr Change	September 30, 2016	
			Par Value	Market Value		Par Value	Market Value
Wells Fargo DDA	0.00%	10/01/16	\$ 500,000	\$ 500,000	\$ -	\$ 500,000	\$ 500,000
Wells Fargo MMA	0.10%	10/01/16	19,438,205	19,438,205	755,858	20,194,063	20,194,063
BTH Bank MMA	0.86%	10/01/16	245,187	245,187	(14)	245,173	245,173
BTH Bank ICS	0.86%	10/01/16	1,734,140	1,734,140	3,854	1,737,994	1,737,994
Southside Bank MMA	0.53%	10/01/16	12,341,430	12,341,430	(3,662,171)	8,679,259	8,679,259
Texas Class	0.77%	10/01/16	8,266,555	8,266,555	2,552,270	10,818,825	10,818,825
TexPool	0.38%	10/01/16	120,819	120,819	15,469	136,288	136,288
Inter National Bank CD	0.90%	08/08/16	1,018,853	1,018,853	(1,018,853)	-	-
BTH Bank CDARS	0.75%	08/20/16	1,012,176	1,012,176	(1,012,176)	-	-
Independent Bank CD	0.50%	08/26/16	1,003,758	1,003,758	(1,003,758)	-	-
Comerica Bank CD	0.50%	09/13/16	2,012,585	2,012,585	(2,012,585)	-	-
Inter National Bank CD	0.95%	11/08/16	1,530,034	1,530,034	3,667	1,533,701	1,533,701
BTH Bank CDARS	0.85%	11/17/16	1,013,811	1,013,811	2,174	1,015,985	1,015,985
FHLB	0.63%	11/23/16	945,000	945,507	(73)	945,000	945,435
Dallas Co Schools - Muni	1.50%	12/01/16	1,035,000	1,037,318	(1,832)	1,035,000	1,035,486
Inter National Bank CD	1.05%	02/08/17	2,044,305	2,044,305	5,415	2,049,721	2,049,721
Southside Bank CD	0.58%	02/27/17	1,004,360	1,004,360	1,468	1,005,829	1,005,829
Comerica Bank CD	0.86%	03/13/17	1,010,846	1,010,846	2,193	1,013,038	1,013,038
Univ of N. TX - Muni	1.04%	04/15/17	250,000	250,945	(510)	250,000	250,435
Inter National Bank CD	1.35%	05/08/17	1,028,568	1,028,568	3,504	1,032,072	1,032,072
Comerica Bank CD	0.99%	06/13/17	1,012,495	1,012,495	2,529	1,015,023	1,015,023
BTH Bank CDARS	0.86%	08/18/17	-	-	1,001,037	1,001,037	1,001,037
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	1,014,273	1,014,273	2,892	1,017,165	1,017,165
Texas Security Bank CD	1.15%	11/25/17	1,000,000	1,000,000		1,000,000	1,000,000
TOTAL			\$ 61,582,402	\$ 61,586,173	\$ (4,359,642)	\$ 57,225,175	\$ 57,226,531

**Fund Allocation - Book Value
September 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		20,194,063	20,194,063				
BTH Bank MMA		245,173	245,173				
BTH Bank ICS		1,737,994	1,737,994				
Southside Bank MMA		8,679,259	7,668,571	1,010,688			
Texas Class		10,818,825	97,558	10,721,267			
TexPool		136,288	93,654	8,063	13,128		21,443
Inter National Bank CD	11/08/16	1,533,701	1,533,701				
BTH Bank CDARS	11/17/16	1,015,985	1,015,985				
FHLB	11/23/16	945,188	945,188				
Dallas Co Schools - Muni	12/01/16	1,035,898	1,035,898				
Inter National Bank CD	02/08/17	2,049,721	2,049,721				
Southside Bank CD	02/27/17	1,005,829	1,005,829				
Comerica Bank CD	03/13/17	1,013,038	1,013,038				
Univ of N. TX - Muni	04/15/17	250,000	250,000				
Inter National Bank CD	05/08/17	1,032,072	1,032,072				
Comerica Bank CD	06/13/17	1,015,023	1,015,023				
BTH Bank CDARS	08/18/17	1,001,037	1,001,037				
Texas Security Bank CD	08/25/17	1,000,000	1,000,000				
Comerica Bank CD	09/13/17	1,017,165	915,448			101,717	
Texas Security Bank CD	11/25/17	1,000,000	1,000,000				
Total		\$ 57,226,261	\$ 45,349,955	\$ 11,740,017	\$ 13,128	\$ 101,717	\$ 21,443

**Fund Allocation - Market Value
September 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		20,194,063	20,194,063				
BTH Bank MMA		245,173	245,173				
BTH Bank ICS		1,737,994	1,737,994				
Southside Bank MMA		8,679,259	7,668,571	1,010,688			
Texas Class		10,818,825	97,558	10,721,267			
TexPool		136,288	93,654	8,063	13,128		21,443
Inter National Bank CD	11/08/16	1,533,701	1,533,701				
BTH Bank CDARS	11/17/16	1,015,985	1,015,985				
FHLB	11/23/16	945,435	945,435				
Dallas Co Schools - Muni	12/01/16	1,035,486	1,035,486				
Inter National Bank CD	02/08/17	2,049,721	2,049,721				
Southside Bank CD	02/27/17	1,005,829	1,005,829				
Comerica Bank CD	03/13/17	1,013,038	1,013,038				
Univ of N. TX - Muni	04/15/17	250,435	250,435				
Inter National Bank CD	05/08/17	1,032,072	1,032,072				
Comerica Bank CD	06/13/17	1,015,023	1,015,023				
BTH Bank CDARS	08/18/17	1,001,037	1,001,037				
Texas Security Bank CD	08/25/17	1,000,000	1,000,000				
Comerica Bank CD	09/13/17	1,017,165	915,448			101,717	
Texas Security Bank CD	11/25/17	1,000,000	1,000,000				
Total		\$ 57,226,531	\$ 45,350,225	\$ 11,740,017	\$ 13,128	\$ 101,717	\$ 21,443

**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				
Total		\$ 61,585,142	\$ 52,579,348	\$ 8,869,828	\$ 13,116	\$ 101,427	\$ 21,423

**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				
Total		\$ 61,586,173	\$ 52,580,379	\$ 8,869,828	\$ 13,116	\$ 101,427	\$ 21,423



Valley View Consulting, L.L.C.

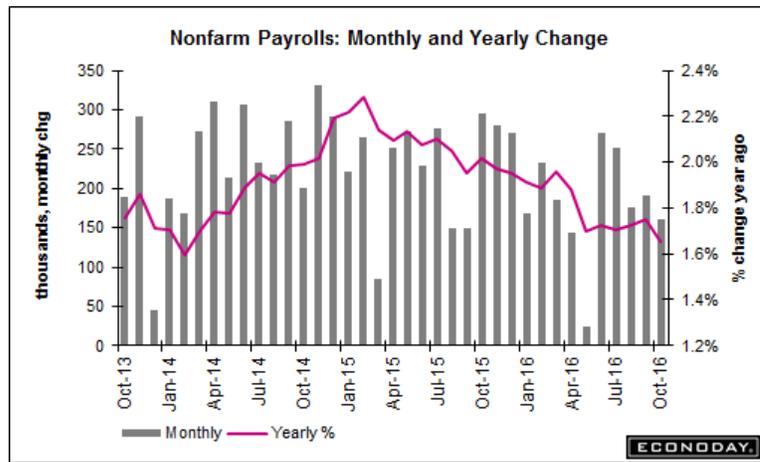
Market Outlook

November 4, 2016

Economic reports issued during October showed some improvement as we approach year end. There was a pick-up in the housing sector and personal consumption reports indicated that consumers appear more willing to spend than they had in the earlier periods of 2016. Production experienced some high energy headlines, however some of the uptick appears to be a potential one-time event. Employment continues to climb slowly upward and wages are rising. All of this data has increased the probability that the Federal Open Market Committee (FOMC) will step up and raise the Fed Funds rate during their December meeting. The wild card to the tide of improvement is the impending Presidential Election and how the outcome could impact the market confidence, both domestically and globally.

The Employment report for October was expected to add 178,000 jobs, but the report indicated an increase of 161,000. The September report was amended to show that 191,000 jobs were added (previously reported as +156,000) and the August report was revised to +176,000 (previously reported at +167,000).

That is a net upward adjustment of +44,000. The three-month average after all revisions currently stands at +176,000 per month. There was some disruption in the job count due to Hurricane Matthew. The private sector added 142,000 jobs during the month and the government sector added 19,000 jobs. The current Labor Participation Rate, a measure of the percentage of eligible workers that hold jobs, fell slightly to 62.8% from the 62.9% level in September. The Unemployment Rate fell to 4.9% from September's 5.0%. 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 from 9.7% to 9.5%. This is the best U6 report since April 2008 (or before the Great Recession began). Average Hourly Earnings (AHE) rose 0.4% in October after rising 0.2% in September and was better than the 0.3% that was expected. Year-over-year, the AHE is at +2.8%, up from the +2.6% in September. FOMC Chair Janet Yellen cites the goal of raising the Earnings Rate component of the Employment report as a priority.

The housing sector rebounded in September following a soft August. Existing Home Sales rose 3.2% in September after falling 1.5% in August. Compared to last year, the report was 0.6% higher. Prices fell 2.4% after falling 1.3% in August, yet remain 5.6% higher than last year. Supply fell to 4.5 months from 4.6 months in August and remains seriously below the healthy balance of 6-months. New Home Sales rose 3.1% in September following a very disappointing decrease of 7.6% in August. The prices of new homes rose an average of 6.7% in September after falling 5.1% in August. Prices for New Homes were 1.9% higher than last year. Supply of new homes is at 4.8 months, a little improved from August's 4.6 months. The S&P Case Shiller report of home prices in the 20 metropolitan areas indicated that prices rose 0.4% in August after a flat July report. The Federal Housing Finance Agency (FHFA), the entity that analyzes all domestic home prices, showed an increase of 0.7% in August after rising 0.5% in July. The Housing Starts report showed a decline of 0.9% in September after falling 5.4% during August while Permits rose 0.6% in September after falling 0.4% in August. Construction Spending fell another 0.4% in September after falling 0.5% in August.

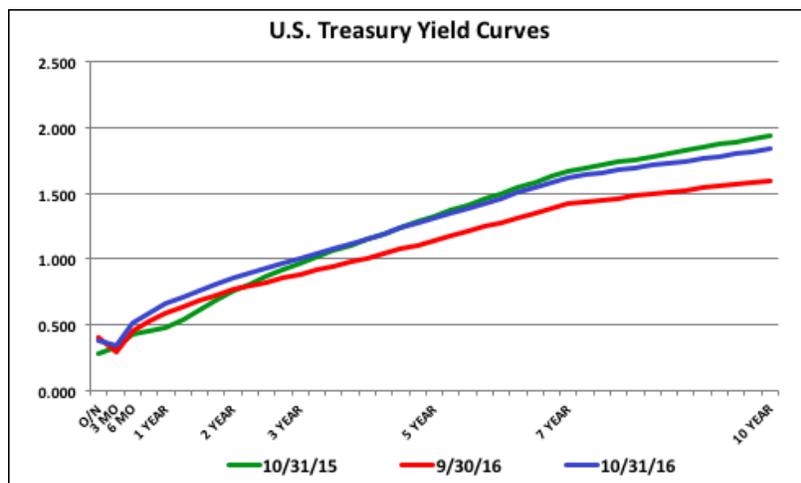
The production and manufacturing sector were also improved this month. The advance report of Gross Domestic Product (GDP) for the third quarter came in at +2.9% which is much stronger than the market had anticipated and double the +1.4% result for second quarter. A third of the rise in GDP was due to a sharp increase in exports (driven by a large export of soy beans to China), but the most impressive driver

was in personal, domestic consumption. Much of this increased consumption was for durable goods, which bodes well for the U.S. manufacturing sector. The GDP report is an advance number that will likely be revised over the next couple of months, but this indication of strength is encouraging. Business inventories rose 0.2% in August after a flat July, but sales also picked up 0.2% during the period leaving the inventory-to-sales ratio lean and unchanged. Businesses will likely begin to increase inventories as they prepare for the critical Holiday season. Factory Orders picked up, rising 0.3% in September after a 0.4% gain in August. Durable Goods reported a decline of 0.1% in September, but this was primarily due to strong auto sales in August. Year-over-year durable goods are up 1.6%. The manufacturing sector has lagged during the first two quarters, but purchasing managers' expectations, as reported by both the Purchasing Managers Index and the Institute for Supply Management, show a more optimistic reading for the rest of 2016. Likewise, purchasing managers for the service sector are also upbeat. The Producer Price Index (PPI) rose 0.3% in September following a flat report in August. The Consumer Price Index (CPI) rose 0.3% after having reported a 0.2% rise in August. Year-over-year CPI is +1.5%. Core CPI, or the results after food and energy numbers are excluded (due to price volatility), posted a +0.1% monthly increase and a +2.2% year-over-year improvement.

On the consumption front, Retail Sales reported a rebound of +0.6% in September after a decline of 0.2% in August. Even factoring out the reduced sales of autos in September (following an exceptionally high number of sales in August), the adjusted Retail Sales number was +0.3%. September results showed that auto sales remain fairly strong and other discretionary purchases (such as restaurant, furniture and building materials) are trending higher. Discretionary purchases (as opposed to those that are necessities) are an encouraging sign that consumers are feeling more comfortable about spending. Consumers' attitudes as measured by the Consumer Confidence and Consumer Sentiment reports slipped, but remained strong.

The FOMC met November 1st and 2nd and the announcement following adjournment stated that the Fed Funds Rate would remain in the 0.25% to 0.50% range. This was what the market had anticipated, as most economists are expecting a rate increase at the Committee's December meeting. The Committee's statement was essentially unchanged from their October release, leaving most market observers to see no need to adjust their 78% probability gauge for a rising rate in December. Their next meeting will take place December 13th and 14th.

Government Security Investment Pool rates remained fairly steady in October, averaging in the +/- 0.38% to +/-0.51 range. After closing September with a rate of 0.59%, the 1-year Treasury closed October at 0.66%. The two-year Treasury closed October at 0.86% or about 9 basis points higher than the September close at 0.77%. The current 2-year yield slipped to 0.80% after the Employment Report. It had reached a monthly high of 0.88% about mid-month,



but had been declining just before the Employment release. Certificate of Deposit rates finished October with the 2-year between 0.95% and 1.10%, or about the same as in July, August and September. 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. It is likely that a move by the FOMC in December could result in some rate improvement for CDs, but capacity constraints may hold CD rate increases back. The immediate concern is that banks will have decreasing capacity for new deposits. The number of banks responding to CD solicitations has continued to decline in many market areas and we are entering 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.

Disclaimer: This material, based on data believed to be reliable, but not independently verified, is not intended to constitute an offer, solicitation or recommendation regarding any securities transaction or a guarantee of market conditions and is for informational purposes only. For use by the intended recipient only.