CITY OF DESOTO

SOARING FOR EXCELLENCE

City of DeSoto

QUARTERLY INVESTMENT REPORT

For the Quarter Ended

June 30, 2017

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.

Director of Finance, Financial Services Department

Director of Budget, Financial Services Department

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:

		June 30, 2017		March 31, 2017	
Asset Type	**Ave. Yield**	**Book Value**	**Market Value**	**Book Value**	**Market Value**
DDA	0.00%	$ 500,000	$ 500,000	$ 500,000	$ 500,000
MMA/NOW	0.75%	39,942,262	39,942,262	43,015,919	43,015,919
Pools	1.13%	17,356,357	17,356,357	9,744,878	9,744,878
CDs/Securities	1.14%	15,082,716	15,082,716	17,354,606	17,354,596
Totals		**$ 72,881,336**	**$ 72,881,336**	**$ 70,615,403**	**$ 70,615,393**

Average Yield (1)	
Total Portfolio	0.91%
Rolling Three Mo. Treas. Yield	0.91%
Rolling Six Mo. Treas. Yield	0.88%

Fiscal Year-to-Date Average Yield (2)	
Total Portfolio	0.69%
Rolling Three Mo. Treas. Yield	0.65%
Rolling Six Mo. Treas. Yield	0.68%
Quarterly TexPool Yield	0.65%

Quarterly Interest Income	$ 130,439	Approximate
Year-to-date Interest Income	$ 307,519	Approximate

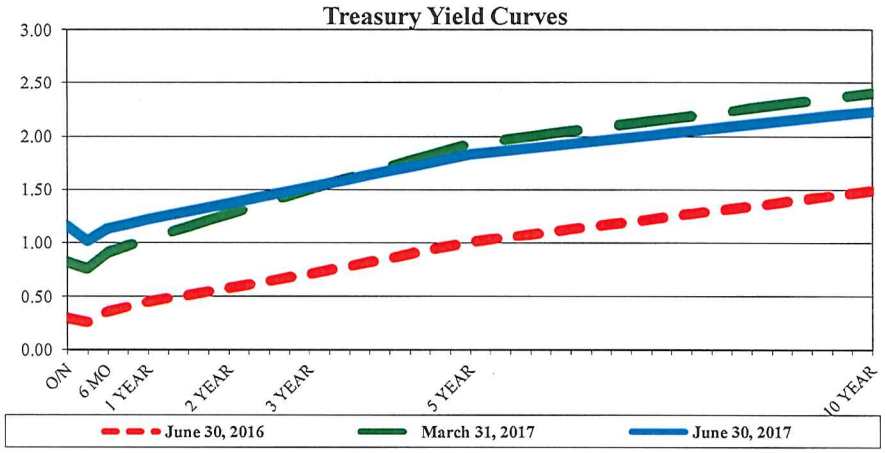
(1) Average Yield calculated using quarter end report yields and adjusted book values and does not reflect a total return analysis or account for advisory fees.

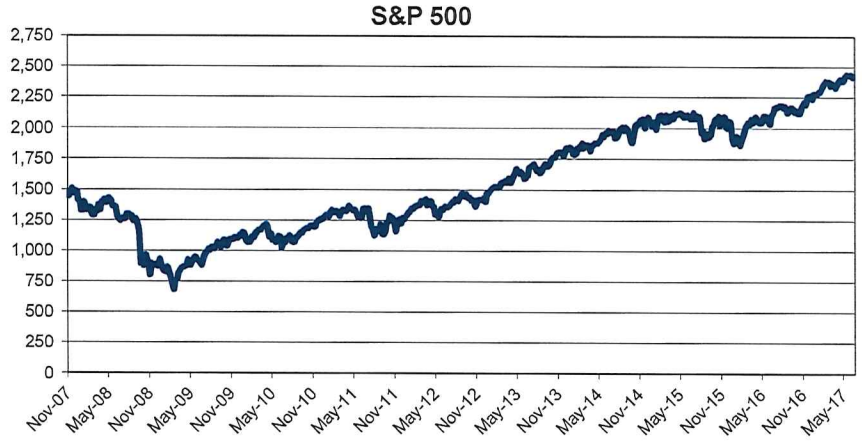
(2) Fiscal Year-to-Date Average Yields calculated using quarter end report yields and adjusted book values and does not reflect a total return analysis or account for advisory fees.

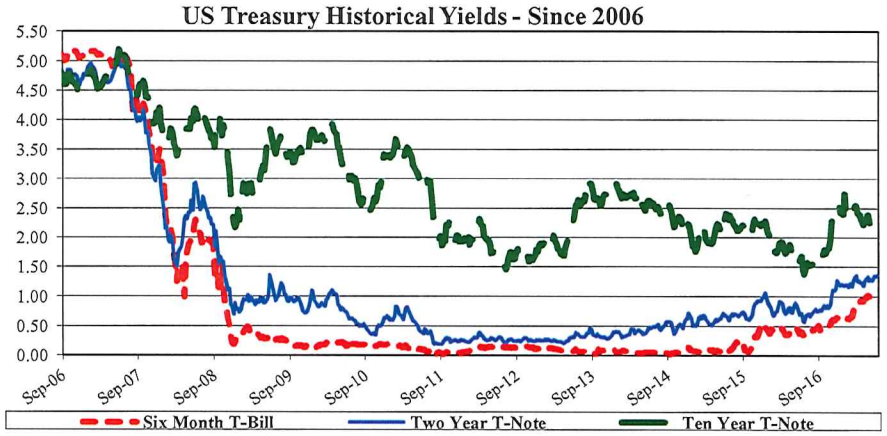
Economic Overview

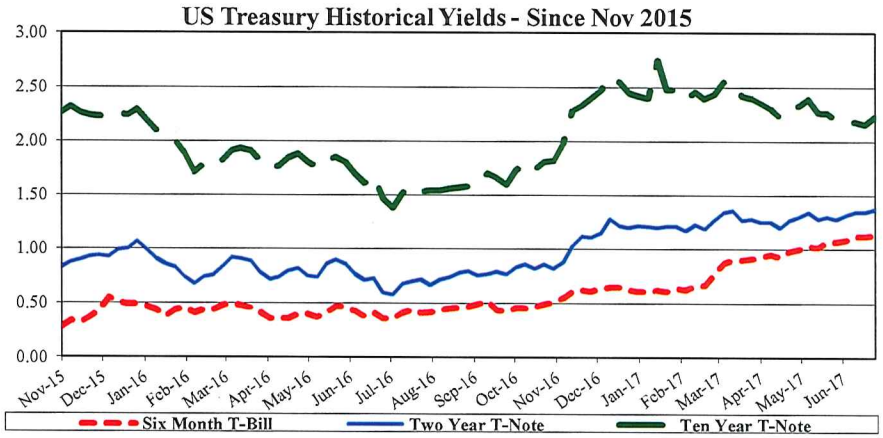
6/30/2017

The Federal Open Market Committee (FOMC) raised the Fed Funds target range to 1.00% - 1.25% (Effective Fed Funds are trading +/-1.16%) at the June FOMC meeting. The market is not confident additional increases will occur during 2017. The Fed anticipates gradually reducing its government bond holdings. Third revision 1st Quarter 2017 GDP was a increased to 1.4%. June Non-Farm Payroll increased 222k, with +47k adjustment to Apr/May. Other US data remained volatile with some negative numbers. The Stock Markets remain high. Monitoring estimated balances and needs will determine laddering opportunities.









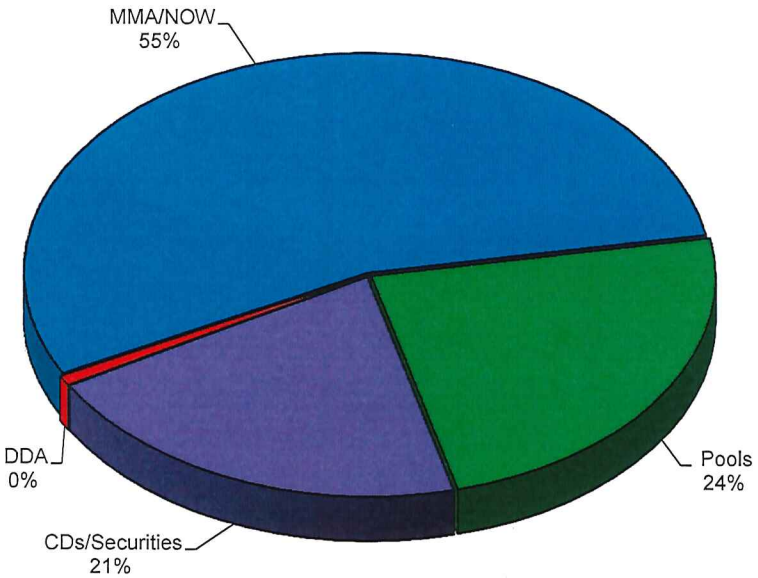
Investment Holdings
June 30, 2017

Description	Ratings	Coupon/ Discount	Maturity Date	Settlement Date	Par Value	Book Value	Market Price	Market Value	Life (days)	Yield
Wells Fargo DDA		0.00%	07/01/17	06/30/17	$ 500,000	$ 500,000	1	$ 500,000	1	0.00%
Wells Fargo MMA		0.10%	07/01/17	06/30/17	17,188,684	17,188,684	1	17,188,684	1	0.10%
BTH Bank MMA		1.43%	07/01/17	06/30/17	245,286	245,286	1	245,286	1	1.43%
BTH Bank ICS		1.42%	07/01/17	06/30/17	1,754,631	1,754,631	1	1,754,631	1	1.42%
Southside Bank MMA		1.02%	07/01/17	06/30/17	8,726,850	8,726,850	1	8,726,850	1	1.02%
NexBank MMA		1.36%	07/01/17	06/30/17	12,026,811	12,026,811	1	12,026,811	1	1.36%
Texas Class	AAAm	1.13%	07/01/17	06/30/17	17,197,547	17,197,547	1	17,197,547	1	1.13%
TexPool	AAAm	0.88%	07/01/17	06/30/17	158,811	158,811	1	158,811	1	0.88%
BTH Bank CDARS		0.86%	08/18/17	08/18/16	1,007,497	1,007,497	100.00	1,007,497	49	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	56	1.10%
Independent Bank CD		0.85%	08/28/17	08/28/16	1,006,371	1,006,371	100.00	1,006,371	59	0.85%
Comerica Bank CD		1.13%	09/13/17	03/13/15	1,025,794	1,025,794	100.00	1,025,794	75	1.13%
Herring Bank CDARS		1.00%	11/09/17	11/10/16	1,006,372	1,006,372	100.00	1,006,372	132	1.00%
Texas Security Bank CD		1.15%	11/25/17	08/25/15	1,000,000	1,000,000	100.00	1,000,000	148	1.15%
Landmark Bank CD		0.94%	02/08/18	11/08/16	1,004,667	1,004,667	100.00	1,004,667	223	0.94%
LegacyTexas Bank CD		1.20%	03/15/18	03/15/17	100,303	100,303	100.00	100,303	258	1.20%
LegacyTexas Bank CD		1.25%	06/18/18	03/16/17	3,410,724	3,410,724	100.00	3,410,724	353	1.25%
Landmark Bank CD		1.03%	08/08/18	11/08/16	1,005,114	1,005,114	100.00	1,005,114	404	1.03%
LegacyTexas Bank CD		1.30%	09/17/18	03/15/17	752,460	752,460	100.00	752,460	444	1.30%
Herring Bank CDARS		1.14%	11/15/18	11/17/16	1,007,105	1,007,105	100.00	1,007,105	503	1.14%
LegacyTexas Bank CD		1.40%	12/17/18	03/15/17	752,650	752,650	100.00	752,650	535	1.40%
LegacyTexas Bank CD		1.45%	03/15/19	03/15/17	1,003,659	1,003,659	100.00	1,003,659	623	1.45%
					$ 72,881,336	**$ 72,881,336**		**$ 72,881,336**	**59**	**0.91%**
									(1)	**(2)**

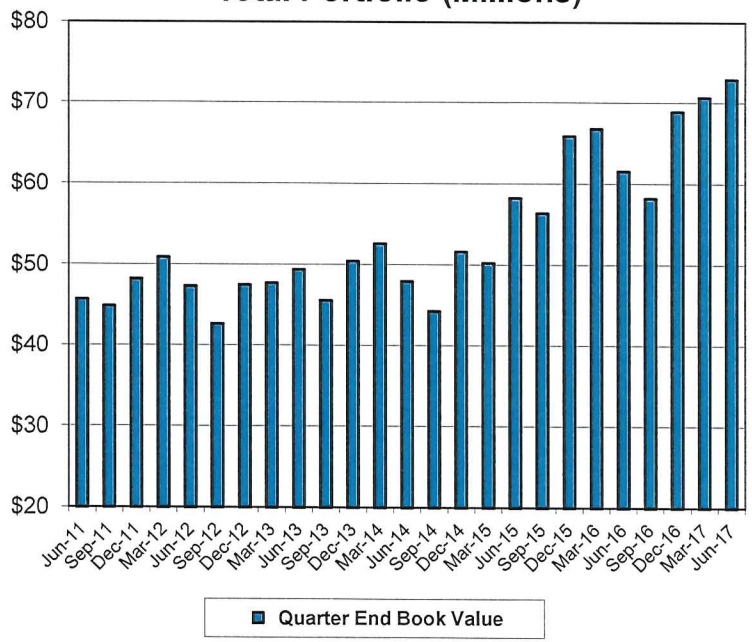
(1) Weighted average life - For purposes of calculating weighted average life, bank accounts, pools and money market funds are assumed to have an one day maturity.

(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.

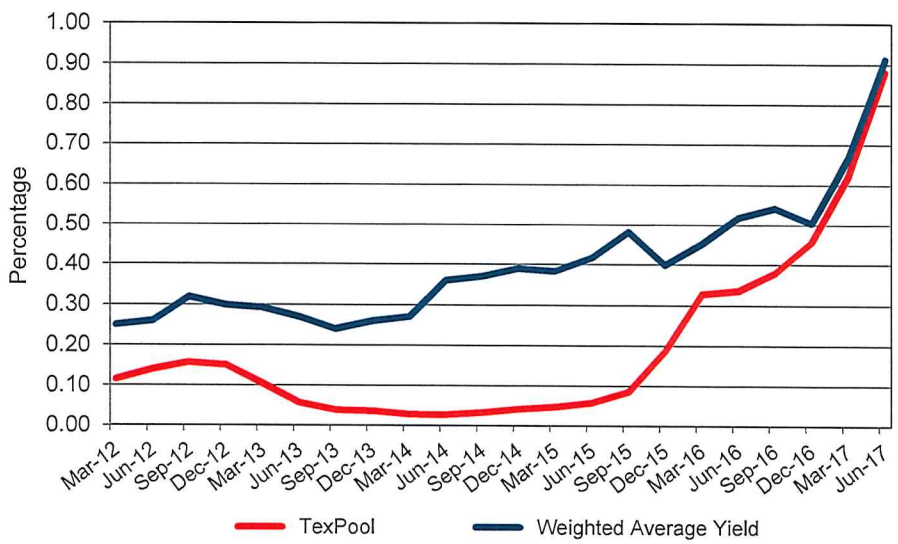
Portfolio Composition



Total Portfolio (Millions)



Total Portfolio Performance



Book Value Comparison

Description	Coupon/ Discount	Maturity Date	March 31, 2017 Par Value	March 31, 2017 Book Value	Purchases/ Adjustments	Sales/Adjust/ Call/Maturity	June 30, 2017 Par Value	June 30, 2017 Book Value
Wells Fargo DDA	0.00%	07/01/17	$ 500,000	$ 500,000	$ –	$ –	$ 500,000	$ 500,000
Wells Fargo MMA	0.10%	07/01/17	27,314,039	27,314,039		(10,125,355)	17,188,684	17,188,684
BTH Bank MMA	1.43%	07/01/17	245,235	245,235	51		245,286	245,286
BTH Bank ICS	1.42%	07/01/17	1,748,035	1,748,035	6,596		1,754,631	1,754,631
Southside Bank MMA	1.02%	07/01/17	8,706,787	8,706,787	20,064		8,726,850	8,726,850
NexBank MMA	1.36%	07/01/17	5,001,823	5,001,823	7,024,988		12,026,811	12,026,811
Texas Class	1.13%	07/01/17	9,586,378	9,586,378	7,611,168		17,197,547	17,197,547
TexPool	0.88%	07/01/17	158,499	158,499	311		158,811	158,811
Univ of N. TX - Muni	1.04%	04/15/17	250,000	250,000		(250,000)	–	–
Inter National Bank CD	1.35%	05/08/17	1,039,001	1,039,001		(1,039,001)	–	–
Comerica Bank CD	0.99%	06/13/17	1,020,017	1,020,017		(1,020,017)	–	–
BTH Bank CDARS	0.86%	08/18/17	1,005,339	1,005,339	2,158		1,007,497	1,007,497
Texas Security Bank CD	1.10%	08/25/17	1,000,000	1,000,000			1,000,000	1,000,000
Independent Bank CD	0.85%	08/28/17	1,004,290	1,004,290	2,081		1,006,371	1,006,371
Comerica Bank CD	1.13%	09/13/17	1,022,878	1,022,878	2,916		1,025,794	1,025,794
Herring Bank CDARS	1.00%	11/09/17	1,003,879	1,003,879	2,494		1,006,372	1,006,372
Texas Security Bank CD	1.15%	11/25/17	1,000,000	1,000,000			1,000,000	1,000,000
Landmark Bank CD	0.94%	02/08/18	1,002,369	1,002,369	2,297		1,004,667	1,004,667
LegacyTexas Bank CD	1.20%	03/15/18	100,000	100,000	303		100,303	100,303
LegacyTexas Bank CD	1.25%	06/18/18	3,400,000	3,400,000	10,724		3,410,724	3,410,724
Landmark Bank CD	1.03%	08/08/18	1,002,596	1,002,596	2,518		1,005,114	1,005,114
LegacyTexas Bank CD	1.30%	09/17/18	750,000	750,000	2,460		752,460	752,460
Herring Bank CDARS	1.14%	11/15/18	1,004,238	1,004,238	2,867		1,007,105	1,007,105
LegacyTexas Bank CD	1.40%	12/17/18	750,000	750,000	2,650		752,650	752,650
LegacyTexas Bank CD	1.45%	03/15/19	1,000,000	1,000,000	3,659		1,003,659	1,003,659
TOTAL			**$ 70,615,403**	**$ 70,615,403**	**$ 14,700,305**	**$ (12,434,372)**	**$ 72,881,336**	**$ 72,881,336**

Market Value Comparison

Description	Coupon/ Discount	Maturity Date	March 31, 2017 Par Value	March 31, 2017 Market Value	Qtr to Qtr Change	June 30, 2017 Par Value	June 30, 2017 Market Value
Wells Fargo DDA	0.00%	07/01/17	$ 500,000	$ 500,000	$ –	$ 500,000	$ 500,000
Wells Fargo MMA	0.10%	07/01/17	27,314,039	27,314,039	(10,125,355)	17,188,684	17,188,684
BTH Bank MMA	1.43%	07/01/17	245,235	245,235	51	245,286	245,286
BTH Bank ICS	1.42%	07/01/17	1,748,035	1,748,035	6,596	1,754,631	1,754,631
Southside Bank MMA	1.02%	07/01/17	8,706,787	8,706,787	20,064	8,726,850	8,726,850
NexBank MMA	1.36%	07/01/17	5,001,823	5,001,823	7,024,988	12,026,811	12,026,811
Texas Class	1.13%	07/01/17	9,586,378	9,586,378	7,611,168	17,197,547	17,197,547
TexPool	0.88%	07/01/17	158,499	158,499	311	158,811	158,811
Univ of N. TX - Muni	1.04%	04/15/17	250,000	249,990	(249,990)	–	–
Inter National Bank CD	1.35%	05/08/17	1,039,001	1,039,001	(1,039,001)	–	–
Comerica Bank CD	0.99%	06/13/17	1,020,017	1,020,017	(1,020,017)	–	–
BTH Bank CDARS	0.86%	08/18/17	1,005,339	1,005,339	2,158	1,007,497	1,007,497
Texas Security Bank CD	1.10%	08/25/17	1,000,000	1,000,000		1,000,000	1,000,000
Independent Bank CD	0.85%	08/28/17	1,004,290	1,004,290	2,081	1,006,371	1,006,371
Comerica Bank CD	1.13%	09/13/17	1,022,878	1,022,878	2,916	1,025,794	1,025,794
Herring Bank CDARS	1.00%	11/09/17	1,003,879	1,003,879	2,494	1,006,372	1,006,372
Texas Security Bank CD	1.15%	11/25/17	1,000,000	1,000,000		1,000,000	1,000,000
Landmark Bank CD	0.94%	02/08/18	1,002,369	1,002,369	2,297	1,004,667	1,004,667
LegacyTexas Bank CD	1.20%	03/15/18	100,000	100,000	303	100,303	100,303
LegacyTexas Bank CD	1.25%	06/18/18	3,400,000	3,400,000	10,724	3,410,724	3,410,724
Landmark Bank CD	1.03%	08/08/18	1,002,596	1,002,596	2,518	1,005,114	1,005,114
LegacyTexas Bank CD	1.30%	09/17/18	750,000	750,000	2,460	752,460	752,460
Herring Bank CDARS	1.14%	11/15/18	1,004,238	1,004,238	2,867	1,007,105	1,007,105
LegacyTexas Bank CD	1.40%	12/17/18	750,000	750,000	2,650	752,650	752,650
LegacyTexas Bank CD	1.45%	03/15/19	1,000,000	1,000,000	3,659	1,003,659	1,003,659
TOTAL			**$ 70,615,403**	**$ 70,615,393**	**$ 2,265,943**	**$ 72,881,336**	**$ 72,881,336**

Fund Allocation - Book Value
June 30, 2017

	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		17,188,684	17,188,684				
BTH Bank MMA		245,286	245,286				
BTH Bank ICS		1,754,631	1,754,631				
Southside Bank MMA		8,726,850	7,710,621	1,016,230			
NexBank MMA		12,026,811	12,026,811				
Texas Class		17,197,547	33,894	17,163,652			
TexPool		158,811	115,987	8,098	13,187		21,538
BTH Bank CDARS	08/18/17	1,007,497	1,007,497				
Texas Security Bank CD	08/25/17	1,000,000	1,000,000				
Independent Bank CD	08/28/17	1,006,371	1,006,371				
Comerica Bank CD	09/13/17	1,025,794	923,215			102,579	
Herring Bank CDARS	11/09/17	1,006,372	1,006,372				
Texas Security Bank CD	11/25/17	1,000,000	1,000,000				
Landmark Bank CD	02/08/18	1,004,667	1,004,667				
LegacyTexas Bank CD	03/15/18	100,303	100,303				
LegacyTexas Bank CD	06/18/18	3,410,724	3,410,724				
Landmark Bank CD	08/08/18	1,005,114	1,005,114				
LegacyTexas Bank CD	09/17/18	752,460	752,460				
Herring Bank CDARS	11/15/18	1,007,105	1,007,105				
LegacyTexas Bank CD	12/17/18	752,650	752,650				
LegacyTexas Bank CD	03/15/19	1,003,659	1,003,659				
Total		**$ 72,881,336**	**$ 54,556,051**	**$ 18,187,981**	**$ 13,187**	**$ 102,579**	**$ 21,538**

Fund Allocation - Market Value
June 30, 2017

	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		17,188,684	17,188,684				
BTH Bank MMA		245,286	245,286				
BTH Bank ICS		1,754,631	1,754,631				
Southside Bank MMA		8,726,850	7,710,621	1,016,230			
NexBank MMA		12,026,811	12,026,811				
Texas Class		17,197,547	33,894	17,163,652			
TexPool		158,811	115,987	8,098	13,187		21,538
BTH Bank CDARS	08/18/17	1,007,497	1,007,497				
Texas Security Bank CD	08/25/17	1,000,000	1,000,000				
Independent Bank CD	08/28/17	1,006,371	1,006,371				
Comerica Bank CD	09/13/17	1,025,794	923,215			102,579	
Herring Bank CDARS	11/09/17	1,006,372	1,006,372				
Texas Security Bank CD	11/25/17	1,000,000	1,000,000				
Landmark Bank CD	02/08/18	1,004,667	1,004,667				
LegacyTexas Bank CD	03/15/18	100,303	100,303				
LegacyTexas Bank CD	06/18/18	3,410,724	3,410,724				
Landmark Bank CD	08/08/18	1,005,114	1,005,114				
LegacyTexas Bank CD	09/17/18	752,460	752,460				
Herring Bank CDARS	11/15/18	1,007,105	1,007,105				
LegacyTexas Bank CD	12/17/18	752,650	752,650				
LegacyTexas Bank CD	03/15/19	1,003,659	1,003,659				
Total		**$ 72,881,336**	**$ 54,556,051**	**$ 18,187,981**	**$ 13,187**	**$ 102,579**	**$ 21,538**

Fund Allocation - Book Value
March 31, 2017

	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		27,314,039	27,314,039				
BTH Bank MMA		245,235	245,235				
BTH Bank ICS		1,748,035	1,748,035				
Southside Bank MMA		8,706,787	7,692,893	1,013,894			
NexBank MMA		5,001,823	5,001,823				
Texas Class		9,586,378	33,802	9,552,576			
TexPool		158,499	115,760	8,082	13,161		21,496
Univ of N. TX - Muni	04/15/17	250,000	250,000				
Inter National Bank CD	05/08/17	1,039,001	1,039,001				
Comerica Bank CD	06/13/17	1,020,017	1,020,017				
BTH Bank CDARS	08/18/17	1,005,339	1,005,339				
Texas Security Bank CD	08/25/17	1,000,000	1,000,000				
Independent Bank CD	08/28/17	1,004,290	1,004,290				
Comerica Bank CD	09/13/17	1,022,878	920,590			102,288	
Herring Bank CDARS	11/09/17	1,003,879	1,003,879				
Texas Security Bank CD	11/25/17	1,000,000	1,000,000				
Landmark Bank CD	02/08/18	1,002,369	1,002,369				
LegacyTexas Bank CD	03/15/18	100,000	100,000				
LegacyTexas Bank CD	06/18/18	3,400,000	3,400,000				
Landmark Bank CD	08/08/18	1,002,596	1,002,596				
LegacyTexas Bank CD	09/17/18	750,000	750,000				
Herring Bank CDARS	11/15/18	1,004,238	1,004,238				
LegacyTexas Bank CD	12/17/18	750,000	750,000				
LegacyTexas Bank CD	03/15/19	1,000,000	1,000,000				
Total		**$ 70,615,403**	**$ 59,903,906**	**$ 10,574,552**	**$ 13,161**	**$ 102,288**	**$ 21,496**

Fund Allocation - Market Value
March 31, 2017

	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		27,314,039	27,314,039				
BTH Bank MMA		245,235	245,235				
BTH Bank ICS		1,748,035	1,748,035				
Southside Bank MMA		8,706,787	7,692,893	1,013,894			
NexBank MMA		5,001,823	5,001,823				
Texas Class		9,586,378	33,802	9,552,576			
TexPool		158,499	115,760	8,082	13,161		21,496
Univ of N. TX - Muni	04/15/17	249,990	249,990				
Inter National Bank CD	05/08/17	1,039,001	1,039,001				
Comerica Bank CD	06/13/17	1,020,017	1,020,017				
BTH Bank CDARS	08/18/17	1,005,339	1,005,339				
Texas Security Bank CD	08/25/17	1,000,000	1,000,000				
Independent Bank CD	08/28/17	1,004,290	1,004,290				
Comerica Bank CD	09/13/17	1,022,878	920,590			102,288	
Herring Bank CDARS	11/09/17	1,003,879	1,003,879				
Texas Security Bank CD	11/25/17	1,000,000	1,000,000				
Landmark Bank CD	02/08/18	1,002,369	1,002,369				
LegacyTexas Bank CD	03/15/18	100,000	100,000				
LegacyTexas Bank CD	06/18/18	3,400,000	3,400,000				
Landmark Bank CD	08/08/18	1,002,596	1,002,596				
LegacyTexas Bank CD	09/17/18	750,000	750,000				
Herring Bank CDARS	11/15/18	1,004,238	1,004,238				
LegacyTexas Bank CD	12/17/18	750,000	750,000				
LegacyTexas Bank CD	03/15/19	1,000,000	1,000,000				
Total		**$ 70,615,393**	**$ 59,903,896**	**$ 10,574,552**	**$ 13,161**	**$ 102,288**	**$ 21,496**

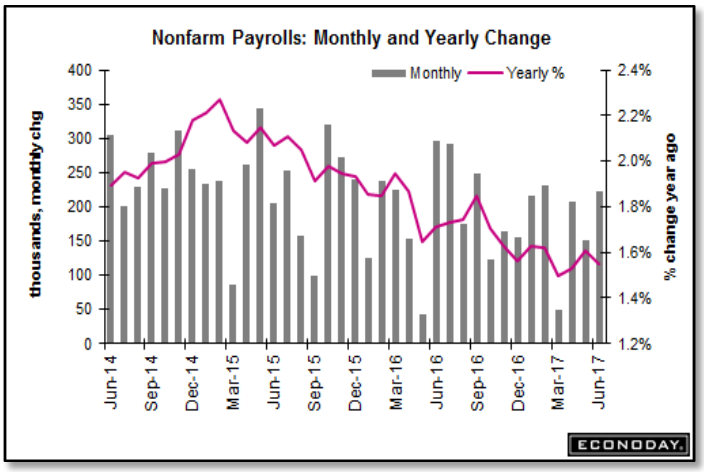
Valley View Consulting, L.L.C.

Market Outlook

July 7, 2017

The economic news during June was mixed, but growth remains muted in most of the released reports. The consumer cannot seem to be enticed to spend and with 70% of GDP dependent on this consumption, it will be hard to imagine any robustness until consumers decide to open their wallets. The Housing sector has been volatile over the past three months; a period where the market generally sees strength. Production reports were lackluster, probably due to the perception of an unmotivated consumer. Despite the subdued market assessments, the Federal Open Market Committee raised the Fed Funds rate and appears committed to reducing the size of their Treasury/Agency holdings beginning in mid- to late-2017. International stress points, most notably North Korea and Syria, have inserted some skittishness in the markets and have placed downward pressure on Treasury/Agency rates. On the good news front, the Employment report for June was much improved from previous periods and positive revisions to preceding periods allowed the markets to breathe a sigh of relief.

The Employment report for June exceeded market expectations by adding 222,000 new jobs (the market had projected 170,000 jobs). The report also adjusted the previous two months by a total of +47,000. The May report was revised to +152,000 from the previous report of +138,000 and April was revised to +207,000 from the previous report of +174,000. The three-month average is a more comfortable +194,000 per month (the previous three-month average was +121,000 per month). For the first six-months of 2017, the monthly average has been +180,000 per month. Most sectors demonstrated increases with Healthcare (+37,000), Banking/Professional (+35,000) and Government (+35,000) leading the way. A surprise positive was in the Food/Entertainment adding 29,000 jobs, indicating a pick-up in consumer spending for discretionary items. The private sector added 187,000 jobs compared with +147,000 jobs in May. The current Labor Participation Rate, a measure of the percentage of eligible workers that hold jobs, rose slightly to 62.8% compared to May's 62.7 %. The Unemployment Rate rose to 4.4% from May's 4.3%. This uptick was due to the reentry of 350,000 workers that had previously lost faith in the job market and had ceased to look for work. This is a positive sign for the markets. 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 to 8.6% from May's 8.4%. Average Hourly Earnings (AHE) rose 0.2% in June after rising 0.2% in May. Year-over-year, the AHE is at +2.5%, the same as in April and May. Of note, economists typically see an AHE annual reading of +3.0% as the point where inflationary forces begin to increase. FOMC Chair Janet Yellen cites the goal of raising the Earnings Rate component of the Employment report as a priority. Another employment-related report (JOLTS or the Job Openings and Labor Turnover Report) cited that job openings are approximately one million ahead of actual hiring and noted that the spread gap was related to "skill scarcity in the labor market". This seems to one of the major obstacles to a fully functioning and balanced job market.



The housing sector was moderately improved during the month after a dismal April. Existing Home Sales rose 1.1% in May after falling 2.3% in April. Compared to last year, unit sales were 2.7% higher. Existing Home sales prices are also 2.7% higher than last year. Supply remained at 4.2 months, but remain below the healthy balance of 6 months. New Home Sales rose 2.9% in May following a decline of 11.4% in April. Prices rose 11.5% in May and are an impressive 16.8% higher than last year. Builders are cautiously optimistic, but have seen declines in foot traffic through their units. Supply of new homes is at 5.3 months. The S&P Case Shiller report of home prices in the 20 metropolitan areas indicated that prices rose 0.3% in April, after March's rise of 0.5%. The Federal Housing Finance Agency (FHFA), the entity that analyzes all domestic home prices, showed an increase in April of 0.7% following an increase of 0.7% in March. The

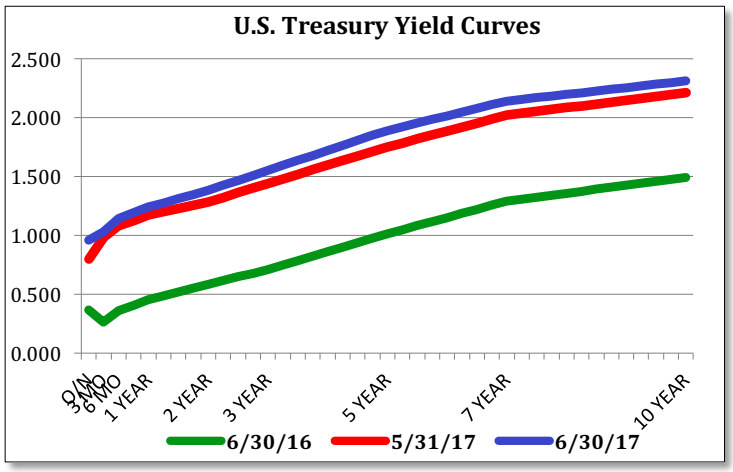
Housing Starts report fell 5.5% in May after falling 2.6% during April. Permits fell 4.9% in May after falling 4.5% in April. Construction Spending was flat in May after falling 0.7% in April (revised upward from the previously reported decline of 1.4%). Considering both the supply levels and price increases, it appears that the sellers remain in a strong position currently.

The production and manufacturing sector was mostly weak this month. The final report of Gross Domestic Product (GDP) for the first quarter at +1.4% was a positive revision from the preliminary report of +1.2%, but remains below the fourth quarter rate of +2.1% and reflects the weakest consumer spending in four years. Business inventories fell 0.2% in April after rising 0.2% in March. There is concern that declining inventories may be a possible sign of business caution about the consumer and does not bode well for GDP improvement in quarter two. Durable Goods Orders fell 1.1% in May after falling 0.9% in April, but the results were impacted by volatile airplane orders. Purchasing managers' expectations for both the manufacturing and service sectors, as reported by the Purchasing Managers Index and the Institute for Supply Management, were mixed. The Producer Price Index (PPI) was flat in May after rising 0.5% in April. The Consumer Price Index (CPI) fell 0.1% in May after rising 0.2% in April. Year-over-year CPI is +1.9% (weaker than last month's read of +2.1%). Core CPI, or the results after food and energy numbers are excluded (due to price volatility), posted a rise of 0.1% and is +1.7% higher than last year. Industrial Production was flat in May after a negatively adjusted +0.2% in April (formerly reported as an impressive uptick of +1.0%).

On the consumption front, Retail Sales reported a decline of 0.3% in May after a 0.4% gain in April. Vehicle sales were strong in April, but the number of car sales fell off in May. After experiencing an unusually weak quarter one, it appears that Retail Sales weakness is bleeding into quarter two. Consumers' attitudes as measured by the Consumer Confidence and Consumer Sentiment demonstrate a moderately confident consumer, but the survey found that consumers' buying plans were softening as they have set aside housing and automobile shopping plans.

The FOMC met on June 13th and 14th and announced that the Fed Funds rate will rise from a range of 0.75% to 1.00% to a new range of 1.00% to 1.25%. This move was widely anticipated, but the market appeared much more focused on any insight into when the FOMC might begin to taper their balance sheet holdings. The minutes released during early July described a discussion regarding a gradual removal of the stimuli that have ballooned the Federal balance sheet, currently at $4.5 trillion. It appeared that there remains a division among Committee members about when to begin the taper and the bias appears to be leaning towards a taper rollout in the Fall. As far as when the next increase in the Fed Funds rate might occur, the market is currently setting a 52% probability that the rate would rise in December 2017. The probability of an increase does not reach a higher probability (74%) until March of 2018.

Government Security Investment Pool rates rose during June, averaging in the +/-080% to +/-0.95% range, from +/-0.74% to +/-0.80% in May. After closing May with a rate of 1.17%, the 1-year Treasury closed June at 1.24%. The 2-year Treasury closed June at 1.38%, 10 basis-points higher than May's close at 1.28%. The current 2-year yield rose to 1.403% after release of the Employment Report. Certificate of Deposit rates remained mostly unchanged during June with the 2-year between 1.35% and 1.65%. Quarter-end pressures at the end of June brought a dip of about 10 basis points in offered rates as banks closed out their quarter, but that has since reversed with rates returning to previous levels.



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