

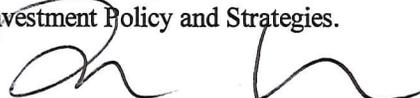
## QUARTERLY INVESTMENT REPORT

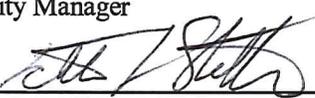
For the Quarter Ended

September 30, 2018

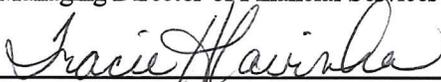
Prepared by  
Valley View Consulting, L.L.C.

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

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

  
\_\_\_\_\_  
Managing Director of Financial Services

  
\_\_\_\_\_  
Deputy 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.

## City of DeSoto, Texas Annual Comparison of Portfolio Performance

**FYE Results by Investment Category:**

Asset Type	September 30, 2017			September 30, 2018		
	Ave. Yield	Book Value	Market Value	Ave. Yield	Book Value	Market Value
DDA	0.00%	\$ 500,000	\$ 500,000	0.00%	\$ 500,000	\$ 500,000
MMA/NOW	0.73%	37,982,724	37,982,724	0.96%	30,720,455	30,720,455
Pools	1.25%	16,999,210	16,999,210	2.25%	11,485,761	11,485,761
CDs/Securities	1.23%	12,973,339	12,973,339	2.44%	26,727,577	26,727,577
<b>Totals</b>		<b>\$ 68,455,273</b>	<b>\$ 68,455,273</b>		<b>\$ 69,433,792</b>	<b>\$ 69,433,792</b>

Fourth Quarter-End Yield                      **0.97%**    **1.74%**

**Average Quarter-End Yields (1):**

	2017 Fiscal Year	2018 Fiscal Year
DeSoto	0.76%	1.42%
Rolling Three Month Treasury	0.75%	1.69%
Rolling Six Month Treasury	0.78%	1.73%
TexPool	0.74%	1.62%
<b>Fiscal YTD interest earnings</b>	<b>\$ 478,637</b>	<b>\$ 973,758</b>

(1) Average Quarterly Yield calculated using quarter-end report average yield and adjusted book value.

## Summary

### Quarter End Results by Investment Category:

<u>Asset Type</u>	<u>June 30, 2018</u>		<u>September 30, 2018</u>		
	<u>Book Value</u>	<u>Market Value</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Ave. Yield</u>
DDA	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	0.00%
MMA/NOW	38,064,992	38,064,992	30,720,455	30,720,455	0.96%
Pools	16,710,053	16,710,053	11,485,761	11,485,761	2.25%
CDs/Securities	17,929,106	17,929,106	26,727,577	26,727,577	2.44%
<b>Totals</b>	<b>\$ 73,204,151</b>	<b>\$ 73,204,151</b>	<b>\$ 69,433,792</b>	<b>\$ 69,433,792</b>	

#### Average Yield - Current Quarter (1)

Total Portfolio	1.74%
Rolling Three Mo. Treas. Yield	2.08%
Rolling Six Mo. Treas. Yield	2.15%

#### Fiscal Year-to-Date Average Yield (2)

Total Portfolio	1.42%
Rolling Three Mo. Treas. Yield	1.69%
Rolling Six Mo. Treas. Yield	1.73%
Quarterly TexPool Yield	1.62%

#### Interest Earnings

Quarterly Interest Income	\$ 289,222	Approximate
Year-to-date Interest Income	\$ 973,758	Approximate

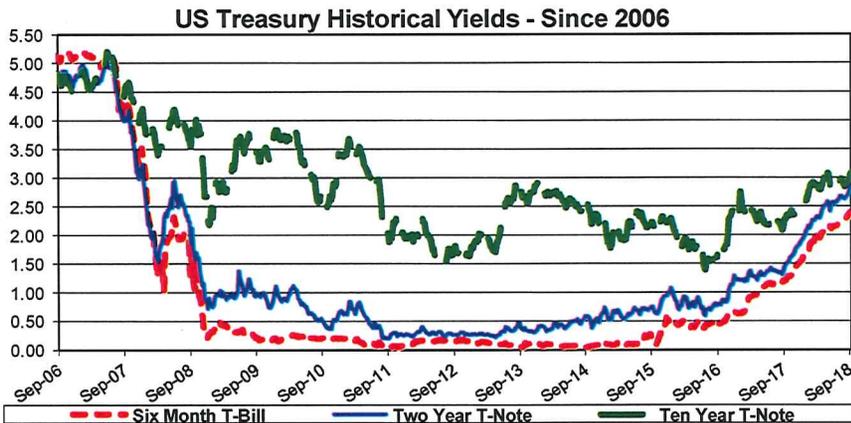
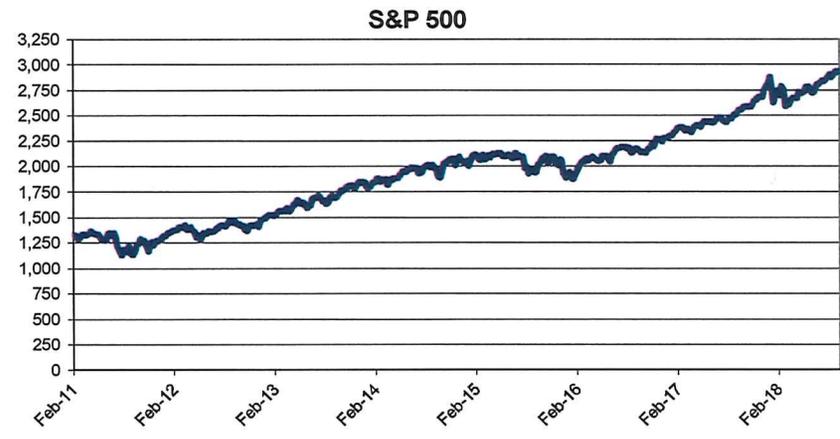
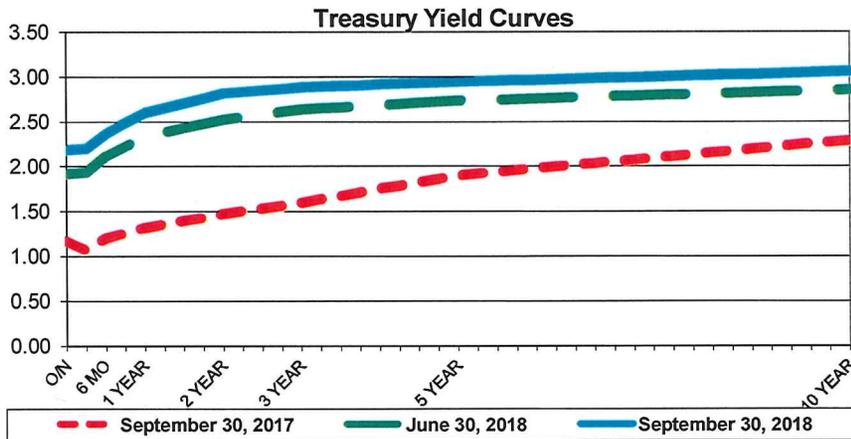
(1) Average Yield calculated using quarter end report yields and adjusted book values and does not reflect a total return analysis or account for advisory fees.

(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**

9/30/2018

The Federal Open Market Committee (FOMC) increased the Fed Funds target range to 2.00% - 2.25% (Effective Fed Funds are trading +/-2.18%). Additional range increases are still projected for Dec 2018 and 2019. Gradual FRB portfolio reduction continues by limiting reinvestment of maturing holdings. Second Quarter grew 4.2% (final estimate). Employment/ Unemployment continues to strong levels. WTI Crude oil increased above +/- \$70. The Stock Markets reached new highs. Consumer Confidence is strong. Personal Income is improving. The flattening yield curve may or may not impact long range FOMC actions.



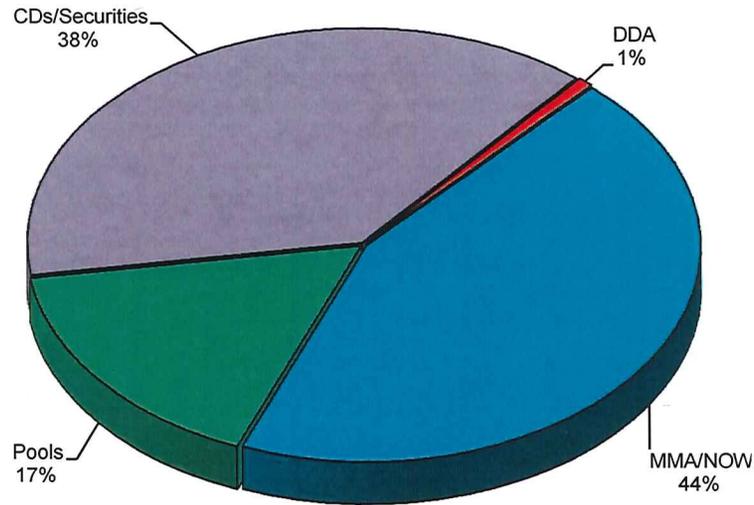
**Investment Holdings**  
**September 30, 2018**

Description	Ratings	Coupon/ Discount	Maturity Date	Settlement Date	Par Value	Book Value	Market Price	Market Value	Life (days)	Yield
Wells Fargo DDA		0.00%	10/01/18	09/30/18	\$ 500,000	\$ 500,000	1	\$ 500,000	1	0.00%
Wells Fargo MMA		0.10%	10/01/18	09/30/18	17,852,317	17,852,317	1	17,852,317	1	0.10%
BTH Bank MMA		2.08%	10/01/18	09/30/18	245,415	245,415	1	245,415	1	2.08%
BTH Bank ICS		2.08%	10/01/18	09/30/18	1,799,138	1,799,138	1	1,799,138	1	2.08%
Southside Bank MMA		2.14%	10/01/18	09/30/18	3,125,587	3,125,587	1	3,125,587	1	2.14%
NexBank MMA		2.22%	10/01/18	09/30/18	30,082	30,082	1	30,082	1	2.22%
NexBank MMA/ICS		2.18%	10/01/18	09/30/18	4,624,424	4,624,424	1	4,624,424	1	2.18%
Green Bank MMA		2.13%	10/01/18	09/30/18	3,043,492	3,043,492	1	3,043,492	1	2.13%
Texas CLASS	AAAm	2.26%	10/01/18	09/30/18	11,261,964	11,261,964	1	11,261,964	1	2.26%
TexPool	AAAm	2.00%	10/01/18	09/30/18	223,796	223,796	1	223,796	1	2.00%
LegacyTexas Bank CD		1.92%	11/09/18	02/09/18	1,011,205	1,011,205	100.00	1,011,205	40	1.92%
East West Bank CD		1.93%	11/15/18	02/15/18	1,013,578	1,013,578	100.00	1,013,578	46	1.93%
Herring Bank CDARS		1.14%	11/15/18	11/17/16	1,021,502	1,021,502	100.00	1,021,502	46	1.14%
LegacyTexas Bank CD		1.40%	12/17/18	03/15/17	765,951	765,951	100.00	765,951	78	1.40%
LegacyTexas Bank CD		2.00%	02/11/19	02/09/18	1,011,674	1,011,674	100.00	1,011,674	134	2.00%
East West Bank CD		2.05%	02/15/19	02/15/18	2,025,602	2,025,602	100.00	2,025,602	138	2.05%
Wallis State Bank CD		2.02%	02/15/19	02/16/18	2,020,084	2,020,084	100.00	2,020,084	138	2.02%
LegacyTexas Bank CD		1.45%	03/15/19	03/15/17	1,022,036	1,022,036	100.00	1,022,036	166	1.45%
Wallis State Bank CD		2.49%	05/15/19	08/15/18	1,000,000	1,000,000	100.00	1,000,000	227	2.49%
LegacyTexas Bank CD		2.58%	06/21/19	06/22/18	1,006,517	1,006,517	100.00	1,006,517	264	2.58%
Landmark Bank CD		2.60%	06/24/19	09/24/18	2,000,000	2,000,000	100.00	2,000,000	267	2.60%
Texas Security Bank CD		2.80%	09/14/19	09/14/18	1,900,000	1,900,000	100.00	1,900,000	349	2.80%
LegacyTexas Bank CD		2.78%	12/23/19	06/22/18	1,208,428	1,208,428	100.00	1,208,428	449	2.78%
BTH Bank CD		2.77%	02/15/20	08/15/18	2,004,705	2,004,705	100.00	2,004,705	503	2.77%
Landmark Bank CD		2.89%	03/24/20	09/24/18	1,000,000	1,000,000	100.00	1,000,000	541	2.89%
LegacyTexas Bank CD		2.86%	05/15/20	08/15/18	1,002,429	1,002,429	100.00	1,002,429	593	2.86%
LegacyTexas Bank CD		2.92%	06/22/20	06/22/18	1,208,854	1,208,854	100.00	1,208,854	631	2.92%
LegacyTexas Bank CD		2.95%	08/14/20	08/15/18	2,005,011	2,005,011	100.00	2,005,011	684	2.95%
Texas Security Bank CD		3.10%	09/25/20	09/25/18	2,500,000	2,500,000	100.00	2,500,000	726	3.10%
					<b>\$ 69,433,792</b>	<b>\$ 69,433,792</b>		<b>\$ 69,433,792</b>	<b>136</b>	<b>1.74%</b>
									<b>(1)</b>	<b>(2)</b>

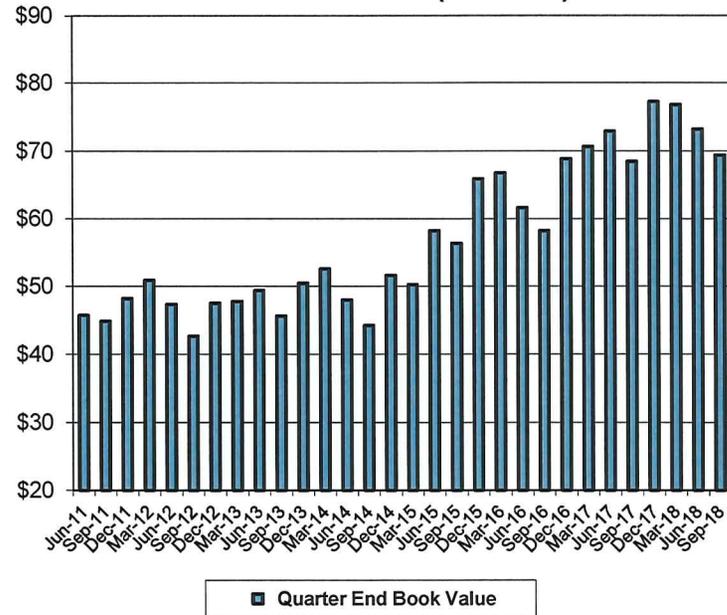
(1) **Weighted average life** - For purposes of calculating weighted average life, bank accounts, pools and money market funds are assumed to have an one day maturity.

(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.

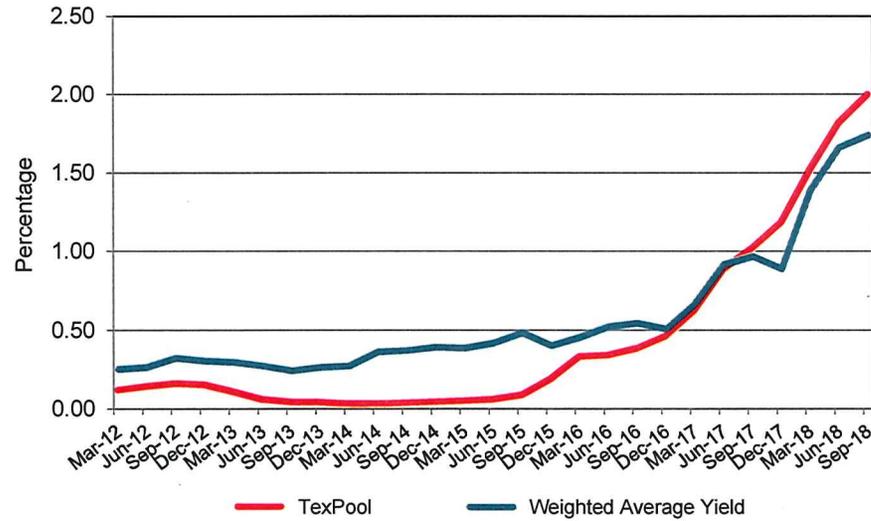
### Portfolio Composition



### Total Portfolio (Millions)



### Total Portfolio Performance



## Book Value Comparison

Description	Coupon/ Discount	Maturity Date	June 30, 2018		Purchases/ Adjustments	Sales/Adjust/ Call/Maturity	September 30, 2018	
			Par Value	Book Value			Par Value	Book Value
Wells Fargo DDA	0.00%	10/01/18	\$ 500,000	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ 500,000
Wells Fargo MMA	0.10%	10/01/18	13,220,188	13,220,188	4,632,130	-	17,852,317	17,852,317
BTH Bank MMA	2.08%	10/01/18	245,225	245,225	190	-	245,415	245,415
BTH Bank ICS	2.08%	10/01/18	1,788,442	1,788,442	10,696	-	1,799,138	1,799,138
Southside Bank MMA	2.14%	10/01/18	8,851,737	8,851,737	-	(5,726,150)	3,125,587	3,125,587
NexBank MMA	2.22%	10/01/18	29,918	29,918	164	-	30,082	30,082
NexBank MMA/ICS	2.18%	10/01/18	10,901,938	10,901,938	-	(6,277,514)	4,624,424	4,624,424
Green Bank MMA	2.13%	10/01/18	3,027,544	3,027,544	15,948	-	3,043,492	3,043,492
Texas CLASS	2.26%	10/01/18	16,443,206	16,443,206	-	(5,181,241)	11,261,964	11,261,964
TexPool	2.00%	10/01/18	266,848	266,848	-	(43,052)	223,796	223,796
Landmark Bank CD	1.03%	08/08/18	1,015,507	1,015,507	-	(1,015,507)	-	-
LegacyTexas Bank CD	1.84%	08/09/18	1,006,063	1,006,063	-	(1,006,063)	-	-
Texas Security Bank CD	1.45%	09/14/18	1,900,000	1,900,000	-	(1,900,000)	-	-
LegacyTexas Bank CD	1.30%	09/17/18	762,301	762,301	-	(762,301)	-	-
LegacyTexas Bank CD	1.92%	11/09/18	1,006,327	1,006,327	4,878	-	1,011,205	1,011,205
East West Bank CD	1.93%	11/15/18	1,007,150	1,007,150	6,428	-	1,013,578	1,013,578
Herring Bank CDARS	1.14%	11/15/18	1,018,562	1,018,562	2,940	-	1,021,502	1,021,502
LegacyTexas Bank CD	1.40%	12/17/18	763,255	763,255	2,697	-	765,951	765,951
LegacyTexas Bank CD	2.00%	02/11/19	1,006,592	1,006,592	5,083	-	1,011,674	1,011,674
East West Bank CD	2.05%	02/15/19	2,015,190	2,015,190	10,413	-	2,025,602	2,025,602
Wallis State Bank CD	2.02%	02/15/19	2,009,851	2,009,851	10,233	-	2,020,084	2,020,084
LegacyTexas Bank CD	1.45%	03/15/19	1,018,309	1,018,309	3,726	-	1,022,036	1,022,036
Wallis State Bank CD	2.49%	05/15/19	-	-	1,000,000	-	1,000,000	1,000,000
LegacyTexas Bank CD	2.58%	06/21/19	1,000,000	1,000,000	6,517	-	1,006,517	1,006,517
Landmark Bank CD	2.60%	06/24/19	-	-	2,000,000	-	2,000,000	2,000,000
Texas Security Bank CD	2.80%	09/14/19	-	-	1,900,000	-	1,900,000	1,900,000
LegacyTexas Bank CD	2.78%	12/23/19	1,200,000	1,200,000	8,428	-	1,208,428	1,208,428
BTH Bank CD	2.77%	02/15/20	-	-	2,004,705	-	2,004,705	2,004,705
Landmark Bank CD	2.89%	03/24/20	-	-	1,000,000	-	1,000,000	1,000,000
LegacyTexas Bank CD	2.86%	05/15/20	-	-	1,002,429	-	1,002,429	1,002,429
LegacyTexas Bank CD	2.92%	06/22/20	1,200,000	1,200,000	8,854	-	1,208,854	1,208,854
LegacyTexas Bank CD	2.95%	08/14/20	-	-	2,005,011	-	2,005,011	2,005,011
Texas Security Bank CD	3.10%	09/25/20	-	-	2,500,000	-	2,500,000	2,500,000
<b>TOTAL</b>			<b>\$ 73,204,151</b>	<b>73,204,151</b>	<b>18,141,469</b>	<b>(21,911,828)</b>	<b>69,433,792</b>	<b>69,433,792</b>

## Market Value Comparison

Description	Coupon/ Discount	Maturity Date	June 30, 2018		Qtr to Qtr Change	September 30, 2018	
			Par Value	Market Value		Par Value	Market Value
Wells Fargo DDA	0.00%	10/01/18	\$ 500,000	\$ 500,000	\$ -	\$ 500,000	\$ 500,000
Wells Fargo MMA	0.10%	10/01/18	13,220,188	13,220,188	4,632,130	17,852,317	17,852,317
BTH Bank MMA	2.08%	10/01/18	245,225	245,225	190	245,415	245,415
BTH Bank ICS	2.08%	10/01/18	1,788,442	1,788,442	10,696	1,799,138	1,799,138
Southside Bank MMA	2.14%	10/01/18	8,851,737	8,851,737	(5,726,150)	3,125,587	3,125,587
NexBank MMA	2.22%	10/01/18	29,918	29,918	164	30,082	30,082
NexBank MMA/ICS	2.18%	10/01/18	10,901,938	10,901,938	(6,277,514)	4,624,424	4,624,424
Green Bank MMA	2.13%	10/01/18	3,027,544	3,027,544	15,948	3,043,492	3,043,492
Texas CLASS	2.26%	10/01/18	16,443,206	16,443,206	(5,181,241)	11,261,964	11,261,964
TexPool	2.00%	10/01/18	266,848	266,848	(43,052)	223,796	223,796
Landmark Bank CD	1.03%	08/08/18	1,015,507	1,015,507	(1,015,507)	-	-
LegacyTexas Bank CD	1.84%	08/09/18	1,006,063	1,006,063	(1,006,063)	-	-
Texas Security Bank CD	1.45%	09/14/18	1,900,000	1,900,000	(1,900,000)	-	-
LegacyTexas Bank CD	1.30%	09/17/18	762,301	762,301	(762,301)	-	-
LegacyTexas Bank CD	1.92%	11/09/18	1,006,327	1,006,327	4,878	1,011,205	1,011,205
East West Bank CD	1.93%	11/15/18	1,007,150	1,007,150	6,428	1,013,578	1,013,578
Herring Bank CDARS	1.14%	11/15/18	1,018,562	1,018,562	2,940	1,021,502	1,021,502
LegacyTexas Bank CD	1.40%	12/17/18	763,255	763,255	2,697	765,951	765,951
LegacyTexas Bank CD	2.00%	02/11/19	1,006,592	1,006,592	5,083	1,011,674	1,011,674
East West Bank CD	2.05%	02/15/19	2,015,190	2,015,190	10,413	2,025,602	2,025,602
Wallis State Bank CD	2.02%	02/15/19	2,009,851	2,009,851	10,233	2,020,084	2,020,084
LegacyTexas Bank CD	1.45%	03/15/19	1,018,309	1,018,309	3,726	1,022,036	1,022,036
Wallis State Bank CD	2.49%	05/15/19	-	-	1,000,000	1,000,000	1,000,000
LegacyTexas Bank CD	2.58%	06/21/19	1,000,000	1,000,000	6,517	1,006,517	1,006,517
Landmark Bank CD	2.60%	06/24/19	-	-	2,000,000	2,000,000	2,000,000
Texas Security Bank CD	2.80%	09/14/19	-	-	1,900,000	1,900,000	1,900,000
LegacyTexas Bank CD	2.78%	12/23/19	1,200,000	1,200,000	8,428	1,208,428	1,208,428
BTH Bank CD	2.77%	02/15/20	-	-	2,004,705	2,004,705	2,004,705
Landmark Bank CD	2.89%	03/24/20	-	-	1,000,000	1,000,000	1,000,000
LegacyTexas Bank CD	2.86%	05/15/20	-	-	1,002,429	1,002,429	1,002,429
LegacyTexas Bank CD	2.92%	06/22/20	1,200,000	1,200,000	8,854	1,208,854	1,208,854
LegacyTexas Bank CD	2.95%	08/14/20	-	-	2,005,011	2,005,011	2,005,011
Texas Security Bank CD	3.10%	09/25/20	-	-	2,500,000	2,500,000	2,500,000
<b>TOTAL</b>			<b>\$ 73,204,151</b>	<b>\$ 73,204,151</b>	<b>\$ (3,770,359)</b>	<b>\$ 69,433,792</b>	<b>\$ 69,433,792</b>

**Fund Allocation - Book & Market Value  
September 30, 2018**

	<b>Maturity</b>	<b>Total</b>	<b>Concentration Fund</b>	<b>Capital Projects</b>	<b>Health Facilities Corporation</b>	<b>Industrial Development Authority</b>
Wells Fargo DDA		\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -
Wells Fargo MMA		17,852,317	17,852,317			
BTH Bank MMA		245,415	245,415			
BTH Bank ICS		1,799,138	1,799,138			
Southside Bank MMA		3,125,587	2,840,422	285,165		
NexBank MMA		30,082	30,082			
NexBank MMA/ICS		4,624,424	4,624,424			
Green Bank MMA		3,043,492	3,043,492			
Texas CLASS		11,261,964	173,234	11,088,731		
TexPool		223,796	180,202	8,244	13,424	21,926
LegacyTexas Bank CD	11/09/18	1,011,205	1,011,205			
East West Bank CD	11/15/18	1,013,578	1,013,578			
Herring Bank CDARS	11/15/18	1,021,502	1,021,502			
LegacyTexas Bank CD	12/17/18	765,951	765,951			
LegacyTexas Bank CD	02/11/19	1,011,674	1,011,674			
East West Bank CD	02/15/19	2,025,602	2,025,602			
Wallis State Bank CD	02/15/19	2,020,084	2,020,084			
LegacyTexas Bank CD	03/15/19	1,022,036	1,022,036			
Wallis State Bank CD	05/15/19	1,000,000	1,000,000			
LegacyTexas Bank CD	06/21/19	1,006,517	1,006,517			
Landmark Bank CD	06/24/19	2,000,000	2,000,000			
Texas Security Bank CD	09/14/19	1,900,000	1,900,000			
LegacyTexas Bank CD	12/23/19	1,208,428	1,208,428			
BTH Bank CD	02/15/20	2,004,705	2,004,705			
Landmark Bank CD	03/24/20	1,000,000	1,000,000			
LegacyTexas Bank CD	05/15/20	1,002,429	1,002,429			
LegacyTexas Bank CD	06/22/20	1,208,854	1,208,854			
LegacyTexas Bank CD	08/14/20	2,005,011	2,005,011			
Texas Security Bank CD	09/25/20	2,500,000	2,500,000			
<b>Total</b>		<b>\$ 69,433,792</b>	<b>\$ 58,016,302</b>	<b>\$ 11,382,140</b>	<b>\$ 13,424</b>	<b>\$ 21,926</b>

**Fund Allocation - Book & Market Value  
June 30, 2018**

	<b>Maturity</b>	<b>Total</b>	<b>Concentration Fund</b>	<b>Capital Projects</b>	<b>Health Facilities Corporation</b>	<b>Industrial Development Authority</b>
Wells Fargo DDA		\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -
Wells Fargo MMA		13,220,188	13,220,188			
BTH Bank MMA		245,225	245,225			
BTH Bank ICS		1,788,442	1,788,442			
Southside Bank MMA		8,851,737	7,820,828	1,030,909		
NexBank MMA		29,918	29,918			
NexBank MMA/ICS		10,901,938	10,901,938			
Green Bank MMA		3,027,544	3,027,544			
Texas CLASS		16,443,206	482,202	15,961,003		
TexPool		266,848	223,466	8,204	13,359	21,820
Landmark Bank CD	08/08/18	1,015,507	1,015,507			
LegacyTexas Bank CD	08/09/18	1,006,063	1,006,063			
Texas Security Bank CD	09/14/18	1,900,000	1,900,000			
LegacyTexas Bank CD	09/17/18	762,301	762,301			
LegacyTexas Bank CD	11/09/18	1,006,327	1,006,327			
East West Bank CD	11/15/18	1,007,150	1,007,150			
Herring Bank CDARS	11/15/18	1,018,562	1,018,562			
LegacyTexas Bank CD	12/17/18	763,255	763,255			
LegacyTexas Bank CD	02/11/19	1,006,592	1,006,592			
East West Bank CD	02/15/19	2,015,190	2,015,190			
Wallis State Bank CD	02/15/19	2,009,851	2,009,851			
LegacyTexas Bank CD	03/15/19	1,018,309	1,018,309			
LegacyTexas Bank CD	06/21/19	1,000,000	1,000,000			
LegacyTexas Bank CD	12/23/19	1,200,000	1,200,000			
LegacyTexas Bank CD	06/22/20	1,200,000	1,200,000			
<b>Total</b>		<b>\$ 73,204,151</b>	<b>\$ 56,168,857</b>	<b>\$ 17,000,116</b>	<b>\$ 13,359</b>	<b>\$ 21,820</b>



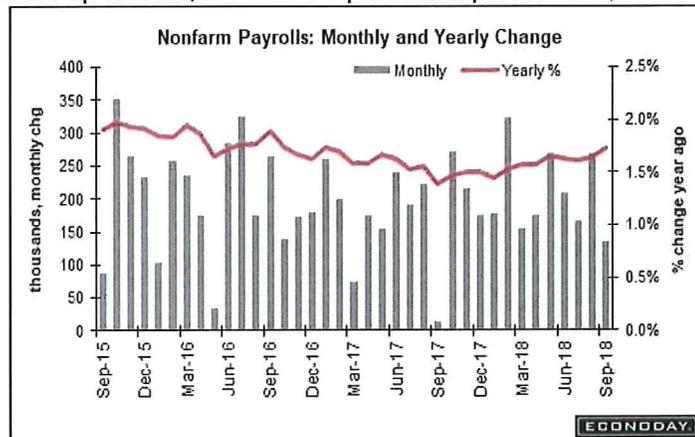
## Market Outlook

October 5, 2018

The Federal Open Market Committee (FOMC) acknowledged that the economy is experiencing strength and opined that they should continue to raise the Fed Funds Rate. They voted to increase the Fed Funds Rate range by 25 basis-points immediately and indicated their expectation of an additional increase before year end. Surprisingly, their announcement script did not mention trade policy or fiscal policy. Market participants continue to express concerns over the impact that deteriorating trade relations between the U.S. and China might have on the global economy, but the Fed did not weigh in. Domestically, Hurricane Florence has impacted economic reports covering the period when the storm shut down several of the Eastern states.

The Employment report for September was subdued, showing that 134,000 new jobs were created, but this was deemed to be a result of Hurricane Florence. The report increased the previous two months by a total of 87,000 jobs. The August report was revised up to +270,000 from the previous report of +201,000 and July was revised higher to +165,000 from the previous report of +147,000.

The three-month average came in at +190,000 per month (the previous three-month average was +185,000 per month). The sectors with gains were Health Care (+26,000), Professional/Business (+54,000), Government (+13,000) and Manufacturing (+18,000). The Retail sector lost 20,000 jobs, and the Leisure (restaurants/entertainment) sector dropped 17,000 jobs. The private sector gained 121,000 jobs compared with +187,000 jobs in August. The current Labor Participation Rate, a measure of



the percentage of eligible workers that hold jobs, remained at 62.7%. The Unemployment Rate dropped to the lowest level since December 1969 and recorded a 3.7% (previously at 3.9%). 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 7.5% from the previous 7.4%. Average Hourly Earnings (AHE) rose 0.3% in September after a rise of 0.4% in August. Year-over-year AHE dropped slightly to +2.8%, remaining very close to the 3.0% level where inflationary forces generally begin to increase.

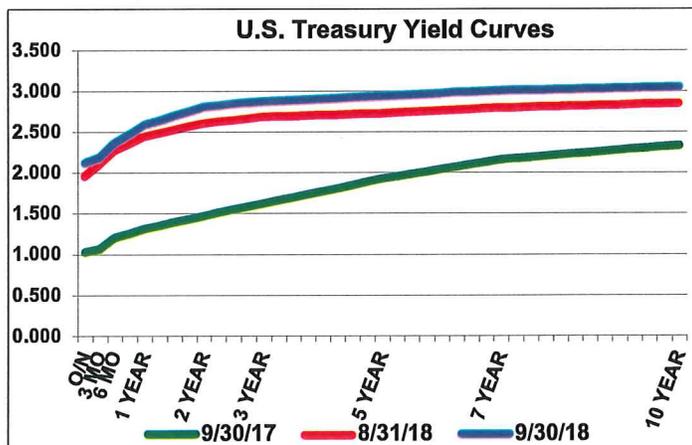
The housing sector data was disappointing, although some of the headlines at first appeared optimistic. Existing Home Sales were flat in August after falling 0.7% in July. Year-over-year, Existing Sales are down 1.5%. The number of units for sale remained at 4.3 months' supply, still below the normal balance point of 6-months. The median home price for Existing Homes fell 1.7%. The headline number for New Home Sales rose 3.45% during August following a decrease of 4.7% in July. The data beneath the headline however shows that sharp downward revisions to June and July positively skewed the August result. Median prices fell 2.4% from July, demonstrating seller discounting to move units. The supply level fell to 6.1 months versus the 6.2-month level during July (revised from the previously reported 5.9 months). The S&P Case Shiller report of home prices in the 20 metropolitan areas, reported a 0.3% increase in home values during July, and the Federal Housing Finance Agency (FHFA), the entity that analyzes all domestic home prices, reported a rise of 0.3%. Housing Starts rose 9.2% in August after rising 0.9% in July and falling 12.3% in June. Permits fell 5.7% in August after rising 1.5% in July and falling 2.2% in June. Both indexes show the volatility that has been a part of the New Home building sector. Construction Spending rose 0.4% in August after rising 0.2% in July. The headline number however disguises the fact that there were significant declines in residential construction that were offset by increases in government spending for highways and streets. Realtors have expressed concerns that a lack of affordability, rising interest rates and a general lack of interest in buying homes has started to negatively impact the housing sector.

The production and manufacturing sectors had good reports during the month. The final report for Gross Domestic Product (GDP) for the second quarter 2018 was reported at +4.2%, much better than the first quarter report of +2.2%. Business inventories increased 0.6% in July after rising 0.1% in June. A slowdown from the steep surge in sales over the past few months caused the uptick in inventories. Year-over-year, sales were up 3.1% after experiencing a year-over-year increase of 8.2% during June. Industrial Production rose 0.4% in August after a rising 0.1% in July. Durable Goods Orders surged 4.5% in August, but this increase was skewed by an uptick in aircraft orders, which rose 108% month-over-month. The index had reported a decline of 1.2% in July. Factory Orders were likewise skewed by aircraft, rising 2.3% in August after falling 0.5% in July. Purchasing managers' expectations for both the manufacturing and service sectors, as reported by the Purchasing Managers Index and the Institute for Supply Management, remained in the strong positive range. The Producer Price Index (PPI) fell 0.1% in August after a flat reading in July. It is up 2.8% year-over-year. The Consumer Price Index (CPI) rose 0.2% in August after rising 0.2% in July. Year-over-year CPI fell to +2.7 from +2.9% in July. Core CPI, or the results after food and energy numbers are excluded (due to price volatility), posted a rise of 0.1% and is +2.2% higher than last year.

On the consumption front, Retail Sales posted a modest gain of +0.1% in August after reporting an increase of 0.7% in July. Expectations were much higher than the results, as the market was anticipating a strong back-to-school season, which is the second most important season for retailers. A good back to school market usually bodes well for the extremely significant holiday season. Weak auto purchases pulled down the results, but there were also declines in apparel and department store sales, which usually benefit during the back-to-school season. Consumers' attitudes as measured by the Consumer Confidence and Consumer Sentiment indices remained extremely strong during September. The Consumer Confidence score experienced the highest reading in 18 years and should hint at improved consumption. Core Personal Consumption Expenditure Index (PCE), one of the inflation indicators that the FOMC pays close attention to, again hit the FOMC's target of 2.0% during August.

The Federal Open Market Committee (FOMC) met on September 25<sup>th</sup> and 26<sup>th</sup> and the announcement upon adjournment was that the Fed Funds Rate would be increased to a range of 2.00% to 2.25% from the previous range of 1.75% to 2.00%. At the quarterly press conference held by Chairman Powell following the meeting, he cited a strong labor market, increased hourly earnings, and improving consumption indicators as reasons that the Committee decided to make their move. The Committee released their forecasts for several economic indicators through 2021 and most were improved from the forecasts provided in June. The Committee expects that real GDP will come in for 2018 at +3.1%, +2.5% in 2019, +2.0% in 2020 and +1.9% in 2021. They also projected another rate increase during 2018 (likely at the December 19 meeting) and three increases during 2019.

Government Security Investment Pool rates improved in September and ranged between 1.96% and 2.17% with month-end rates at 2.12% to 2.17%, compared to a range of 1.97% to 2.01% in August. Overall, the Treasury yield curve moved higher, but still remains flat out beyond two years. After closing August at 2.46%, the 1-year Treasury closed higher in September at 2.59%. The 2-year Treasury closed September at 2.81%; nineteen basis-points higher than August's 2.62% close. The current 2-year yield is 2.885% after release of the Employment Report. CD rates edged higher in September with the 2-year between 2.97% to 3.10%. Laddering of maturities is still advised and is a good defense should economic activity cool.



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