



CITY OF DESOTO

SOARING FOR EXCELLENCE

QUARTERLY INVESTMENT REPORT

For the Quarter Ended

December 31, 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

Assistant Director of Finance

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.

Summary

Quarter End Results by Investment Category:

<u>Asset Type</u>	<u>September 30, 2018</u>		<u>December 31, 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	30,720,455	30,720,455	39,937,498	39,937,498	1.58%
Pools	11,485,761	11,485,761	10,844,047	10,844,047	2.50%
CDs/Securities	26,727,577	26,727,577	29,780,809	29,780,809	2.69%
Totals	\$ 69,433,792	\$ 69,433,792	\$ 81,062,354	\$ 81,062,354	

Average Yield - Current Quarter (1)

Total Portfolio	2.10%
Rolling Three Month Treasury	2.37%
Rolling Six Month Treasury	2.39%

Fiscal Year-to-Date Average Yield (2)

Total Portfolio	2.10%
Rolling Three Month Treasury	2.37%
Rolling Six Month Treasury	2.39%
TexPool	2.29%

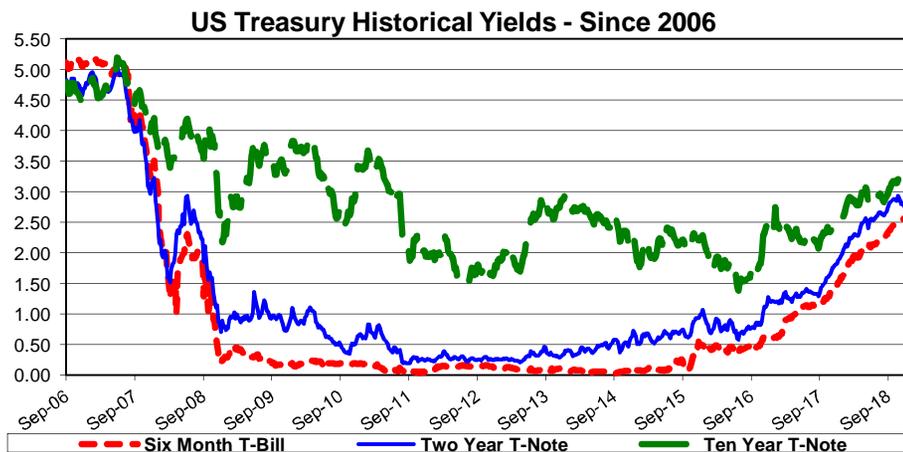
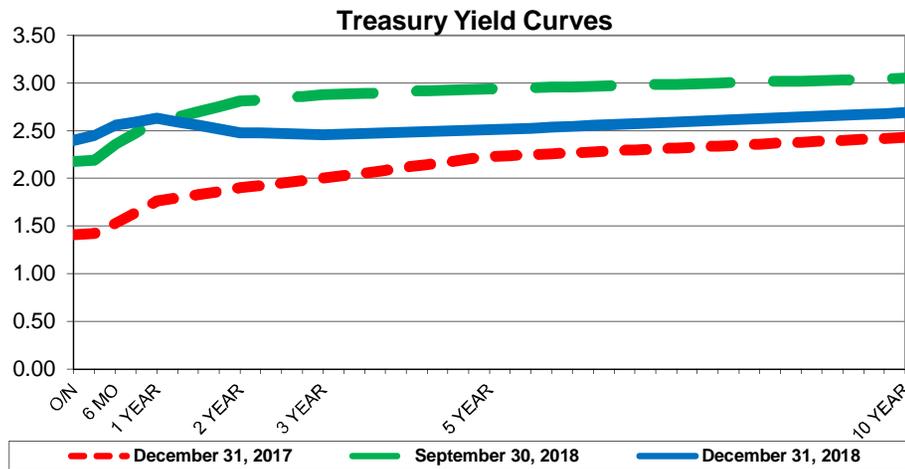
Interest Earnings

Quarterly Interest Income	\$ 347,012	Approximate
Year-to-date Interest Income	\$ 347,012	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) increased the Fed Funds target range to 2.25% - 2.50% (Effective Fed Funds are trading +/-2.40%). The official outlook calls for two additional increases during 2019. However, the market is currently projecting zero 2019 increases. Gradual FRB portfolio reduction continues by limiting reinvestment of maturing holdings. Third Quarter GDP grew 3.4% (final). Employment/ Unemployment remain solid with December adding 312k new jobs and a 254k three month average. Crude oil decreased below +/- \$50. The Stock Markets drifted slightly higher than recent lows. Housing continues to weaken. The mid-maturity yield curve flattened.



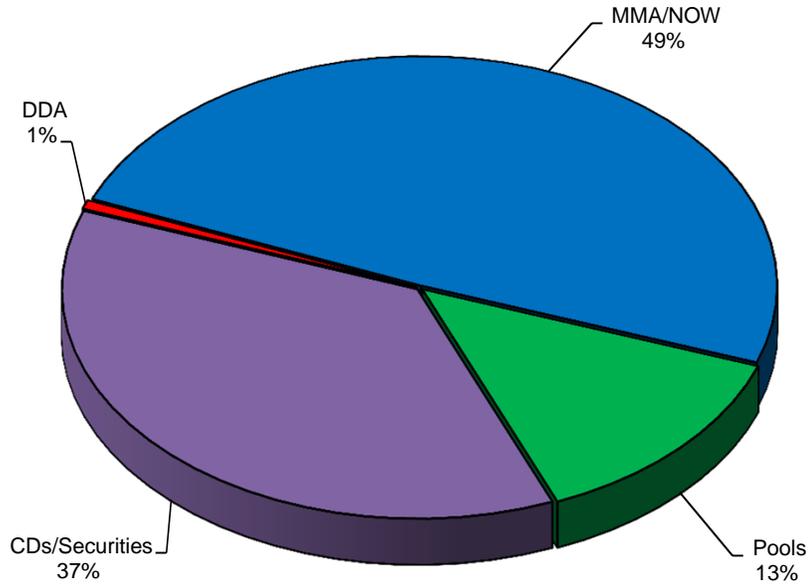
Investment Holdings
December 31, 2018

Description	Ratings	Coupon/ Discount	Maturity Date	Settlement Date	Par Value	Book Value	Market Price	Market Value	Life (days)	Yield
Wells Fargo DDA		0.00%	01/01/19	12/31/18	\$ 500,000	\$ 500,000	1	\$ 500,000	1	0.00%
Wells Fargo MMA		1.11%	01/01/19	12/31/18	26,789,134	26,789,134	1	26,789,134	1	1.11%
BTH Bank MMA		2.36%	01/01/19	12/31/18	245,487	245,487	1	245,487	1	2.36%
BTH Bank ICS		2.34%	01/01/19	12/31/18	1,810,017	1,810,017	1	1,810,017	1	2.34%
Southside Bank MMA		2.44%	01/01/19	12/31/18	2,352,850	2,352,850	1	2,352,850	1	2.44%
NexBank MMA		2.56%	01/01/19	12/31/18	30,269	30,269	1	30,269	1	2.56%
NexBank MMA/ICS		2.65%	01/01/19	12/31/18	7,656,159	7,656,159	1	7,656,159	1	2.65%
Green Bank MMA		2.40%	01/01/19	12/31/18	1,053,583	1,053,583	1	1,053,583	1	2.40%
Texas CLASS	AAAm	2.50%	01/01/19	12/31/18	10,619,001	10,619,001	1	10,619,001	1	2.50%
TexPool	AAAm	2.29%	01/01/19	12/31/18	225,046	225,046	1	225,046	1	2.29%
LegacyTexas Bank CD		2.00%	02/11/19	02/09/18	1,016,727	1,016,727	100.00	1,016,727	42	2.02%
East West Bank CD		2.05%	02/15/19	02/15/18	2,036,069	2,036,069	100.00	2,036,069	46	2.07%
WallisBank CD		2.02%	02/15/19	02/16/18	2,030,369	2,030,369	100.00	2,030,369	46	2.02%
LegacyTexas Bank CD		1.45%	03/15/19	03/15/17	1,025,735	1,025,735	100.00	1,025,735	74	1.46%
WallisBank CD		2.49%	05/15/19	08/15/18	1,006,266	1,006,266	100.00	1,006,266	135	2.51%
LegacyTexas Bank CD		2.58%	06/21/19	06/22/18	1,013,005	1,013,005	100.00	1,013,005	172	2.61%
Landmark Bank CD		2.60%	06/24/19	09/24/18	2,012,964	2,012,964	100.00	2,012,964	175	2.63%
Texas Security Bank CD		2.80%	09/14/19	09/14/18	1,900,000	1,900,000	100.00	1,900,000	257	2.80%
East West Bank CD		2.85%	12/06/19	12/06/18	2,500,000	2,500,000	100.00	2,500,000	340	2.89%
LegacyTexas Bank CD		2.78%	12/23/19	06/22/18	1,216,823	1,216,823	100.00	1,216,823	357	2.82%
BTH Bank CD		2.77%	02/15/20	08/15/18	2,018,582	2,018,582	100.00	2,018,582	411	2.81%
Landmark Bank CD		2.89%	03/24/20	09/24/18	1,007,205	1,007,205	100.00	1,007,205	449	2.92%
LegacyTexas Bank CD		2.86%	05/15/20	08/15/18	1,009,594	1,009,594	100.00	1,009,594	501	2.90%
LegacyTexas Bank CD		2.95%	06/05/20	12/05/18	2,250,000	2,250,000	100.00	2,250,000	522	2.99%
LegacyTexas Bank CD		2.92%	06/22/20	06/22/18	1,217,676	1,217,676	100.00	1,217,676	539	2.96%
LegacyTexas Bank CD		2.95%	08/14/20	08/15/18	2,019,794	2,019,794	100.00	2,019,794	592	2.99%
Texas Security Bank CD		3.10%	09/25/20	09/25/18	2,500,000	2,500,000	100.00	2,500,000	634	3.10%
LegacyTexas Bank CD		3.05%	12/04/20	12/05/18	2,000,000	2,000,000	100.00	2,000,000	704	3.09%
\$ 81,062,354						\$ 81,062,354		\$ 81,062,354	131	2.10%
									(1)	(2)

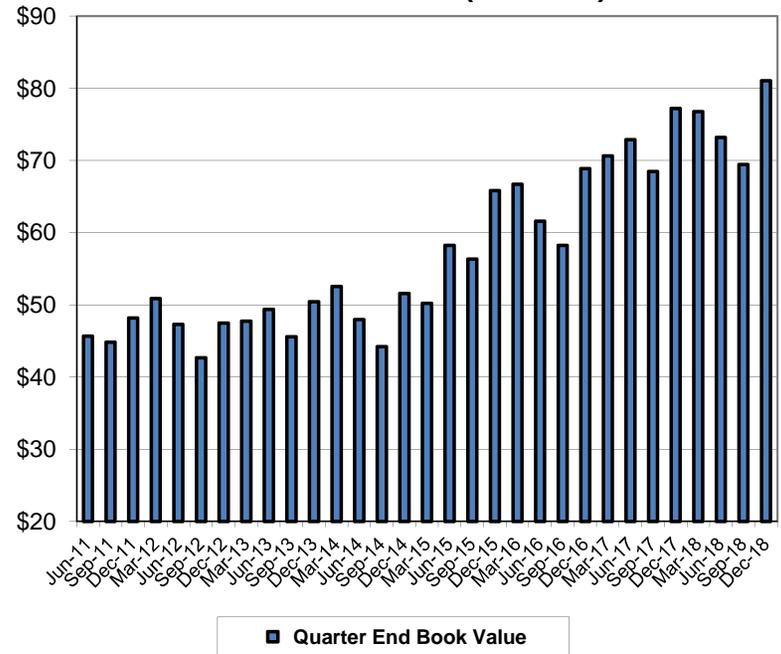
(1) **Weighted average life** - For purposes of calculating weighted average life, bank accounts, pools and money market funds are assumed to have an one day maturity.

(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.

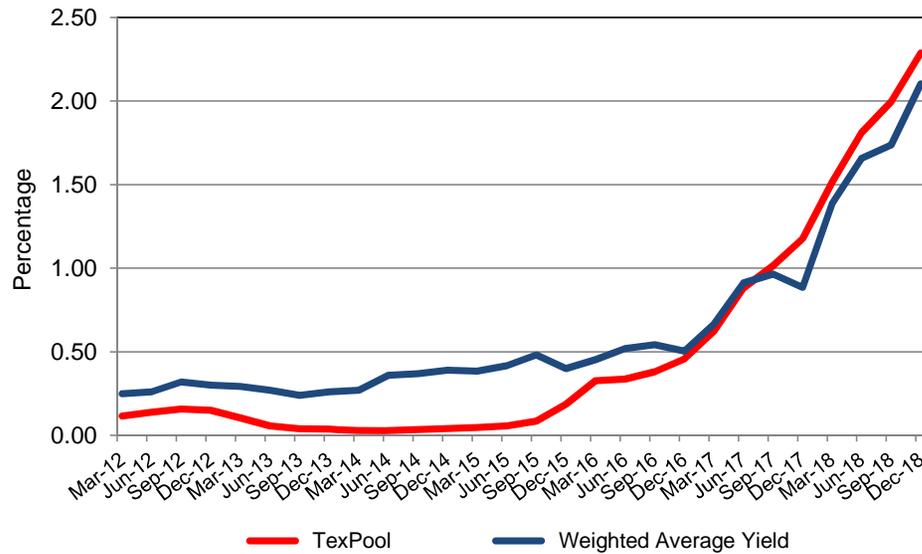
Portfolio Composition



Total Portfolio (Millions)



Total Portfolio Performance



Book Value Comparison

Description	Coupon/ Discount	Maturity Date	September 30, 2018		Purchases/ Adjustments	Sales/Adjust/ Call/Maturity	December 31, 2018	
			Par Value	Book Value			Par Value	Book Value
Wells Fargo DDA	0.00%	01/01/19	\$ 500,000	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ 500,000
Wells Fargo MMA	1.11%	01/01/19	17,852,317	17,852,317	8,936,816	-	26,789,134	26,789,134
BTH Bank MMA	2.36%	01/01/19	245,415	245,415	72	-	245,487	245,487
BTH Bank ICS	2.34%	01/01/19	1,799,138	1,799,138	10,879	-	1,810,017	1,810,017
Southside Bank MMA	2.44%	01/01/19	3,125,587	3,125,587	-	(772,737)	2,352,850	2,352,850
NexBank MMA	2.56%	01/01/19	30,082	30,082	188	-	30,269	30,269
NexBank MMA/ICS	2.65%	01/01/19	4,624,424	4,624,424	3,031,735	-	7,656,159	7,656,159
Green Bank MMA	2.40%	01/01/19	3,043,492	3,043,492	-	(1,989,909)	1,053,583	1,053,583
Texas CLASS	2.50%	01/01/19	11,261,964	11,261,964	-	(642,963)	10,619,001	10,619,001
TexPool	2.29%	01/01/19	223,796	223,796	1,250	-	225,046	225,046
LegacyTexas Bank CD	1.92%	11/09/18	1,011,205	1,011,205	-	(1,011,205)	-	-
East West Bank CD	1.93%	11/15/18	1,013,578	1,013,578	-	(1,013,578)	-	-
Herring Bank CDARS	1.14%	11/15/18	1,021,502	1,021,502	-	(1,021,502)	-	-
LegacyTexas Bank CD	1.40%	12/17/18	765,951	765,951	-	(765,951)	-	-
LegacyTexas Bank CD	2.00%	02/11/19	1,011,674	1,011,674	5,053	-	1,016,727	1,016,727
East West Bank CD	2.05%	02/15/19	2,025,602	2,025,602	10,467	-	2,036,069	2,036,069
WallisBank CD	2.02%	02/15/19	2,020,084	2,020,084	10,285	-	2,030,369	2,030,369
LegacyTexas Bank CD	1.45%	03/15/19	1,022,036	1,022,036	3,699	-	1,025,735	1,025,735
WallisBank CD	2.49%	05/15/19	1,000,000	1,000,000	6,266	-	1,006,266	1,006,266
LegacyTexas Bank CD	2.58%	06/21/19	1,006,517	1,006,517	6,488	-	1,013,005	1,013,005
Landmark Bank CD	2.60%	06/24/19	2,000,000	2,000,000	12,964	-	2,012,964	2,012,964
Texas Security Bank CD	2.80%	09/14/19	1,900,000	1,900,000	-	-	1,900,000	1,900,000
East West Bank CD	2.85%	12/06/19	-	-	2,500,000	-	2,500,000	2,500,000
LegacyTexas Bank CD	2.78%	12/23/19	1,208,428	1,208,428	8,395	-	1,216,823	1,216,823
BTH Bank CD	2.77%	02/15/20	2,004,705	2,004,705	13,876	-	2,018,582	2,018,582
Landmark Bank CD	2.89%	03/24/20	1,000,000	1,000,000	7,205	-	1,007,205	1,007,205
LegacyTexas Bank CD	2.86%	05/15/20	1,002,429	1,002,429	7,165	-	1,009,594	1,009,594
LegacyTexas Bank CD	2.95%	06/05/20	-	-	2,250,000	-	2,250,000	2,250,000
LegacyTexas Bank CD	2.92%	06/22/20	1,208,854	1,208,854	8,822	-	1,217,676	1,217,676
LegacyTexas Bank CD	2.95%	08/14/20	2,005,011	2,005,011	14,783	-	2,019,794	2,019,794
Texas Security Bank CD	3.10%	09/25/20	2,500,000	2,500,000	-	-	2,500,000	2,500,000
LegacyTexas Bank CD	3.05%	12/04/20	-	-	2,000,000	-	2,000,000	2,000,000
TOTAL			\$ 69,433,792	69,433,792	18,846,408	(7,217,846)	81,062,354	81,062,354

Market Value Comparison

Description	Coupon/ Discount	Maturity Date	September 30, 2018		Qtr to Qtr Change	December 31, 2018	
			Par Value	Market Value		Par Value	Market Value
Wells Fargo DDA	0.00%	01/01/19	\$ 500,000	\$ 500,000	\$ -	\$ 500,000	\$ 500,000
Wells Fargo MMA	1.11%	01/01/19	17,852,317	17,852,317	8,936,816	26,789,134	26,789,134
BTH Bank MMA	2.36%	01/01/19	245,415	245,415	72	245,487	245,487
BTH Bank ICS	2.34%	01/01/19	1,799,138	1,799,138	10,879	1,810,017	1,810,017
Southside Bank MMA	2.44%	01/01/19	3,125,587	3,125,587	(772,737)	2,352,850	2,352,850
NexBank MMA	2.56%	01/01/19	30,082	30,082	188	30,269	30,269
NexBank MMA/ICS	2.65%	01/01/19	4,624,424	4,624,424	3,031,735	7,656,159	7,656,159
Green Bank MMA	2.40%	01/01/19	3,043,492	3,043,492	(1,989,909)	1,053,583	1,053,583
Texas CLASS	2.50%	01/01/19	11,261,964	11,261,964	(642,963)	10,619,001	10,619,001
TexPool	2.29%	01/01/19	223,796	223,796	1,250	225,046	225,046
LegacyTexas Bank CD	1.92%	11/09/18	1,011,205	1,011,205	(1,011,205)	-	-
East West Bank CD	1.93%	11/15/18	1,013,578	1,013,578	(1,013,578)	-	-
Herring Bank CDARS	1.14%	11/15/18	1,021,502	1,021,502	(1,021,502)	-	-
LegacyTexas Bank CD	1.40%	12/17/18	765,951	765,951	(765,951)	-	-
LegacyTexas Bank CD	2.00%	02/11/19	1,011,674	1,011,674	5,053	1,016,727	1,016,727
East West Bank CD	2.05%	02/15/19	2,025,602	2,025,602	10,467	2,036,069	2,036,069
WallisBank CD	2.02%	02/15/19	2,020,084	2,020,084	10,285	2,030,369	2,030,369
LegacyTexas Bank CD	1.45%	03/15/19	1,022,036	1,022,036	3,699	1,025,735	1,025,735
WallisBank CD	2.49%	05/15/19	1,000,000	1,000,000	6,266	1,006,266	1,006,266
LegacyTexas Bank CD	2.58%	06/21/19	1,006,517	1,006,517	6,488	1,013,005	1,013,005
Landmark Bank CD	2.60%	06/24/19	2,000,000	2,000,000	12,964	2,012,964	2,012,964
Texas Security Bank CD	2.80%	09/14/19	1,900,000	1,900,000		1,900,000	1,900,000
East West Bank CD	2.85%	12/06/19	-	-	2,500,000	2,500,000	2,500,000
LegacyTexas Bank CD	2.78%	12/23/19	1,208,428	1,208,428	8,395	1,216,823	1,216,823
BTH Bank CD	2.77%	02/15/20	2,004,705	2,004,705	13,876	2,018,582	2,018,582
Landmark Bank CD	2.89%	03/24/20	1,000,000	1,000,000	7,205	1,007,205	1,007,205
LegacyTexas Bank CD	2.86%	05/15/20	1,002,429	1,002,429	7,165	1,009,594	1,009,594
LegacyTexas Bank CD	2.95%	06/05/20	-	-	2,250,000	2,250,000	2,250,000
LegacyTexas Bank CD	2.92%	06/22/20	1,208,854	1,208,854	8,822	1,217,676	1,217,676
LegacyTexas Bank CD	2.95%	08/14/20	2,005,011	2,005,011	14,783	2,019,794	2,019,794
Texas Security Bank CD	3.10%	09/25/20	2,500,000	2,500,000		2,500,000	2,500,000
LegacyTexas Bank CD	3.05%	12/04/20	-	-	2,000,000	2,000,000	2,000,000
TOTAL			\$ 69,433,792	\$ 69,433,792	\$ 11,628,562	\$ 81,062,354	\$ 81,062,354

**Fund Allocation - Book & Market Value
December 31, 2018**

	Maturity	Total	Concentration Fund	Capital Projects	Health Facilities Corporation	Industrial Development Authority
Wells Fargo DDA		\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -
Wells Fargo MMA		26,789,134	26,789,134			
BTH Bank MMA		245,487	245,487			
BTH Bank ICS		1,810,017	1,810,017			
Southside Bank MMA		2,352,850	2,065,994	286,856		
NexBank MMA		30,269	30,269			
NexBank MMA/ICS		7,656,159	7,656,159			
Green Bank MMA		1,053,583	1,053,583			
Texas CLASS		10,619,001	174,295	10,444,706		
TexPool		225,046	181,209	8,290	13,499	22,049
LegacyTexas Bank CD	02/11/19	1,016,727	1,016,727			
East West Bank CD	02/15/19	2,036,069	2,036,069			
WallisBank CD	02/15/19	2,030,369	2,030,369			
LegacyTexas Bank CD	03/15/19	1,025,735	1,025,735			
WallisBank CD	05/15/19	1,006,266	1,006,266			
LegacyTexas Bank CD	06/21/19	1,013,005	1,013,005			
Landmark Bank CD	06/24/19	2,012,964	2,012,964			
Texas Security Bank CD	09/14/19	1,900,000	1,900,000			
East West Bank CD	12/06/19	2,500,000	2,500,000			
LegacyTexas Bank CD	12/23/19	1,216,823	1,216,823			
BTH Bank CD	02/15/20	2,018,582	2,018,582			
Landmark Bank CD	03/24/20	1,007,205	1,007,205			
LegacyTexas Bank CD	05/15/20	1,009,594	1,009,594			
LegacyTexas Bank CD	06/05/20	2,250,000	2,250,000			
LegacyTexas Bank CD	06/22/20	1,217,676	1,217,676			
LegacyTexas Bank CD	08/14/20	2,019,794	2,019,794			
Texas Security Bank CD	09/25/20	2,500,000	2,500,000			
LegacyTexas Bank CD	12/04/20	2,000,000	2,000,000			
Total		\$ 81,062,354	\$ 70,286,955	\$ 10,739,852	\$ 13,499	\$ 22,049

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

	Maturity	Total	Concentration Fund	Capital Projects	Health Facilities Corporation	Industrial Development Authority
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			
WallisBank 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			
Total		\$ 69,433,792	\$ 58,016,302	\$ 11,382,140	\$ 13,424	\$ 21,926



Happy New Year from the Valley View team!

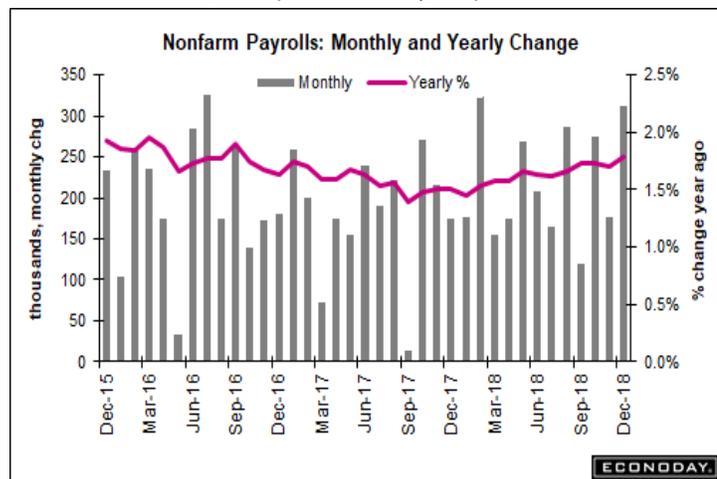
Market Outlook

January 4, 2019

2019 is off to a volatile start with many factors impacting the markets. We are currently in day fourteen of a partial shutdown of the Federal government, experiencing a stock market that is trending lower, seeing a decline in global growth and beginning to witness the impact of trade battles. Although consumers have reported that they are feeling more upbeat and secure. On the flip side, the Employment Report was very strong and provides a more upbeat outlook. The Federal Open Market Committee (FOMC) raised the Fed Funds rate at the December meeting but expectations of further rate increases during 2019 are waning.

The December Non-Farm Payroll report added 312,000 jobs (the market was expecting +176,000). The report also raised the previous two months by a net of 58,000 jobs. October was revised to +274,000 jobs from the previously reported +237,000 and November was revised to +176,000 from the previous report of +155,000 jobs. The three-month average came in at +254,000 per month (the previous three-month

average was +170,000 per month). The sectors with significant gains were Health Care (+50,000), Professional/Business (+43,000), Retail (+24,000), Leisure/Hospitality (+41,000), Construction (+38,000) and Manufacturing (+32,000). Government gained 11,000 jobs. The private sector gained 301,000 jobs compared with +161,000 jobs in November. The current Labor Participation Rate, a measure of the percentage of eligible workers that hold jobs, rose to 63.1% from the previous 62.9%. The Unemployment Rate rose to 3.9% from the previous 3.7% as more job seekers entered the market. The U6 rate (or the under-employed rate – those that are either over-qualified for their job or working fewer hours than they desire) remained at 7.6%. Average Hourly Earnings (AHE) rose 0.4% in December after a rise of 0.2% in November. Year-over-year AHE rose 3.2% from the previous +3.1% and has surpassed the 3.0% level where inflationary forces generally begin to increase.



The housing sector data was incomplete due to the shutdown of the Federal government. Existing Home Sales rose 1.9% in November after rising 1.4% in October. This was the second time in six months that the report was not a negative number. Year-over-year, Existing Sales are down 7.0%. The number of units for sale fell to a very low 3.9 months from 4.3 months' supply in October, still below the normal balance point of 6-months. The median home price for Existing Homes rose 1.0%. New Home Sales were not reported since their release date was delayed due to the Federal government shutdown. The S&P Case Shiller report of home prices in the 20 metropolitan areas, reported a 0.4% increase in home values during October, and the Federal Housing Finance Agency (FHFA), the entity that analyzes all domestic home prices, reported a rise of 0.3%. Year-over-year the FHFA report was at +5.7% but noted that it was at a 2.5-year low. Housing Starts rose 3.2% in November after rising 1.4% in October and Permits rose 4.98% in November after falling 0.7% in October. Both reports were at multi-month highs. Construction Spending reports were delayed due to Government shutdowns. Realtors and builders are expressing serious concerns about their future activity and foot traffic has fallen dramatically. The Housing Market Index plunged 8 points in November after falling 4 points in October. It currently stands at a measurement of 43, which on the scale used for the indicator is below the 50 mark that separates positive outlook from negative.

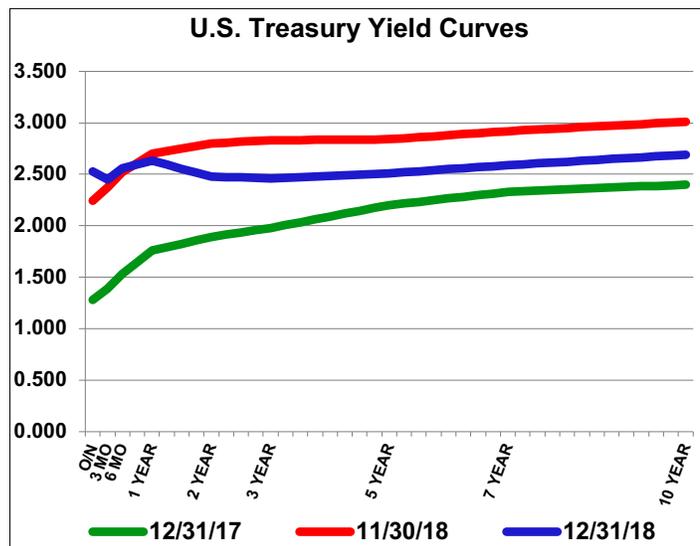
The production and manufacturing sectors had stable reports but some of the forward-looking indicators are showing stress. The final report for Gross Domestic Product (GDP) for the third quarter 2018 slipped

slightly to 3.4% from the advance prediction of +3.5%. Business inventories increased 0.6% in October after rising 0.1% in September. Sales were up 0.3%. This is a rather large inventory build for one month and may indicate that businesses feel confident that sales will consume the additional inventory. Industrial Production rose 0.6% in November after a rising 0.1% in October. Durable Goods Orders were skewed again by aircraft orders, rising 0.8% in November after falling 4.3% in October. Factory Orders were likewise skewed, falling 2.1% in October after rising 0.2% in September. 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 positive range, but slipped lower. The Producer Price Index (PPI) rose 0.1% in November after a rising 0.6% in October. Much of this increase was in wholesale food prices and offset drops in energy prices. It is up 2.5% year-over-year compared with +2.9% in October. The Consumer Price Index (CPI) was flat in November after rising 0.3% in October. Year-over-year CPI declined to +2.2 from +2.5% in October. Core CPI year-over-year, or the results after food and energy numbers are excluded (due to price volatility), rose to +2.2% from October's +2.1%.

On the consumption front, Retail Sales posted a gain of +0.2% in November after posting a gain of 1.1% in October (revised higher from the previously reported +0.8%). This report is disappointing for a holiday sales period and it will be important to see how the December results come in. Preliminary, unofficial reports appear to signal a very strong sales trend during December. Consumers' attitudes as measured by the Consumer Confidence and Consumer Sentiment indices remained strong during December, but the Confidence report came in down 8 points and below consensus. Core Personal Consumption Expenditure Index (PCE), one of the inflation indicators that the FOMC pays close attention to, slipped below the FOMC's year-over-year target of 2.0% as December's report came in at +1.9%, but was higher than the November report of +1.8%.

The FOMC met on December 18th and 19th and voted to raise the Fed Funds rate by an additional 25 basis-points to a current range of 2.25% to 2.50%. The report issued upon adjournment and the press conference that followed provided a more tempered estimate of growth in 2019. FOMC forecasts were lower for GDP and inflation, leading the FOMC to forecast fewer increases in the Fed Funds Rate. The Committee now forecasts two increases during 2019 as opposed to their previous estimate of three increases. The market is much less optimistic and is forecasting no increases in 2019 and forecasting a possible rate decrease by late 2019. This is a complete turnaround from a couple of months ago and is due to the volatility in the markets.

Government Security Investment Pool rates improved in December and ranged between 2.22% and 2.38% with month-end rates at 2.38% to 2.53%. The TexPool rate for the last day of the year jumped to 2.53% and was a year-end adjustment that will likely taper back lower within a week or so. Overall, the Treasury yield curve moved lower, particularly out beyond one year. After closing November at 2.68%, the 1-year Treasury closed lower in December at 2.63%. The 2-year Treasury closed December at 2.48%; thirty-two basis-points lower than November's 2.80% close. The current 2-year yield is 2.49%. The yield curve is demonstrating an inversion (where longer rates are lower than shorter-term rates) in the mid region of the curve. CD rates have fallen during December with the 2-year ranging between 2.85% to 2.95% (November rates were ranging between 2.95% to 3.08%). We are encouraging clients to put their tax and other funds to work in case this trend continues.



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