



CITY OF DESOTO

SOARING FOR EXCELLENCE

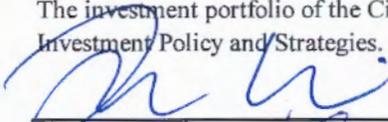
QUARTERLY INVESTMENT REPORT

For the Quarter Ended

March 31, 2019

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

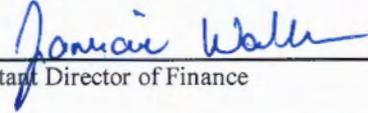
The investment portfolio of the City of DeSoto is in compliance with the Public Funds Investment Act and the Investment Policy and Strategies.



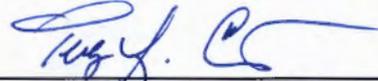
City Manager



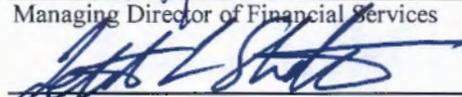
Deputy City Manager



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>December 31, 2018</u>		<u>March 31, 2019</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	39,937,498	39,937,498	40,309,959	40,309,959	1.88%
Pools	10,844,047	10,844,047	10,498,242	10,498,242	2.61%
CDs/Securities	29,780,809	29,780,809	30,543,687	30,543,687	2.86%
Totals	\$ 81,062,354	\$ 81,062,354	\$ 81,851,888	\$ 81,851,888	

Average Yield - Current Quarter (1)

Total Portfolio	2.33%
Rolling Three Month Treasury	2.44%
Rolling Six Month Treasury	2.51%

Fiscal Year-to-Date Average Yield (2)

Total Portfolio	2.21%
Rolling Three Month Treasury	2.41%
Rolling Six Month Treasury	2.45%
TexPool	2.35%

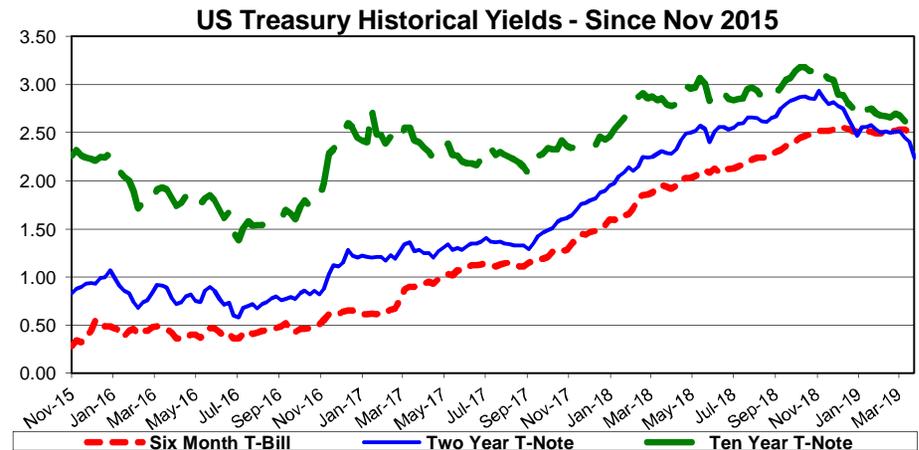
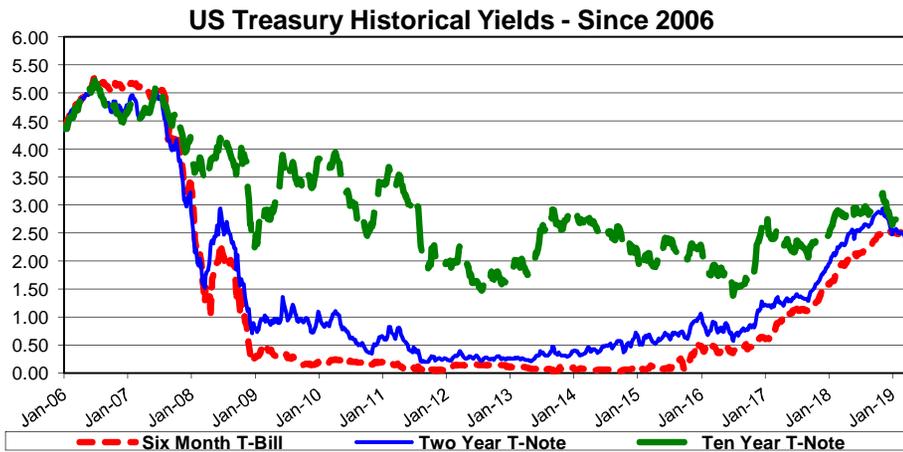
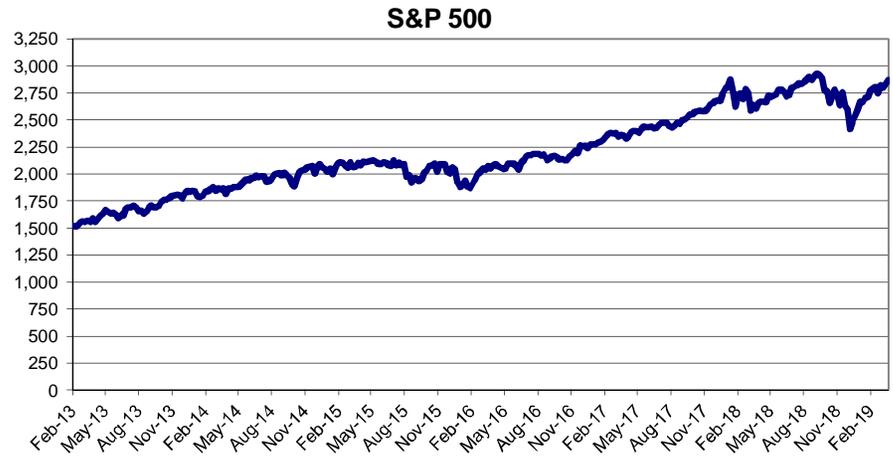
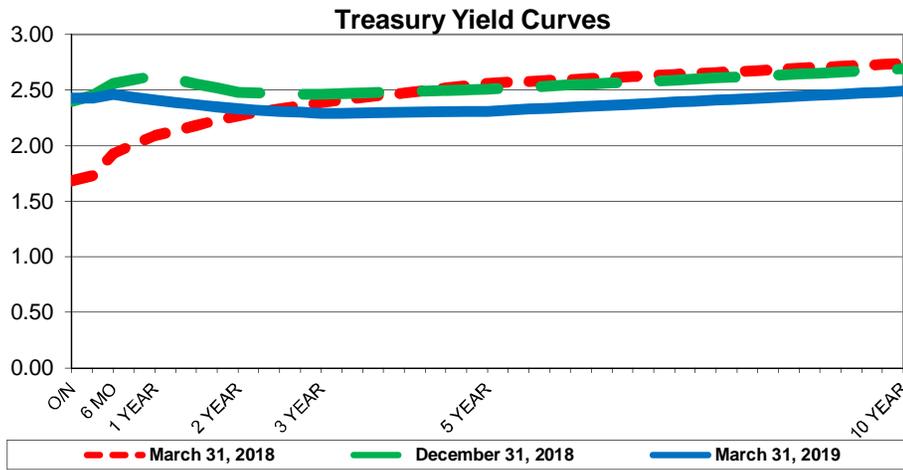
Interest Earnings

Quarterly Interest Income	\$ 468,879	Approximate
Year-to-date Interest Income	\$ 815,891	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 to 2.25% - 2.50% (Effective Fed Funds are trading +/-2.40%). The market projections now lean towards decreases late 2019 or early 2020. Gradual FRB portfolio reduction continues by limiting reinvestment of maturing holdings, but that strategy will end this summer. February Non Farm Payroll plunged to only 20,000 new jobs (although Dec and Jan were revised up slightly). Fourth quarter GDP registered 2.2% (final). Crude oil remained +/- \$55. The Stock Markets continued higher from December lows. Housing mostly mixed. The mid-maturity yield curve is lower and still sway-backed.



Investment Holdings

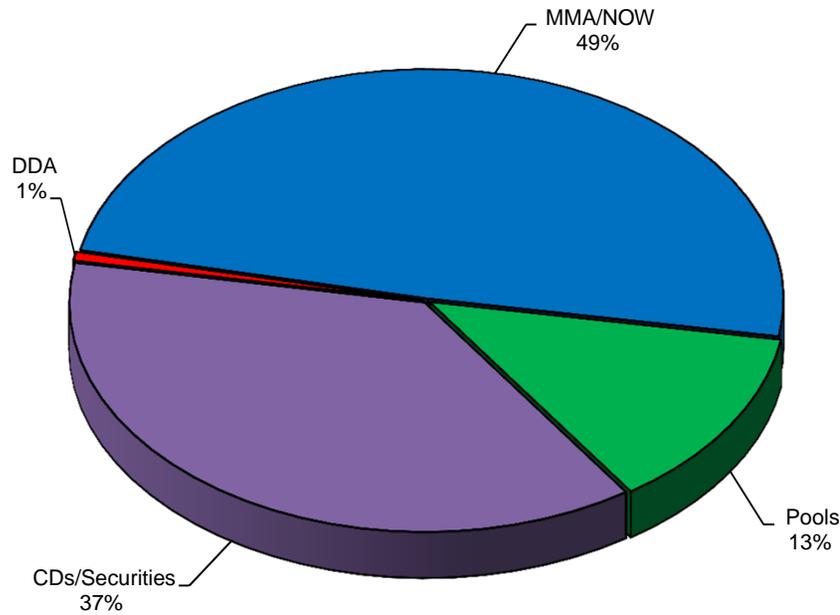
March 31, 2019

Description	Ratings	Coupon/ Discount	Maturity Date	Settlement Date	Par Value	Book Value	Market Price	Market Value	Life (days)	Yield
Wells Fargo DDA		0.00%	04/01/19	03/31/19	\$ 500,000	\$ 500,000	1	\$ 500,000	1	0.00%
Wells Fargo MMA		1.11%	04/01/19	03/31/19	19,768,557	19,768,557	1	19,768,557	1	1.11%
BTH Bank MMA		2.59%	04/01/19	03/31/19	245,533	245,533	1	245,533	1	2.59%
BTH Bank ICS		2.74%	04/01/19	03/31/19	1,823,333	1,823,333	1	1,823,333	1	2.74%
Southside Bank MMA		2.59%	04/01/19	03/31/19	4,638,997	4,638,997	1	4,638,997	1	2.59%
NexBank MMA		2.68%	04/01/19	03/31/19	30,468	30,468	1	30,468	1	2.68%
NexBank MMA/ICS		2.63%	04/01/19	03/31/19	7,718,614	7,718,614	1	7,718,614	1	2.63%
Green Bank MMA		2.59%	04/01/19	03/31/19	6,084,458	6,084,458	1	6,084,458	1	2.59%
Texas CLASS	AAAm	2.61%	04/01/19	03/31/19	10,426,157	10,426,157	1	10,426,157	1	2.61%
TexPool	AAAm	2.42%	04/01/19	03/31/19	72,085	72,085	1	72,085	1	2.42%
WallisBank CD		2.49%	05/15/19	08/15/18	1,012,571	1,012,571	100.00	1,012,571	45	2.51%
LegacyTexas Bank CD		2.58%	06/21/19	06/22/18	1,019,463	1,019,463	100.00	1,019,463	82	2.61%
Landmark Bank CD		2.60%	06/24/19	09/24/18	2,025,869	2,025,869	100.00	2,025,869	85	2.63%
Landmark Bank CDARS		2.63%	08/29/19	02/28/19	2,004,617	2,004,617	100.00	2,004,617	151	2.66%
Texas Security Bank CD		2.80%	09/14/19	09/14/18	1,900,000	1,900,000	100.00	1,900,000	167	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	250	2.89%
LegacyTexas Bank CD		2.78%	12/23/19	06/22/18	1,225,183	1,225,183	100.00	1,225,183	267	2.82%
BTH Bank CD		2.77%	02/15/20	08/15/18	2,032,400	2,032,400	100.00	2,032,400	321	2.81%
Southside Bank CD		2.68%	02/26/20	02/26/19	2,250,000	2,250,000	100.00	2,250,000	332	2.71%
Landmark Bank CD		2.89%	03/24/20	09/24/18	1,014,383	1,014,383	100.00	1,014,383	359	2.92%
LegacyTexas Bank CD		2.86%	05/15/20	08/15/18	1,016,730	1,016,730	100.00	1,016,730	411	2.90%
LegacyTexas Bank CD		2.95%	06/05/20	12/05/18	2,266,406	2,266,406	100.00	2,266,406	432	2.99%
LegacyTexas Bank CD		2.92%	06/22/20	06/22/18	1,226,464	1,226,464	100.00	1,226,464	449	2.96%
LegacyTexas Bank CD		2.95%	08/14/20	08/15/18	2,034,521	2,034,521	100.00	2,034,521	502	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	544	3.10%
LegacyTexas Bank CD		3.05%	12/04/20	12/05/18	2,015,079	2,015,079	100.00	2,015,079	614	3.09%
Allegience Bank CD		2.84%	02/28/21	02/28/19	2,500,000	2,500,000	100.00	2,500,000	700	2.87%
\$ 81,851,888						\$ 81,851,888		\$ 81,851,888	134	2.33%
									(1)	(2)

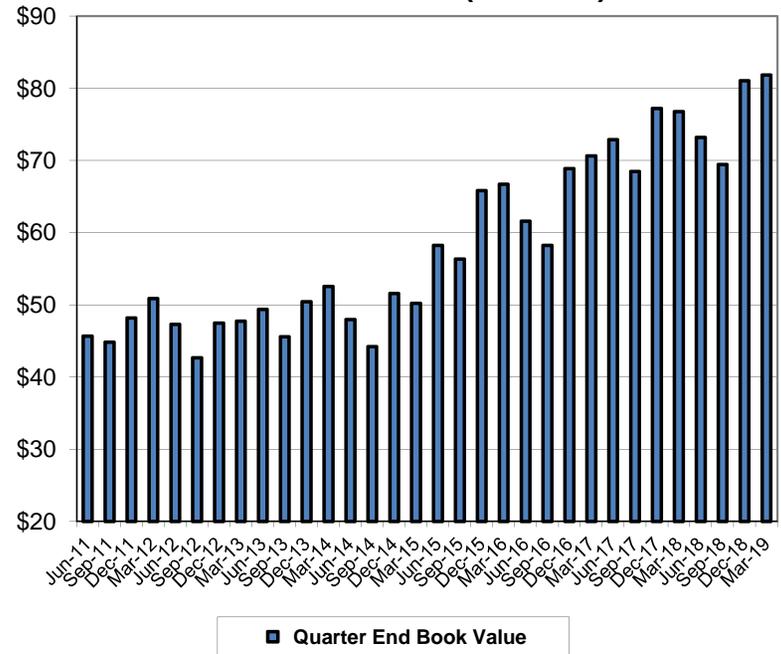
(1) **Weighted average life** - For purposes of calculating weighted average life, bank accounts, pools and money market funds are assumed to have an one day maturity.

(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.

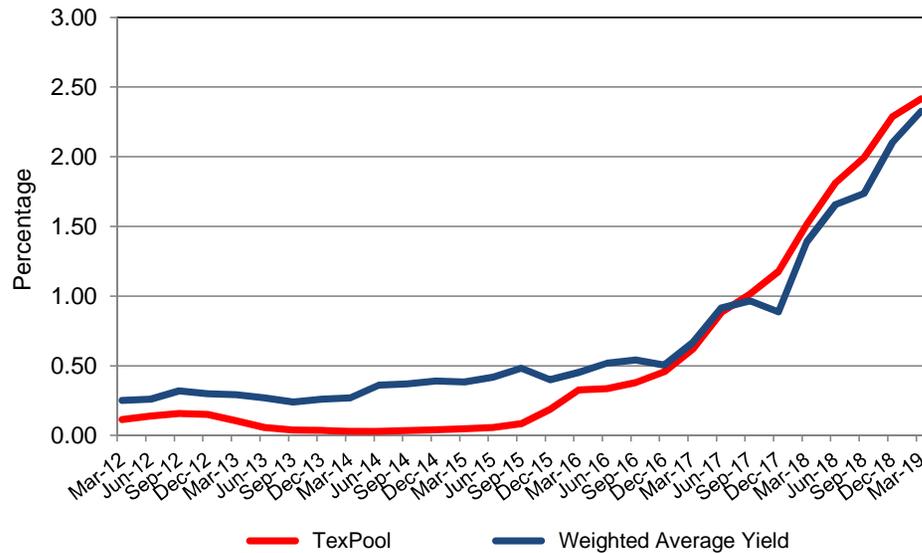
Portfolio Composition



Total Portfolio (Millions)



Total Portfolio Performance



Book Value Comparison

Description	Coupon/ Discount	Maturity Date	December 31, 2018		Purchases/ Adjustments	Sales/Adjust/ Call/Maturity	March 31, 2019	
			Par Value	Book Value			Par Value	Book Value
Wells Fargo DDA	0.00%	04/01/19	\$ 500,000	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ 500,000
Wells Fargo MMA	1.11%	04/01/19	26,789,134	26,789,134	-	(7,020,577)	19,768,557	19,768,557
BTH Bank MMA	2.59%	04/01/19	245,487	245,487	46	-	245,533	245,533
BTH Bank ICS	2.74%	04/01/19	1,810,017	1,810,017	13,317	-	1,823,333	1,823,333
Southside Bank MMA	2.59%	04/01/19	2,352,850	2,352,850	2,286,147	-	4,638,997	4,638,997
NexBank MMA	2.68%	04/01/19	30,269	30,269	198	-	30,468	30,468
NexBank MMA/ICS	2.63%	04/01/19	7,656,159	7,656,159	62,455	-	7,718,614	7,718,614
Green Bank MMA	2.59%	04/01/19	1,053,583	1,053,583	5,030,875	-	6,084,458	6,084,458
Texas CLASS	2.61%	04/01/19	10,619,001	10,619,001	-	(192,844)	10,426,157	10,426,157
TexPool	2.42%	04/01/19	225,046	225,046	-	(152,961)	72,085	72,085
LegacyTexas Bank CD	2.00%	02/11/19	1,016,727	1,016,727	-	(1,016,727)	-	-
East West Bank CD	2.05%	02/15/19	2,036,069	2,036,069	-	(2,036,069)	-	-
WallisBank CD	2.02%	02/15/19	2,030,369	2,030,369	-	(2,030,369)	-	-
LegacyTexas Bank CD	1.45%	03/15/19	1,025,735	1,025,735	-	(1,025,735)	-	-
WallisBank CD	2.49%	05/15/19	1,006,266	1,006,266	6,305	-	1,012,571	1,012,571
LegacyTexas Bank CD	2.58%	06/21/19	1,013,005	1,013,005	6,458	-	1,019,463	1,019,463
Landmark Bank CD	2.60%	06/24/19	2,012,964	2,012,964	12,905	-	2,025,869	2,025,869
Landmark Bank CDARS	2.63%	08/29/19	-	-	2,004,617	-	2,004,617	2,004,617
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	2,500,000
LegacyTexas Bank CD	2.78%	12/23/19	1,216,823	1,216,823	8,360	-	1,225,183	1,225,183
BTH Bank CD	2.77%	02/15/20	2,018,582	2,018,582	13,819	-	2,032,400	2,032,400
Southside Bank CD	2.68%	02/26/20	-	-	2,250,000	-	2,250,000	2,250,000
Landmark Bank CD	2.89%	03/24/20	1,007,205	1,007,205	7,177	-	1,014,383	1,014,383
LegacyTexas Bank CD	2.86%	05/15/20	1,009,594	1,009,594	7,136	-	1,016,730	1,016,730
LegacyTexas Bank CD	2.95%	06/05/20	2,250,000	2,250,000	16,406	-	2,266,406	2,266,406
LegacyTexas Bank CD	2.92%	06/22/20	1,217,676	1,217,676	8,788	-	1,226,464	1,226,464
LegacyTexas Bank CD	2.95%	08/14/20	2,019,794	2,019,794	14,728	-	2,034,521	2,034,521
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	15,079	-	2,015,079	2,015,079
Allegience Bank CD	2.84%	02/28/21	-	-	2,500,000	-	2,500,000	2,500,000
TOTAL			\$ 81,062,354	81,062,354	14,264,817	(13,475,283)	81,851,888	81,851,888

Market Value Comparison

Description	Coupon/ Discount	Maturity Date	December 31, 2018		Qtr to Qtr Change	March 31, 2019	
			Par Value	Market Value		Par Value	Market Value
Wells Fargo DDA	0.00%	04/01/19	\$ 500,000	\$ 500,000	\$ —	\$ 500,000	\$ 500,000
Wells Fargo MMA	1.11%	04/01/19	26,789,134	26,789,134	(7,020,577)	19,768,557	19,768,557
BTH Bank MMA	2.59%	04/01/19	245,487	245,487	46	245,533	245,533
BTH Bank ICS	2.74%	04/01/19	1,810,017	1,810,017	13,317	1,823,333	1,823,333
Southside Bank MMA	2.59%	04/01/19	2,352,850	2,352,850	2,286,147	4,638,997	4,638,997
NexBank MMA	2.68%	04/01/19	30,269	30,269	198	30,468	30,468
NexBank MMA/ICS	2.63%	04/01/19	7,656,159	7,656,159	62,455	7,718,614	7,718,614
Green Bank MMA	2.59%	04/01/19	1,053,583	1,053,583	5,030,875	6,084,458	6,084,458
Texas CLASS	2.61%	04/01/19	10,619,001	10,619,001	(192,844)	10,426,157	10,426,157
TexPool	2.42%	04/01/19	225,046	225,046	(152,961)	72,085	72,085
LegacyTexas Bank CD	2.00%	02/11/19	1,016,727	1,016,727	(1,016,727)	—	—
East West Bank CD	2.05%	02/15/19	2,036,069	2,036,069	(2,036,069)	—	—
WallisBank CD	2.02%	02/15/19	2,030,369	2,030,369	(2,030,369)	—	—
LegacyTexas Bank CD	1.45%	03/15/19	1,025,735	1,025,735	(1,025,735)	—	—
WallisBank CD	2.49%	05/15/19	1,006,266	1,006,266	6,305	1,012,571	1,012,571
LegacyTexas Bank CD	2.58%	06/21/19	1,013,005	1,013,005	6,458	1,019,463	1,019,463
Landmark Bank CD	2.60%	06/24/19	2,012,964	2,012,964	12,905	2,025,869	2,025,869
Landmark Bank CDARS	2.63%	08/29/19	—	—	2,004,617	2,004,617	2,004,617
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	2,500,000
LegacyTexas Bank CD	2.78%	12/23/19	1,216,823	1,216,823	8,360	1,225,183	1,225,183
BTH Bank CD	2.77%	02/15/20	2,018,582	2,018,582	13,819	2,032,400	2,032,400
Southside Bank CD	2.68%	02/26/20	—	—	2,250,000	2,250,000	2,250,000
Landmark Bank CD	2.89%	03/24/20	1,007,205	1,007,205	7,177	1,014,383	1,014,383
LegacyTexas Bank CD	2.86%	05/15/20	1,009,594	1,009,594	7,136	1,016,730	1,016,730
LegacyTexas Bank CD	2.95%	06/05/20	2,250,000	2,250,000	16,406	2,266,406	2,266,406
LegacyTexas Bank CD	2.92%	06/22/20	1,217,676	1,217,676	8,788	1,226,464	1,226,464
LegacyTexas Bank CD	2.95%	08/14/20	2,019,794	2,019,794	14,728	2,034,521	2,034,521
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	15,079	2,015,079	2,015,079
Allegiance Bank CD	2.84%	02/28/21	—	—	2,500,000	2,500,000	2,500,000
TOTAL			\$ 81,062,354	\$ 81,062,354	\$ 789,534	\$ 81,851,888	\$ 81,851,888

**Fund Allocation - Book & Market Value
March 31, 2019**

	Maturity	Total	Concentration Fund	Capital Projects	Health Facilities Corporation	Industrial Development Authority
Wells Fargo DDA		\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -
Wells Fargo MMA		19,768,557	19,768,557	-	-	-
BTH Bank MMA		245,533	245,533	-	-	-
BTH Bank ICS		1,823,333	1,823,333	-	-	-
Southside Bank MMA		4,638,997	4,099,012	539,985	-	-
NexBank MMA		30,468	30,468	-	-	-
NexBank MMA/ICS		7,718,614	7,718,614	-	-	-
Green Bank MMA		6,084,458	6,084,458	-	-	-
Texas CLASS		10,426,157	164,318	10,261,839	-	-
TexPool		72,085	27,987	8,339	13,579	22,179
WallisBank CD	05/15/19	1,012,571	1,012,571	-	-	-
LegacyTexas Bank CD	06/21/19	1,019,463	1,019,463	-	-	-
Landmark Bank CD	06/24/19	2,025,869	2,025,869	-	-	-
Landmark Bank CDARS	08/29/19	2,004,617	2,004,617	-	-	-
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	1,225,183	1,225,183	-	-	-
BTH Bank CD	02/15/20	2,032,400	2,032,400	-	-	-
Southside Bank CD	02/26/20	2,250,000	2,250,000	-	-	-
Landmark Bank CD	03/24/20	1,014,383	1,014,383	-	-	-
LegacyTexas Bank CD	05/15/20	1,016,730	1,016,730	-	-	-
LegacyTexas Bank CD	06/05/20	2,266,406	2,266,406	-	-	-
LegacyTexas Bank CD	06/22/20	1,226,464	1,226,464	-	-	-
LegacyTexas Bank CD	08/14/20	2,034,521	2,034,521	-	-	-
Texas Security Bank CD	09/25/20	2,500,000	2,500,000	-	-	-
LegacyTexas Bank CD	12/04/20	2,015,079	2,015,079	-	-	-
Allegience Bank CD	02/28/21	2,500,000	2,500,000	-	-	-
Total		\$ 81,851,888	\$ 71,005,967	\$ 10,810,163	\$ 13,579	\$ 22,179

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

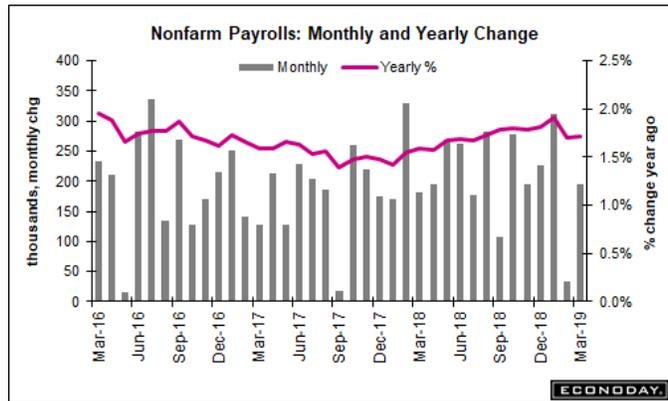
	Maturity	Total	Concentration Fund	Capital Projects	Health Facilities Corporation	Industrial Development Authority
Wells Fargo DDA		\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -
Wells Fargo MMA		26,789,134	26,789,134	-	-	-
BTH Bank MMA		245,487	245,487	-	-	-
BTH Bank ICS		1,810,017	1,810,017	-	-	-
Southside Bank 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

Market Outlook

April 5, 2019

The market was on a roller coaster ride this month after the Federal Open Market Committee (FOMC) met on March 19th and 20th and issued a cautionary report following adjournment. Their report indicated concerns about the sustainability of growth for 2019 and announced that they felt it unlikely that the Federal Funds Rate would be increased during 2019. Economic reports that were released for the various market sectors were mixed during March and left room for much debate regarding where the economy is headed. The international environment is also threatening to impact growth in the U.S. as economic slowdown is continuing in China and the European Union (E.U.). The Brexit vote in the United Kingdom's (U.K.) Parliament to approve the process and ultimate deal for exiting the E.U. has failed to reach any consensus and the departure deadline has been pushed forward to April 12. With that deadline looming, the U.K. Prime Minister has requested a further delay to June 30. The U.K. economy has suffered as uncertainty looms over how their withdrawal from the E.U. will impact their markets.

The March Non-Farm Payroll report added 186,000 jobs (the market was expecting +175,000) and represented a rebound after the dismal February report. The report increased the previous two months' results by a net of 14,000 jobs. January was revised to +312,000 jobs from the previously reported +311,000 and February was revised to +33,000 from the previous report of +20,000 jobs. The February numbers appear to be an anomaly and related to extreme snowstorms during the month. The three-month average new jobs came in at +180,000 per month (the previous three-month average was +186,000 per month). The major sectors reported the following results: Health Care (+49,000), Professional/Business (+34,000), Retail (-12,000), Leisure/Hospitality (+33,000), Construction (+16,000) and Manufacturing (-6,000). Government gained 14,000 jobs. The private sector gained 182,000 jobs compared with +28,000 jobs in February.



The current Labor Participation Rate, a measure of the percentage of eligible workers that hold jobs, fell slightly to 63.0% compared to February's 63.2%. The Unemployment Rate remained at 3.8%. 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 7.3%. Average Hourly Earnings (AHE) rose 0.1% in March after a rise of 0.4% in February. Year-over-year AHE rose 3.2% and has surpassed the 3.0% level where inflationary forces generally begin to increase. Of concern in the Employment Report is that many of the jobs added during March are in the lower-paid segments of the economy and may not result in a strong boost to consumption. The reports of job openings indicate that there are 1.7 million more jobs available than there are job seekers. This gap is greatest in the segment of the more highly skilled workers and represents the challenge in finding qualified applicants. The slowdown in manufacturing may be reflecting impacts from the trade war.

Reports from the Housing Sector were much stronger in the March releases. Lower mortgage rates have spurred sales and refinancing opportunities. Existing Home Sales rebounded and rose 11.8% in February after falling 1.4% in January. Year-over-year, Existing Home Sales are down 1.8%. The number of units for sale fell to 3.5 months from 3.9 months' supply in January, still below the normal balance point of 6-months. The median home price for Existing Homes rose year-over-year by 3.6%. New Home Sales also had a good report and rose 4.9% in February after rising 3.7% in January. Median new home prices rose in February but remain 3.6% below last year. Supply of New Homes dropped to 6.1 months from the January level of 6.5 months. The S&P Case Shiller report of home prices in the 20 metropolitan areas reported a 0.2% increase in home values during January, and the Federal Housing Finance Agency (FHFA), the entity that analyzes all domestic home prices, reported a rise of 0.6%. Year-over-year the FHFA report was +5.6%. Housing Starts dropped 8.2% in February while Permits rose 1.6%. Construction Spending rose 1.0% in February following an increase of 2.5% in January. The good news in Construction is tempered by

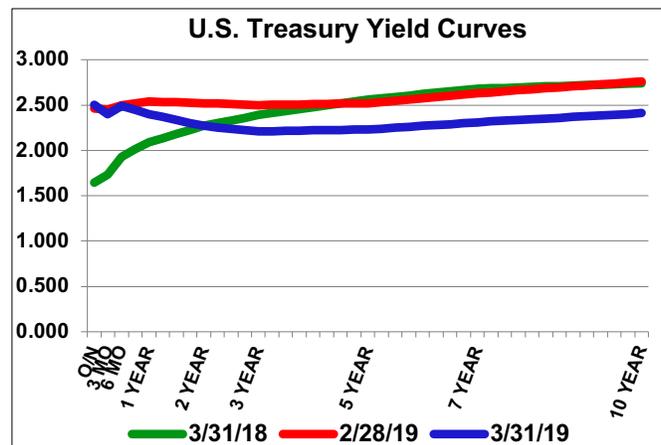
the fact that the boost was mostly attributable to public sector building while the residential sector remains weak. Year-over-year, Construction Spending is +1.1% and is the weakest yearly spread level in three years. Realtors and builders reported that momentum slowed during March and that the units sold tend to be centered in the higher-end of the price spectrum.

The Production reports signaled further softening. The final report for Gross Domestic Product (GDP) for the fourth quarter of 2018 was +2.2% following the third quarter result of +3.4%. Business Inventories rose considerably during December (+0.8%) and January (+0.5%) and caused the inventory-to-sales ratio to jump from 1.35% to 1.38%. Year-over-year reports for Business Inventories show that inventories continue to exceed sales and provide a warning sign for consumption and for businesses that are experiencing a glut of product building on their shelves. Durable Goods Orders fell 1.6% in February after a tepid rise of 0.1% in January. Factory Orders were slightly above expectations after a two-month drop. Industrial Production rose 0.1% in February after falling 0.4% in January. If not for a weather-related boost in utilities, Industrial Production would have experienced another negative monthly result. 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 with minimal change. The Producer Price Index (PPI) rose 0.1% in February after a drop of 0.1% in January. Year-over-year, PPI net of food and energy is up 2.5%. The Consumer Price Index (CPI) rose 0.2% in February after a flat January. Year-over-year CPI net of food and energy dropped to +2.1% from 2.2%.

On the consumption front, there was more cautionary news. The Retail Sales report for February was down 0.2%, while January saw a large upward revision to end up at a positive 0.7%. All of the Retail Sales reports since the Holiday Season are still well short of filling the gap created by lackluster sales during the Holidays. Consumers' attitudes as measured by the Consumer Confidence and Consumer Sentiment indices were mixed with the Confidence report showing an increase while the Consumer Sentiment survey showed a decrease. Core Personal Consumption Expenditure Index (PCE), one of the inflation indicators that the FOMC pays close attention to, rose 0.1% in January following a 0.2% increase in December and dropped from +1.9% to +1.8% year-over-year. The FOMC is targeting 2.0% year-over-year for this indicator.

The FOMC met on March 19th and 20th and issued a much less optimistic report and press conference upon adjournment. The Committee now sees much less momentum in the market and expressed concern about slowing global economies, weak retail sales, slowing business investment and decreasing GDP. Their forecasts reflected their concerns as they removed the possibility of any Federal Funds Rate increases for 2019 (previous expectations were for two increases in 2019) and lowered the forecasts for GDP for the next three years. They remain optimistic for modest growth in the job market.

Government Security Investment Pool rates rose slightly during March and ranged between 2.36% and 2.50% with month-end rates at 2.50% (this was a quarter-end anomaly and pool rates have fallen back to approximately 2.43% as of publication date). The Treasury Yield curve shows the dramatic shift that has occurred since the FOMC met. After closing February at 2.54%, the 1-year Treasury closed lower in March at 2.40%. The 2-year Treasury closed March at 2.27%; twenty-five basis-points lower than February's 2.52% close. The yield curve is demonstrating an inversion (where longer rates are lower than shorter-term rates) in the mid region of the curve and is causing some concern about the sustainability of rate growth. CD rates have also fallen during March with the 2-year ranging between 2.60% to 2.65% at month-end (February rates were ranging between 2.74% to 2.85%). We are encouraging clients to put their tax and other funds to work in case this trend continues.



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.