



CITY OF GRAND RAPIDS AGENDA ACTION REQUEST

DATE: January 23, 2024

TO: Mark Washington, City Manager

COMMITTEE: Fiscal Committee
LIAISON: Molly Clarin, Chief Financial Officer

FROM: Levi Boldt, Investment Officer

SUBJECT: Treasurer's Report for Period of December 27, 2023 through January 9, 2024

The Bureau of Labor Statistics reported that the Consumer Price Index (CPI) rose 0.3% in December, a total of 3.4% in 2023. This is above market expectations of 0.2% monthly and 3.2% annually. Higher than expected inflation figures mean the Federal Reserve is likely to maintain restrictive monetary policy longer than previously anticipated. The Federal Reserve's Open Market Committee (FOMC) targets inflation at 2.0%, though it instead uses the Personal Consumption Expenditures Index (PCE), published by the Bureau of Economic Analysis. There are minor technical differences between the two indices; differences between them are normally small enough to be inconsequential.

On December 13, FOMC released its Summary of Economic Projections which indicated that members expect inflation to have declined enough to allow three cuts of 0.25% to its interest rate target by the end of 2024. In response, market participants have priced in not three, but seven cuts to 3.50 – 3.75% in 2024, beginning as early as March.

Since then, multiple FOMC participants have made public statements to tamp down market participants' excessive enthusiasm. These include Federal Reserve Bank Governor Michelle Bowman, who said, "[M]y view has evolved to consider the possibility that the rate of inflation could decline further with the policy rate held at the current level for some time. Should inflation continue to fall closer to our 2 percent goal over time, it will eventually become appropriate to begin the process of lowering our policy rate to prevent policy from becoming overly restrictive. In my view, we are not yet at that point. And important upside inflation risks remain."

To date, Fed jawboning has had relatively little effect. The market has still priced in a 66.3% likelihood of short-term interest rate cuts beginning in March. It has also trimmed the number of anticipated interest rate cuts from seven to six.

Short-term assets have temporarily boosted portfolio yield due to an inverted yield curve. However, this comes at the expense of sustained yields over longer periods of time. We expect interest rates to decline somewhat later this year. Long-term rates reflect expectations of future short-term rates.

As interest rates decline, the market price of outstanding fixed-yield bonds and other debt obligations rise. The opposite is also true; market prices drop when interest rates climb. The magnitude of the market price change is roughly proportional to time to maturity. Gains or losses in market value are only realized when portfolio securities are sold prior to maturity. Unrealized gains or losses have no impact on portfolio cash flow or interest earnings.

Governmental accounting standards require the Treasurer’s Office to mark the portfolio to current market prices on the City’s financial statements. It is important to understand that unrealized gains and losses exist “on paper” only. Sufficient liquidity is available to fund expected current expenditures without selling portfolio holdings prior to maturity.

The Treasurer’s Office will continue to monitor and respond to the changing market environment. We will do this in accord with the goals stated in our Investment Policy: safety, liquidity, and yield. Obtaining a competitive yield is important but will always take last place in priority behind safety of principal and ensuring the availability of sufficient liquidity.

Portfolio segments and investment returns are listed in the following table.

Investment Manager	Funds Managed	Purchase Yield
City Staff	\$563,236,339	2.99%
Cemetery Perpetual Care	\$5,029,140	4.21%
Bond Proceeds:		
CIB 2017 – Cemeteries	\$169,891	0.20%
CIB 2021 – Street Lighting	\$2,485,026	0.40%
CIB 2023 – Lyon Square	\$9,551,319	6.00%
Total:	<u><u>\$580,471,715</u></u>	3.04%

The attached appendices detail portfolio holdings and recent trading activity. Please contact me at ext. 3285 with any questions on this report. Thank you.

cc: Roberta Cahill, Deputy City Treasurer
John Globensky, City Treasurer