



# CITY OF GRAND RAPIDS AGENDA ACTION REQUEST

**DATE:** February 6, 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 the Period of January 10, 2024, through January 23, 2024

The domestic economy has proven remarkably resilient. Gross Domestic Product rose 3.3% in the fourth quarter of 2023. Significant progress has been made to bring inflation back down to the Federal Reserve's 2.0% target rate, though it remains above target for now. The unemployment rate remains near historic lows.

The Federal Reserve's Open Market Committee (FOMC) next meets on January 30-31. Markets have priced in a 97.4% likelihood that FOMC will maintain short-term interest rates at their current range of 5.25-5.50%. Markets expect FOMC to begin cutting interest rates this May, pricing in an 84.4% likelihood that interest rates will be lower by at least 0.25% by then. Fed Chair Jerome Powell has repeatedly indicated his willingness to hold interest rates higher than market expectations as a method to bring inflation under control.

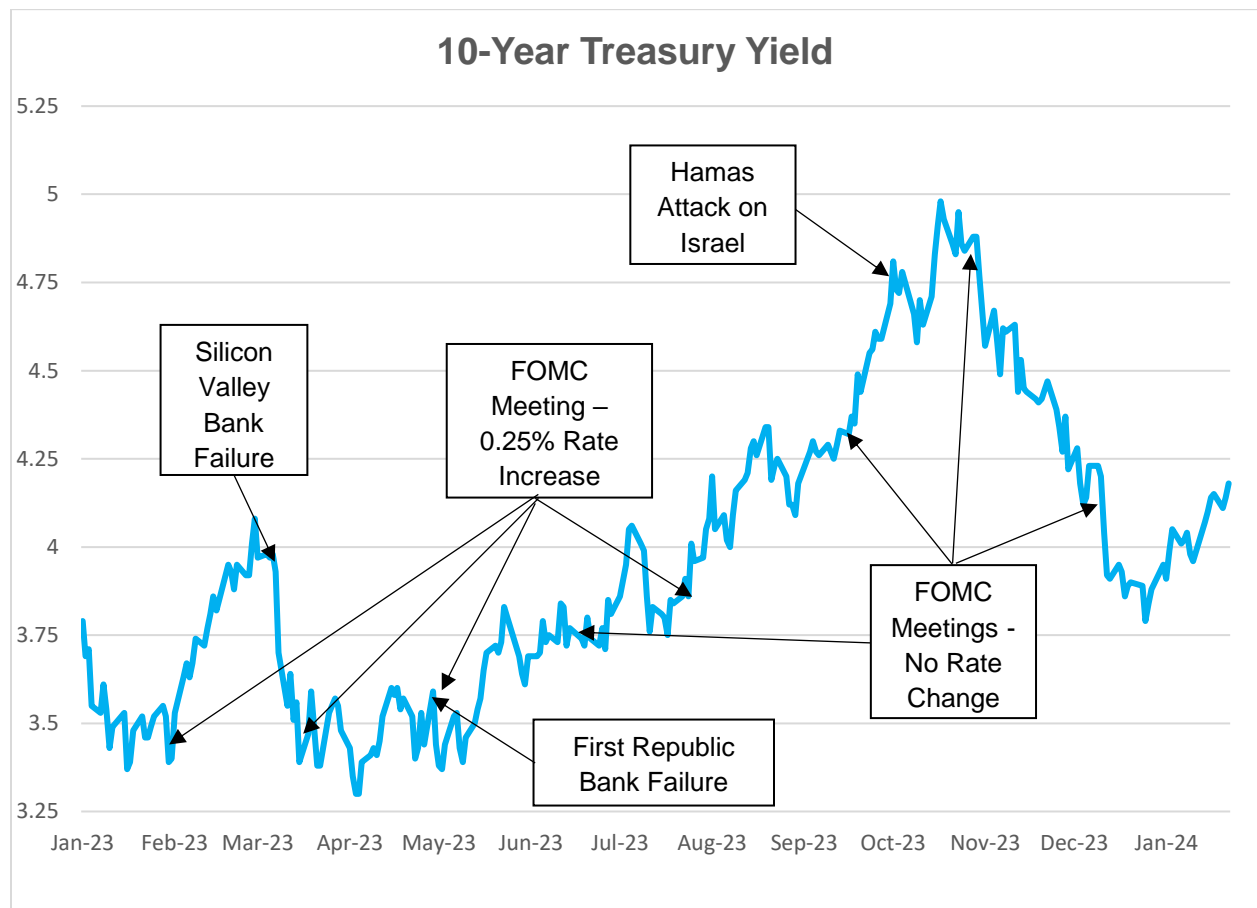
Holding interest rates higher for longer may be necessary, as trade pressures are pushing global prices higher. Merchant shipping through the world's two most strategic canals is slower and more expensive.

The Panama Canal's volume has decreased by around 40% due to drought conditions. Not only has the number of ships declined, but the ships that can go through the canal can't carry as much when they do so. This is because water levels are so low that vessels with deeper drafts can't get through. The forces shippers to either offload cargo at Pacific coast ports and transport goods over land or sail around the tip of South America. Either option imposes higher costs.

Likewise, shipping in the Suez Canal is restricted due to Houthi attacks on merchant shipping in the Red Sea. Firms must choose between skyrocketing insurance prices to run the gauntlet through the Bab al-Mandab Strait and spending the additional time and

fuel to sail completely around the entire African continent. Recall the chaos that ensued when a single ship ran aground and was stuck for six days.

Current long-term interest rates are determined by expectations of future short-term interest rates and inflation. The 10-year Treasury fell from its recent high of 4.95% in late October 2023 to 3.79% on December 27. It has since rebounded slightly to 4.18% at present. The chart below shows how the 10-year rate responded to various economic events in recent history.



Source: United States Department of Treasury

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. We expect interest rates to decline in the second half of this year.

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 before 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 before maturity.

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

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

<b>Investment Manager</b>	<b>Funds Managed</b>	<b>Purchase Yield</b>
City Staff	\$561,099,753	2.95%
Cemetery Perpetual Care	\$5,029,674	4.41%
Bond Proceeds:		
CIB 2017 – Cemeteries	\$169,891	0.20%
CIB 2021 – Street Lighting	\$2,345,280	0.40%
CIB 2023 – Lyon Square	\$8,597,987	6.00%
<b>Total:</b>	<u>\$577,242,586</u>	3.00%

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