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CITY OF GRAND RAPIDS
AGENDA ACTION REQUEST

DATE: March 5, 2024

TO: Mark Washington, City Manager

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

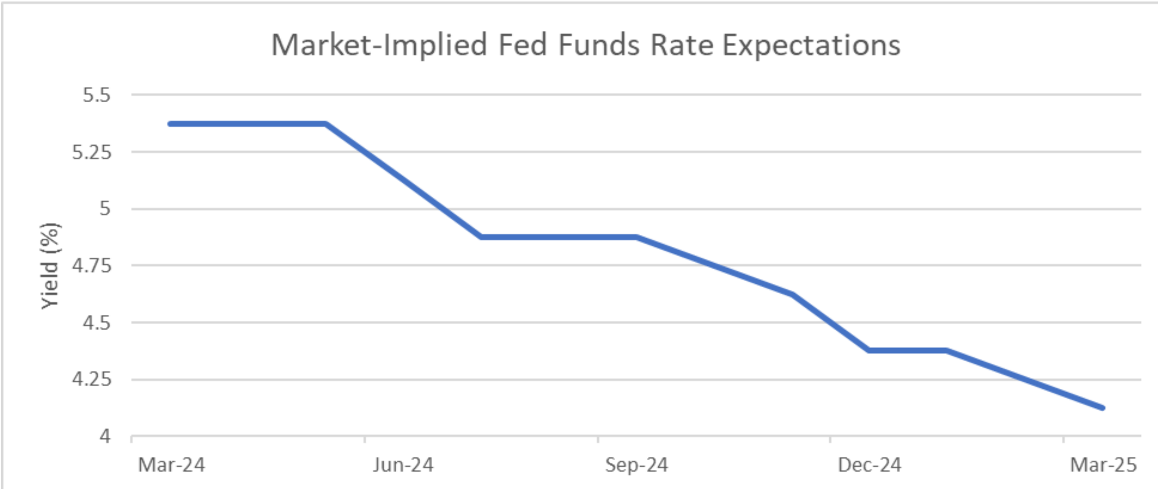
FROM: John Globensky, City Treasurer
City Treasurer's Office

SUBJECT: **Treasurer's Report for Period of February 8, 2024 through February 20, 2024**

The Federal Reserve's Open Market Committee (FOMC) last met on January 30-31. In its statement released after the conclusion of the meeting, FOMC said, "The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent."

Minutes from the meeting show that there is broad FOMC consensus that interest rates have likely hit their peak. However, FOMC members expressed concern that easing monetary policy too early could reignite inflation. Economic data released since the meeting actually shows that inflation increased slightly in January. Inflation remains stubbornly above FOMC's target.

Markets have priced in a 91.5% likelihood that FOMC will maintain short-term interest rates at their current range of 5.25-5.50% at its next meeting March 19-20. Market pricing also indicates an expectation that FOMC will gradually reduce short-term interest rates to a 3.25 – 3.50% target by March of next year.



Source: CME FedWatch Tool, as of 02/21/2024

There has been a significant and persistent disconnect between FOMC and market expectations. Market participants have been consistently optimistic about the magnitude and timing of FOMC rate cuts compared to FOMC's own Summary of Economic Projections (SEP) released in December 2023. Another SEP will be released after FOMC's March meeting.

Lindsey Piegza, chief economist with Stifel, described the disconnect thusly:

“"[I]nvestors have been exuberant, calling for a series of Fed rate cuts over the next several quarters. Like fairy tales with sugarplums, investors have visions of returning to the easier credit conditions of years past dancing in their heads. Such a desire for relief, however, may be clouding their judgment given the Fed's ongoing message of patience and caution."

The Treasurer's Office has not been dancing Tchaikovsky's pas de deux, nor do we allow ourselves to be carried away by unfounded expectations of easy money. While we expect interest rates to decline somewhat in the second half of this year, we assess that path will likely hew closer to previous FOMC projections than current market expectations. As investments mature, it may be impossible to reinvest proceeds at similarly high yields.

There are a number of large capital projects under consideration with partial funding from fund balance rather than new debt. That means there is increased potential for significant liquidity demand. The Treasurer's Office has therefore focused our investment purchases primarily on short-term assets. Due to an inverted yield curve (when short-term interest rates are higher than long-term rates), these purchases have temporarily boosted portfolio yield. However, this comes at the expense of sustained yields over longer periods of time. From time to time, securities with attractive long-term yields become available at the same time sufficient excess liquidity reserves are available. In such instances, the Treasurer's Office takes advantage of those opportunities to lock in long-term yields.

As interest rates decline, the market price of outstanding fixed-yield bonds and other debt obligations rise. The opposite also holds 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.

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

Investment Manager	Funds Managed	Purchase Yield
Pooled Funds	$552,634,263	3.03%
Cemetery Perpetual Care	$5,046,435	4.42%
Bond Proceeds:		
CIB 2021 – Street Lighting	$1,898,127	0.40%
CIB 2023 – Lyon Square	$8,087,011	5.50%
Total:	$579,456,543	3.08%

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

Prepared by Levi Boldt, Investment Officer

CORRECT IN FORM

DEPARTMENT OF LAW