



CITY OF GRAND RAPIDS AGENDA ACTION REQUEST

DATE: October 8, 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 September 11, 2024 through September 24, 2024

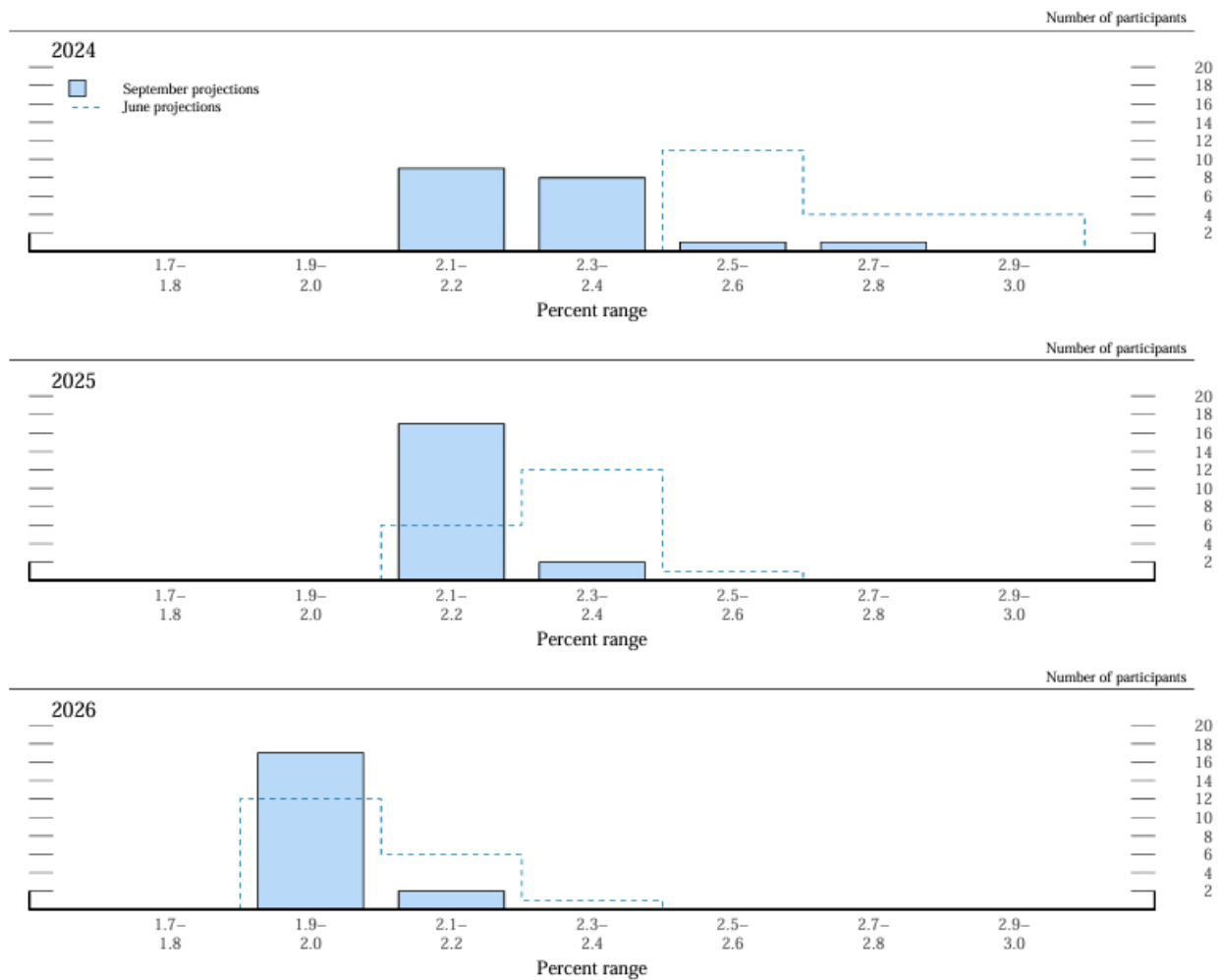
Now that the Federal Reserve's Open Market Committee (FOMC) has begun cutting short-term interest rates, both market participants and FOMC agree that the expected general direction of interest rates is down. However, the pace and magnitude of interest rate changes at any given FOMC remains difficult to accurately predict.

The specifics of how quickly FOMC will cut interest rates and the level rates will be when FOMC stops cutting are less clear. There is widespread disagreement on both counts, not only between FOMC and market participants, amongst market participants, and even amongst the FOMC itself. FOMC's recent decision to cut rates by 0.50% was not unanimous, as Fed Governor Michelle W. Bowman voted to cut by only 0.25% instead. Public statements made by FOMC members and other Fed officials since the meeting have also been mixed.

Fed Chair Jerome Powell has repeatedly stated that FOMC's interest rate decisions are made based on available economic data, one meeting at a time, with no premeditated long-term plan. FOMC released its quarterly Summary of Economic Projections (SEP) at its meeting. One feature of the SEP is that rather than only reporting an average projected number, it shows the distribution of projections.

The SEP shows that FOMC projections of inflation for 2024 through 2026 are markedly lower than they were in June.

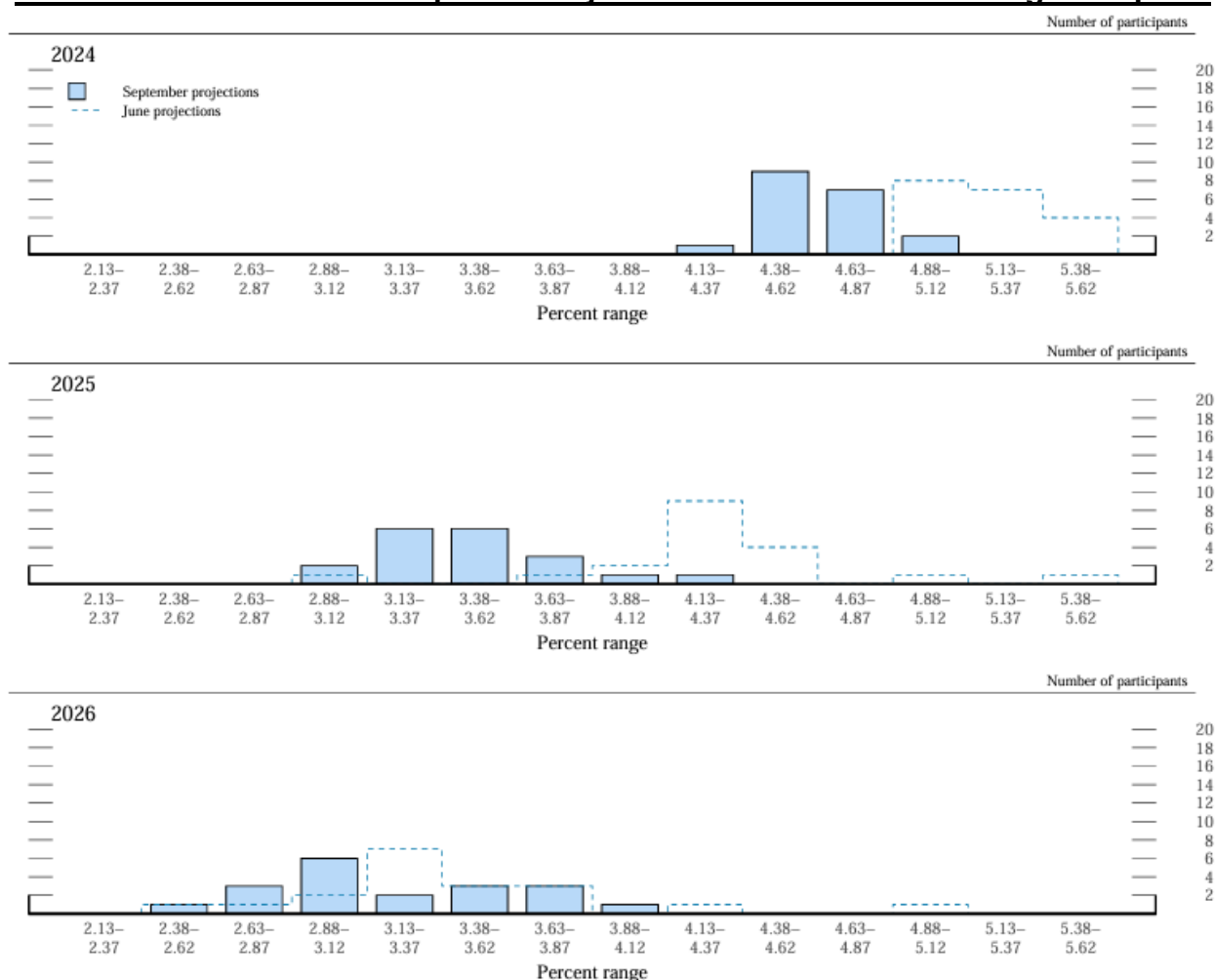
Distribution of FOMC Participants' Projections for PCE Inflation



Source: Federal Reserve

Short-term interest rates were held at an elevated level in an effort to reduce inflation. Inflation is now lower than projected in June. It is also expected to continue coming down faster than previously projected. Therefore, it makes sense that interest rates are likely to come down fast than previously projected as well. This is also reflected in the SEP.

Distribution of FOMC Participants' Projections of Fed Fund Rate Target Midpoint



Source: Federal Reserve

Pricing of interest rate futures contracts provides the means to calculate market-implied interest rate projections and relative confidence levels thereof. Overall, current estimates suggest that the FOMC rate-cutting cycle will last roughly a year, settling in the 2.75% – 3.00% range. By contrast, SEP projects that rate cuts will proceed at a somewhat slower pace, not reaching that level until sometime in 2026.

As interest rates fall, the market price of outstanding fixed-yield bonds and other debt obligations rises. The opposite also holds true; market prices drop when interest rates increase. 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 manages the City's investment portfolio with the goals of safety of principal, sufficient liquidity to meet expected liabilities, and obtaining a competitive yield on invested monies. By selecting portfolio holdings with positive cash flows during periods of expected drawdown, the Treasurer's Office maximizes invested capital while minimizing the likelihood that of a liquidity demand in excess of readily available resources, which could result in a loss of principal. This also allows some flexibility to take advantage of market themes and opportunities as they present themselves. Communication among City staff, especially as to the timing of major expenditures, is critical to the success of this approach.

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

Portfolio Segment	Market Value	Purchase Yield
Pooled Funds	\$647,435,055	3.43%
Cemetery Perpetual Care	\$5,223,751	4.34%
Bond Proceeds:		
CIB 2023 – Lyon Square	\$4,036,385	4.90%
CIB 2024 – Amphitheater	\$20,720,989	5.32%
CIB 2024 – Scribner	\$57,256,590	4.94%
CIB 2024 – ELC + Griff's	\$12,334,223	5.00%
CIB 2024 – Parks Improvements	\$10,745,813	5.00%
Total:	<u>\$757,752,807</u>	3.66%

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