FC

CITY OF GRAND RAPIDS AGENDA ACTION REQUEST

DATE: December 3, 2024

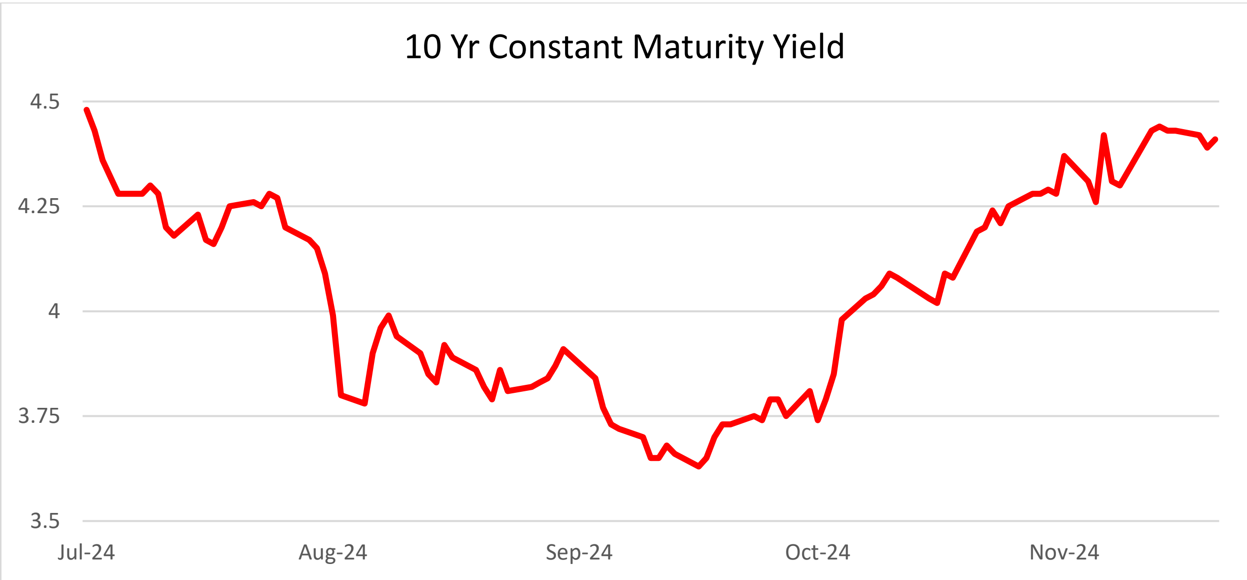
TO: Mark Washington, City Manager

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

FROM: Levi Boldt, Investment Officer

SUBJECT: Treasurer's Report for Period of October 30, 2024 through November 20, 2024

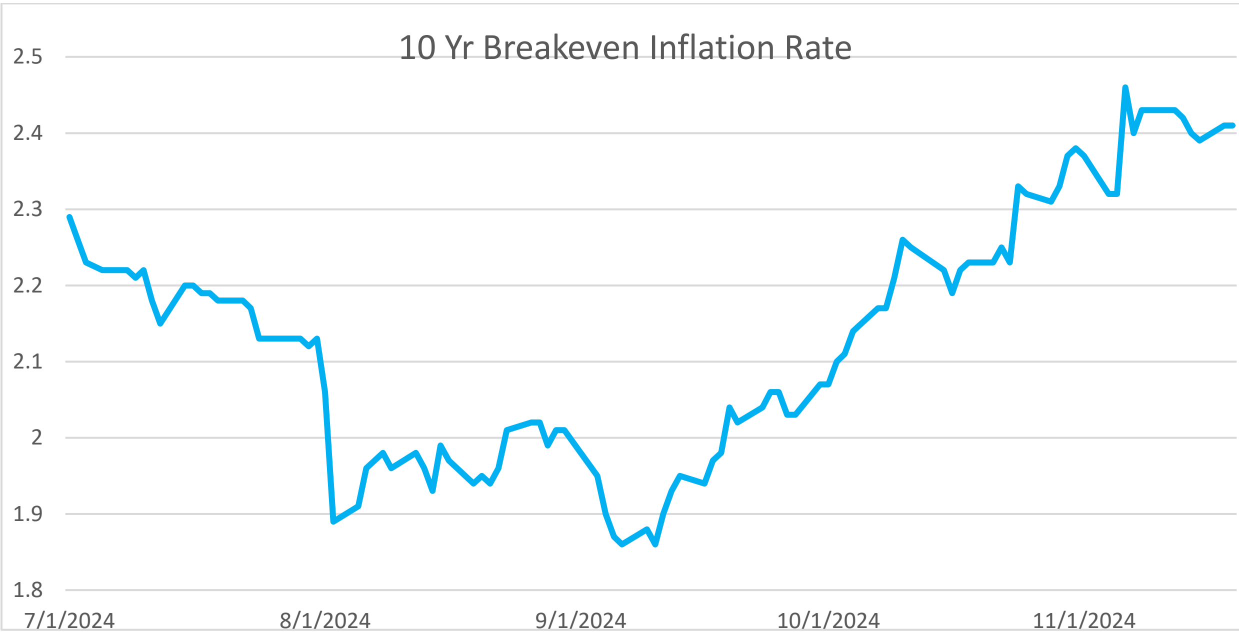
Intermediate- and long-term interest rates have risen noticeably in recent weeks. Yields on 10-year Treasury securities have risen over 0.75% from their lows in September.



Source: Federal Reserve Bank of St Louis

The driving force behind this shift appears to be increased market expectations of near-future inflation. Economists broadly agree that proposed tariff increases will increase price levels as importers pass increased costs on to consumers.

These expectations of future inflation are measurable. By comparing yields on inflation-protected bonds to nominal bonds without such protections, it is possible to determine the breakeven point. This is the market's predicted level of average inflation over the life of the bond. Market participants have priced in 0.55% more inflation per year over the next ten years than they did in September.



Source: Federal Reserve Bank of St Louis

Federal Reserve and Federal Open Market Committee Chair (FOMC) Jerome Powell has repeatedly stated that interest rate decisions are made one FOMC meeting at a time rather than as part of a reconceived plan. In a speech in Dallas, Chair Powell has emphasized that FOMC interest rate decisions are based on available economic data.

> "We are moving policy over time to a more neutral setting. But the path for getting there is not preset. In considering additional adjustments to the target range for the federal funds rate, we will carefully assess incoming data, the evolving outlook, and the balance of risks. The economy is not sending any signals that we need to be in a hurry to lower rates. The strength we are currently seeing in the economy gives us the ability to approach our decisions carefully. Ultimately, the path of the policy rate will depend on how the incoming data and the economic outlook evolve."

Predictions of future FOMC interest rate decisions rest on logic that can be somewhat less than intuitive at times. Continued disinflation and labor market weakness are signals that FOMC is more likely to cut interest rates at current levels. By contrast, FOMC is more likely to hold rates steady if general price levels increase at an unsustainable pace or if the labor market tightens further.

The Federal Open Market Committee (FOMC) next meets December 17-18. Market participants are split, with a 55.7% likelihood that FOMC will cut short-term rates by 0.25%, and 44.3% likelihood that FOMC will maintain rates at current levels. Current pricing also suggests that the FOMC rate-cutting cycle will terminate at 3.75% – 4.00% in the latter portion of 2025.

As interest rates decline, market prices of outstanding fixed-rate bonds and other debt obligations rise. 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 exceeding 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	$645,809,139	3.33%
Cemetery Perpetual Care	$5,235,918	4.05%
Bond Proceeds:		
CIB 2023 – Lyon Square	$2,821,456	4.90%
CIB 2024 – Amphitheater	$20,858,262	5.31%
CIB 2024 – Scribner	$50,978,304	5.26%
CIB 2024 – ELC + Griff's	$10,549,355	4.75%
CIB 2024 – Parks Improvements	$10,651,702	5.00%
Total:	$746,904,137	3.58%

The attached appendices detail portfolio holdings and recent trading activity. Please contact me at ext. 3498 with any questions on this report. Thank you.

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