



# CITY OF GRAND RAPIDS AGENDA ACTION REQUEST

**DATE:** September 24, 2024

**TO:** Mark Washington, City Manager

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

**FROM:** Levi Boldt, Investment Officer

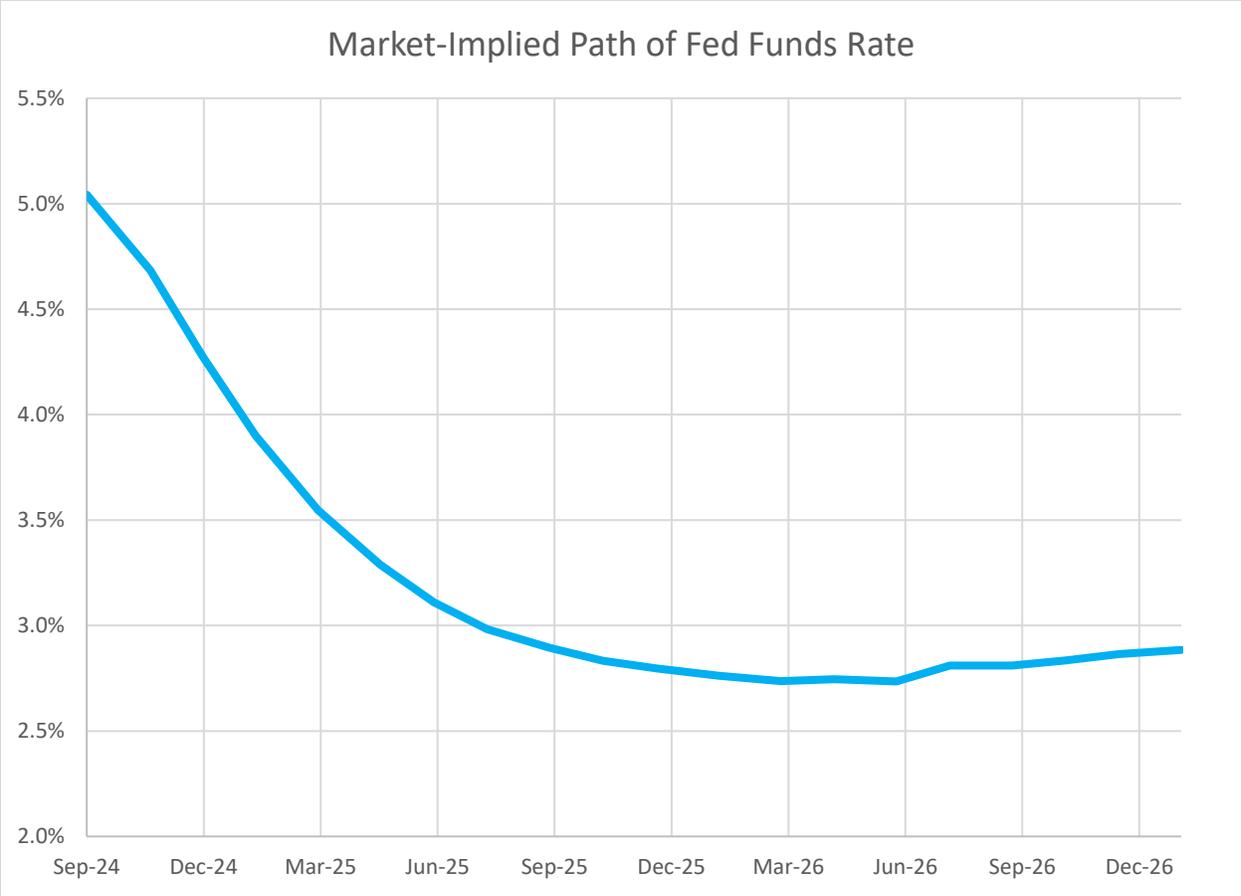
**SUBJECT:** Treasurer's Report for Period of August 27, 2024 through September 10, 2024

The Labor Department has released August's Consumer Price Index (CPI), an important measure of price inflation in the domestic economy. CPI rose 0.19% from July. "Core" CPI, which does not include volatile food and energy expenditures, rose 0.28%. Both measures are slight increases from previous trends. Year-over-year CPI dropped from 2.9% to 2.5%; core CPI remained at 3.2%. The CPI report is generally regarded as warmer than expected, but not necessarily worrisome.

The Federal Reserve's Open Market Committee (FOMC) is expected to begin easing monetary conditions by cutting interest rates at its next meeting September 17-18. At present, the short-term Fed Funds rate is targeted at 5.25% – 5.50%.

While the expected general direction of interest rates is down, the pace and magnitude of actual FOMC interest rate cuts is difficult to accurately predict with specificity. Fed Chair Jerome Powell has repeatedly stated that FOMC's interest rate decisions are made based entirely on available economic data, one meeting at a time, with no premeditated long-term plan. FOMC is expected to release its quarterly Summary of Economic Projections at its meeting, which discloses important insights into FOMC's interpretation of economic data.

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.



Source: Bloomberg

While market participants are in broad agreement about the general path of interest rates, there is wide disagreement as to their likely level at any given point in time. The table below provides market-implied likelihood of various upcoming FOMC rate decisions. The most likely interest rate decision at each upcoming meeting has been highlighted. Note two things: the wide dispersion of likely outcomes, and the relatively low confidence levels of the most likely interest rate outcomes.

	1.75- 2.00%	2.00- 2.25%	2.25- 2.50%	2.50- 2.75%	2.75- 3.00%	3.00- 3.25%	3.25- 3.50%	3.50- 3.75%	3.75- 4.00%	4.00- 4.25%	4.25- 4.50%	4.50- 4.75%	4.75- 5.00%	5.00- 5.25%
<b>9/18/24</b>										0.0%	0.0%	0.0%	15.0%	85.0%
<b>11/7/24</b>					0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.8%	46.7%	46.5%	0.0%
<b>12/18/24</b>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.0%	30.4%	46.6%	19.0%	0.0%	0.0%
<b>1/29/25</b>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	17.1%	38.4%	32.9%	9.6%	0.0%	0.0%	0.0%
<b>3/19/25</b>	0.0%	0.0%	0.0%	0.0%	0.8%	8.0%	25.6%	36.2%	23.6%	5.8%	0.0%	0.0%	0.0%	0.0%
<b>5/7/25</b>	0.0%	0.0%	0.0%	0.8%	8.0%	25.5%	36.1%	23.7%	5.9%	0.1%	0.0%	0.0%	0.0%	0.0%
<b>6/18/25</b>	0.0%	0.0%	0.6%	6.3%	21.5%	33.7%	26.5%	9.9%	1.4%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>7/30/25</b>	0.0%	0.3%	3.4%	13.7%	27.4%	30.2%	18.5%	5.8%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>9/17/25</b>	0.1%	1.4%	7.2%	18.8%	28.5%	25.9%	13.8%	3.9%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: CME FedWatch Tool

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.

<b>Portfolio Segment</b>	<b>Market Value</b>	<b>Purchase Yield</b>
Pooled Funds	\$663,657,385	3.41%
Cemetery Perpetual Care	\$5,209,623	4.45%
Bond Proceeds:		
CIB 2023 – Lyon Square	\$4,074,251	5.40%
CIB 2024 – Amphitheater	\$20,677,370	5.33%
CIB 2024 – Scribner	\$59,960,139	5.27%
<b>Total:</b>	<u>\$753,578,768</u>	3.63%

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