



CITY OF GRAND RAPIDS AGENDA ACTION REQUEST

DATE: November 12, 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 8, 2024 through October 29, 2024

The Federal Open Market Committee (FOMC) next meets November 6-7, then again December 17-18. Federal Reserve and FOMC Chair Jerome Powell has repeatedly stated that Committee interest rate decisions are made one meeting at a time rather than as part of a reconceived plan. Further, Chair Powell has emphasized that FOMC interest rate decisions are based on available economic data.

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 continue to increase at an unsustainable pace or if the labor market tightens further.

Recent economic data releases are generally positive but mixed. Market participants have priced in a 96.7% likelihood that FOMC will cut short-term rates by 0.25% at its November meeting, and a 73.3% likelihood of another 0.25% cut at its December meeting. Current estimates suggest that the FOMC rate-cutting cycle will terminate at 3.50% – 3.75% in the second half 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	\$641,863,225	3.34%
Cemetery Perpetual Care	\$5,222,907	4.24%
Bond Proceeds:		
CIB 2023 – Lyon Square	\$3,348,327	4.90%
CIB 2024 – Amphitheater	\$20,803,848	5.32%
CIB 2024 – Scribner	\$50,842,909	5.11%
CIB 2024 – ELC + Griff's	\$10,648,858	4.75%
CIB 2024 – Parks Improvements	\$10,817,002	5.00%
Total:	<u>\$743,547,076</u>	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