



**CITY OF TYLER  
CITY COUNCIL COMMUNICATION**

**Agenda Number:** C-A-3

**Date:** May 24, 2023

**Subject:** Request that the City Council consider reviewing and accepting the Investment Report for the quarter ending March 31, 2023.

**Page:** Page 1 of

**Item Reference:**

The City of Tyler Investment Portfolio Summary includes all of the core information required under the Public Funds Investment Act plus some additional supporting information that has been prepared to assist the City Council in the quarterly review process. Please reference the attachment labeled as Investments held on March 31, 2023.

**RECOMMENDATION:**

Request that the City Council consider reviewing and accepting the Investment Report for the quarter ending March 31, 2023.

**ATTACHMENTS:**

[Investment Portfolio March 31, 2023 signed](#)  
[Investments held on March 31](#)  
[Market Outlook March 10, 2023](#)

**Drafted/Recommended By:**  
**Department Leader**

**Keidric Trimble, CFO**

**Edited/Submitted By:**  
**City Manager**



**INVESTMENT PORTFOLIO SUMMARY**


**For the Quarter Ended**

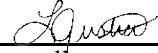
**March 31, 2023**

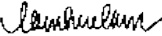
**Prepared by**

**Valley View Consulting, L.L.C.**

The investment portfolio of the City of Tyler is in compliance with the Public Funds Investment Act and the Investment Policy.

  
\_\_\_\_\_  
Chief Financial Officer

  
\_\_\_\_\_  
Controller

  
\_\_\_\_\_  
Accounting Manager

**Disclaimer:** These reports were compiled using information provided by the City. No procedures were performed to test the accuracy or completeness of this information. The market values included in these reports were obtained by Valley View Consulting, L.L.C. from sources believed to be accurate and represent proprietary valuation. Due to market fluctuations these levels are not necessarily reflective of current liquidation values. Yield calculations are not determined using standard performance formulas, are not representative of total return yields and do not account for investment advisor fees.

## Summary Quarter End Results by Investment Category

### City Funds

Asset Type	December 31, 2022			March 31, 2023		
	Ave. Yield	Book Value	Market Value	Ave. Yield	Book Value	Market Value
Pools/Bank	3.79%	\$ 56,050,779	\$ 56,050,779	4.37%	\$ 60,725,006	\$ 60,725,006
Securities/CDs	2.10%	85,459,479	85,167,410	3.63%	93,395,534	93,164,811
<b>Totals</b>	<b>2.77%</b>	<b>\$ 141,510,258</b>	<b>\$ 141,218,189</b>	<b>3.92%</b>	<b>\$ 154,120,540</b>	<b>\$ 153,889,817</b>

#### Current Quarter Average Yield (1)

Total Portfolio 3.92%

#### Fiscal Year-to-Date Average Yield (2)

Total Portfolio 3.35%

#### Interest Earnings

Quarterly Interest Income \$ 972,243 Approximate  
Year-to-date Interest Income \$ 1,724,088 Approximate

#### Bank Fees Offset

Quarterly Bank Fees Offset \$ 9,510  
Year-to-date Bank Fees Offset \$ 20,112

### Hotel Bond

Asset Type	December 31, 2022			March 31, 2023		
	Ave. Yield	Book Value	Market Value	Ave. Yield	Book Value	Market Value
Pools/Bank	4.33%	\$ 48,930	\$ 48,930	4.82%	\$ 49,499	\$ 49,499
<b>Totals</b>	<b>4.33%</b>	<b>\$ 48,930</b>	<b>\$ 48,930</b>	<b>4.82%</b>	<b>\$ 49,499</b>	<b>\$ 49,499</b>

#### Current Quarter Average Yield (1)

Total Portfolio 4.82%

#### Fiscal Year-to-Date Average Yield (2)

Total Portfolio 4.58%

#### Interest Earnings

Quarterly Interest Income \$ 569 Approximate  
Year-to-date Interest Income \$ 1,034 Approximate

**Summary**  
**Quarter End Results by Investment Category**

(Continued)

Asset Type	December 31, 2022			March 31, 2023		
	Ave. Yield	Book Value	Market Value	Ave. Yield	Book Value	Market Value
Pools/Bank	4.05%	\$ 29,944,362	\$ 29,944,362	4.78%	\$ 21,641,138	\$ 21,641,138
Securities/CDs	0.00%	–	–	0.00%	–	–
<b>Totals</b>	<b>4.05%</b>	<b>\$ 29,944,362</b>	<b>\$ 29,944,362</b>	<b>4.78%</b>	<b>\$ 21,641,138</b>	<b>\$ 21,641,138</b>

**Current Quarter Average Yield (1)**  
 Total Portfolio 4.78%

**Fiscal Year-to-Date Average Yield (2)**  
 Total Portfolio 4.42%

**Interest Earnings**

Quarterly Interest Income \$ 307,619 Approximate  
 Year-to-date Interest Income \$ 645,986 Approximate

**Total Portfolio**

**Current Quarter Average Yield (1)**  
 Total Portfolio 4.03%

**Fiscal Year-to-Date Average Yield (2)**  
 Total Portfolio 3.51%

Rolling Three Month Treasury 4.78%  
 Rolling Six Month Treasury 4.73%  
 TexPool 4.61%

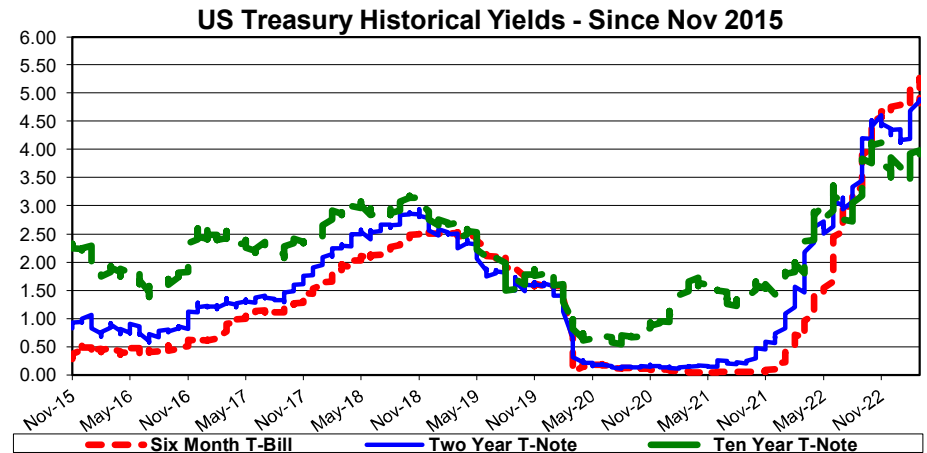
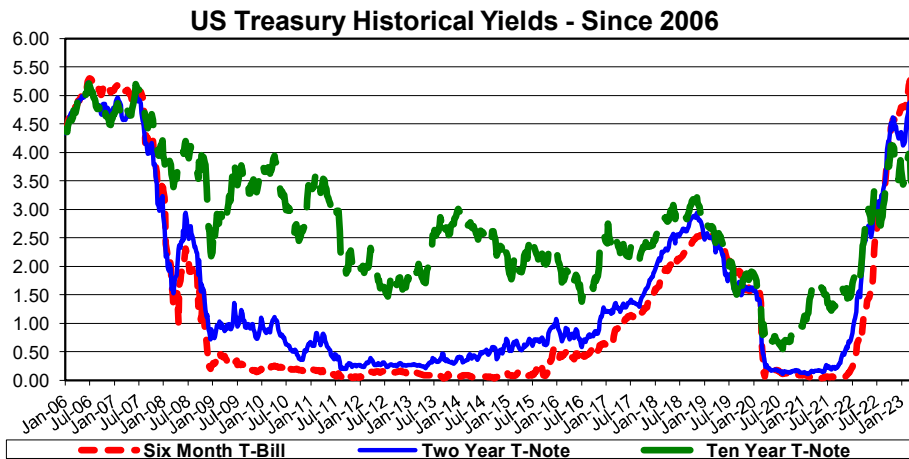
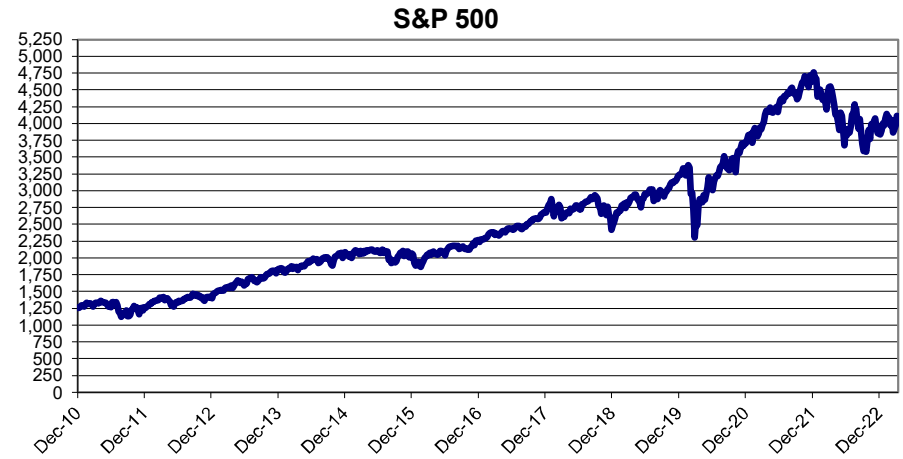
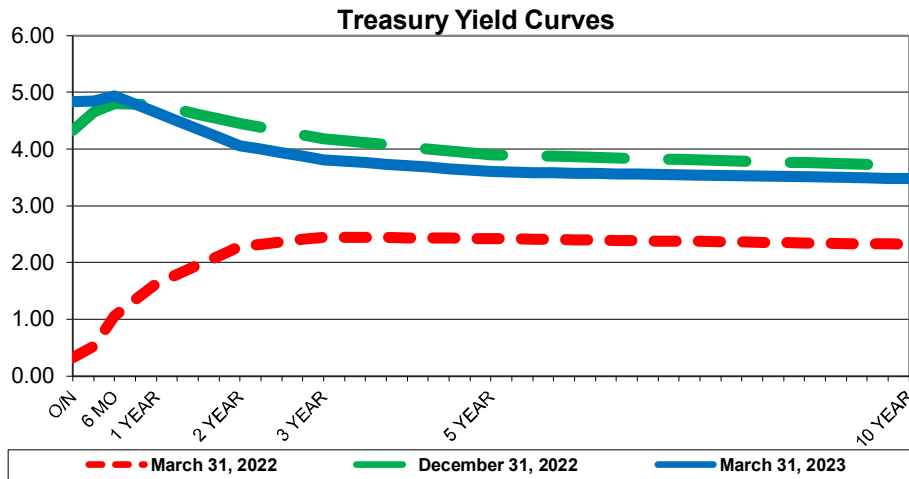
Rolling Three Month Treasury 4.49%  
 Rolling Six Month Treasury 4.32%  
 TexPool 4.30%

(1) **Current Quarter Weighted Average Yield** - calculated using quarter end report yields and adjusted book values; does not reflect a total return analysis, realized or unrealized gains/losses, or account for investment advisory fees. The yield for the reporting month is used for bank, pool, and money market balances.  
 (2) **Fiscal Year-to-Date Weighted Average Yields** - calculated using quarter end report yields and adjusted book values and does not reflect a total return analysis or account for advisory fees.

## Economic Overview

3/31/2023

The Federal Open Market Committee (FOMC) raised the Fed Funds target range 0.25% to 4.75% - 5.00% March 22nd (Effective Fed Funds are trading +/-4.82%). An additional 0.25% increase is projected May 3rd. Fourth Quarter 2022 GDP was revised downward to 2.6% (final number). March Non-Farm Payroll saw 236k new jobs. OPEC announced production cuts and Crude Oil moved up slightly to +/- \$80 per barrel. The S&P Stock Index still oscillates on either side of 4,000. In early March, two large US banks and one European bank required bail-outs to prevent wider financial market disruption. The yield curve shifted lower on broader economic concerns, even with the expectation of additional FOMC rate increases. The Market is now considering lower future interest rates as early as this fall. Inflation is still over the FOMC 2% target (Core PCE +/-4.7% and CPI +/-6.4%). International challenges add to economic uncertainty.



## Investment Holdings

March 31, 2023

Description	Ratings	Coupon/ Discount	Maturity Date	Settlement Date	Par Value	Book Value	Market Price	Market Value	Life (days)	Yield
<b>City Funds</b>										
Cash - Pooled (3)		0.50%	04/01/23	03/31/23	\$ 4,278,473	\$ 4,278,473	1.00	\$ 4,278,473	1	0.50%
NOW		4.07%	04/01/23	03/31/23	20,535,270	20,535,270	1.00	20,535,270	1	4.07%
InterBank MMA		5.00%	04/01/23	03/31/23	35,911,263	35,911,263	1.00	35,911,263	1	5.00%
Prosperity Bank CD		0.21%	04/12/23	04/12/21	3,413,700	3,413,700	100.00	3,413,700	12	0.21%
Citizen's 1st Bank CD		0.25%	05/07/23	05/07/21	3,013,249	3,013,249	100.00	3,013,249	37	0.25%
Citizen's 1st Bank CD		0.25%	06/03/23	06/03/21	3,013,187	3,013,187	100.00	3,013,187	64	0.25%
East West Bank CD		2.90%	06/30/23	06/30/22	3,066,267	3,066,267	100.00	3,066,267	91	2.90%
East West Bank CD		2.85%	07/11/23	07/11/22	3,062,480	3,062,480	100.00	3,062,480	102	2.88%
Veritex Community Bank CD		0.25%	07/26/23	07/26/21	3,138,746	3,138,746	100.00	3,138,746	117	0.25%
Veritex Community Bank CD		0.25%	08/09/23	08/09/21	3,129,512	3,129,512	100.00	3,129,512	131	0.25%
Southside Bank CD		4.50%	10/20/23	10/20/22	5,056,712	5,056,712	100.00	5,056,712	203	4.50%
East West Bank CD		4.62%	11/21/23	11/21/22	6,100,311	6,100,311	100.00	6,100,311	235	4.73%
Texas Capital Bank CD		3.32%	12/02/23	09/02/22	5,082,995	5,082,995	100.00	5,082,995	246	3.32%
Veritex Community Bank CD		4.90%	12/15/23	12/15/22	9,108,740	9,108,740	100.00	9,108,740	259	4.99%
Veritex Community Bank CD		4.84%	01/26/24	01/26/23	10,000,000	10,000,000	100.00	10,000,000	301	4.93%
East West Bank CD		5.03%	02/26/24	02/24/23	9,076,581	9,076,581	100.00	9,076,581	332	5.16%
Bank OZK CD		4.88%	03/15/24	03/15/23	6,144,701	6,144,701	100.00	6,144,701	350	5.00%
FFCB	Aaa/AA+	2.44%	04/18/24	04/27/22	3,000,000	2,995,548	97.78	2,933,400	384	2.59%
FFCB	Aaa/AA+	2.63%	05/16/24	05/18/22	5,000,000	4,995,315	97.81	4,890,650	412	2.71%
FFCB	Aaa/AA+	2.63%	06/10/24	06/10/22	3,000,000	2,997,489	97.79	2,933,580	437	2.70%
Southside Bank CD		4.70%	03/14/25	03/14/23	10,000,000	10,000,000	100.00	10,000,000	714	4.78%
<b>City Funds - Sub Total</b>					<b>\$ 154,132,187</b>	<b>\$ 154,120,540</b>		<b>\$ 153,889,817</b>	<b>180</b>	<b>3.92%</b>
									<b>(1)</b>	<b>(2)</b>

## Investment Holdings

March 31, 2023

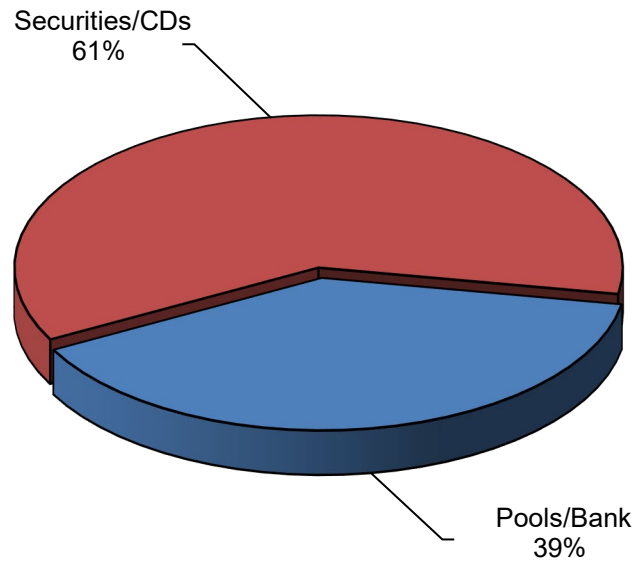
Description	Ratings	Coupon/ Discount	Maturity Date	Settlement Date	Par Value	Book Value	Market Price	Market Value	Life (days)	Yield
<b>Hotel Bond</b>										
LOGIC - Hotel Bond	AAAm	4.82%	04/01/23	03/31/23	49,499	49,499	1.00	49,499	1	4.82%
<b>Hotel Bond - Sub Total</b>					<b>\$ 49,499</b>	<b>\$ 49,499</b>		<b>\$ 49,499</b>	<b>1</b>	<b>4.82%</b>
									<b>(1)</b>	<b>(2)</b>
<b>Water Utilities Revenue Bond</b>										
NOW #2		4.07%	04/01/23	03/31/23	\$ 641,846	\$ 641,846	1.00	\$ 641,846	1	4.07%
NOW #3 - Bond		4.84%	04/01/23	03/31/23	17,743,262	17,743,262	1.00	17,743,262	1	4.84%
TexSTAR - Bond	AAAm	4.61%	04/01/23	03/31/23	3,256,030	3,256,030	1.00	3,256,030	1	4.61%
<b>Water Utilities Revenue Bond - Sub Total</b>					<b>\$ 21,641,138</b>	<b>\$ 21,641,138</b>		<b>\$ 21,641,138</b>	<b>1</b>	<b>4.78%</b>
									<b>(1)</b>	<b>(2)</b>
<b>Total Portfolio</b>					<b>\$ 175,822,824</b>	<b>\$ 175,811,177</b>		<b>\$ 175,580,454</b>	<b>158</b>	<b>4.03%</b>
									<b>(1)</b>	<b>(2)</b>

(1) **Weighted average life** - For purposes of calculating weighted average life, TexPool, TexSTAR, and bank account investments are assumed to have a one day maturity.

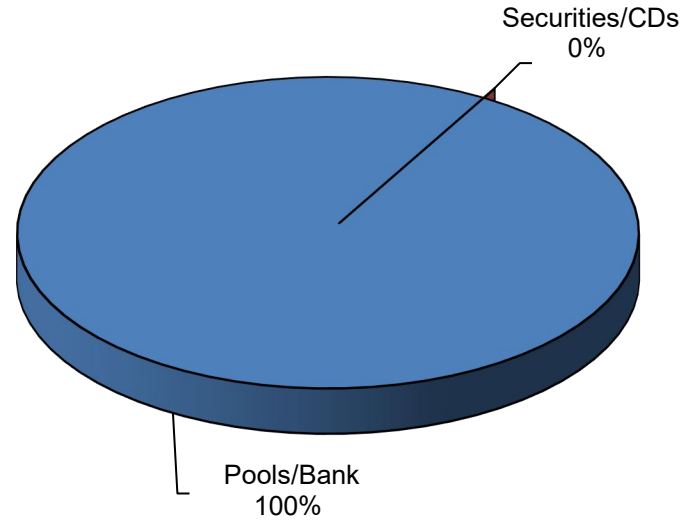
(2) **Weighted average yield to maturity** - The weighted average yield to maturity is based on adjusted book value, realized and unrealized gains/losses and investment advisory fees are not considered. The yield for the reporting month is used for TexPool, TexSTAR, and bank account investments.

(3) **Cash - Pooled** funds are used as compensating balances to offset bank service charges and do not generate hard interest.

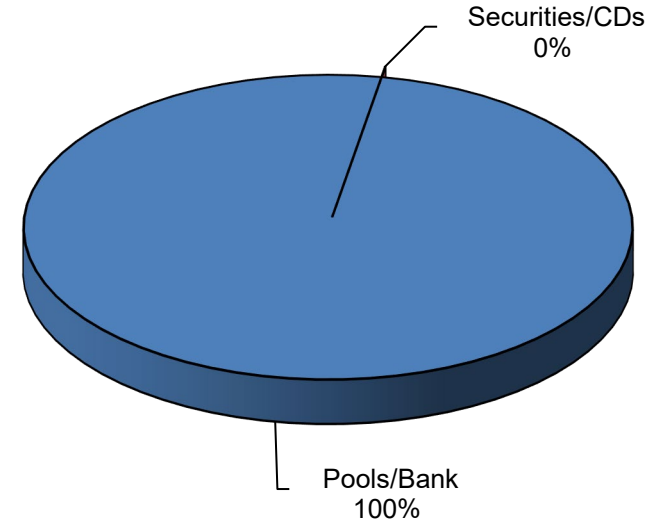
**Portfolio Composition - City Funds**



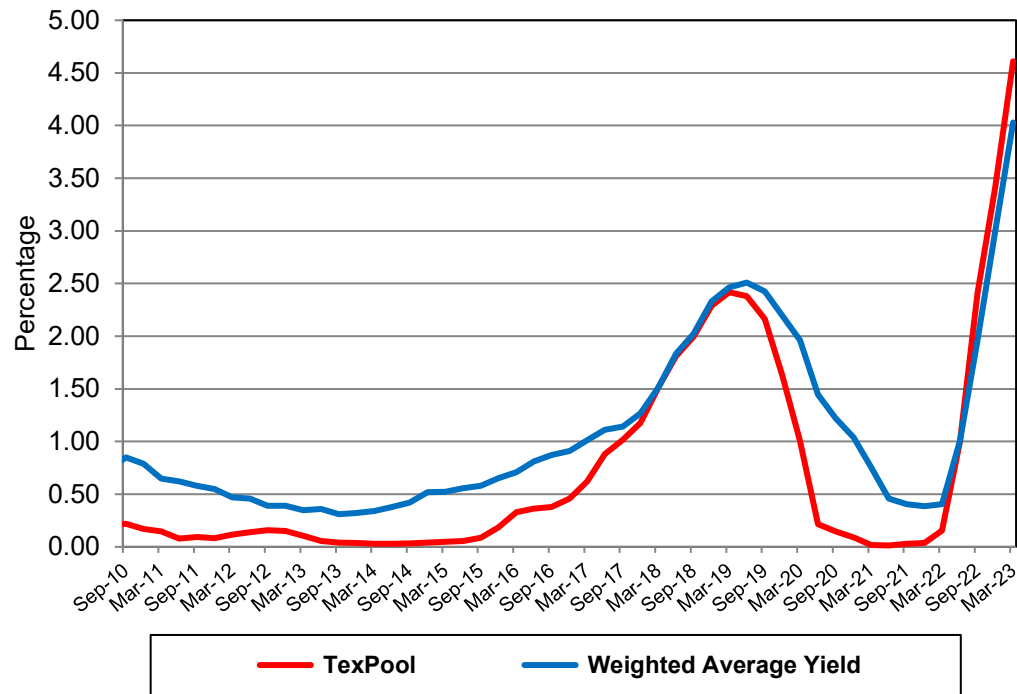
**Portfolio Composition - Water Utility Revenue Bond Funds**



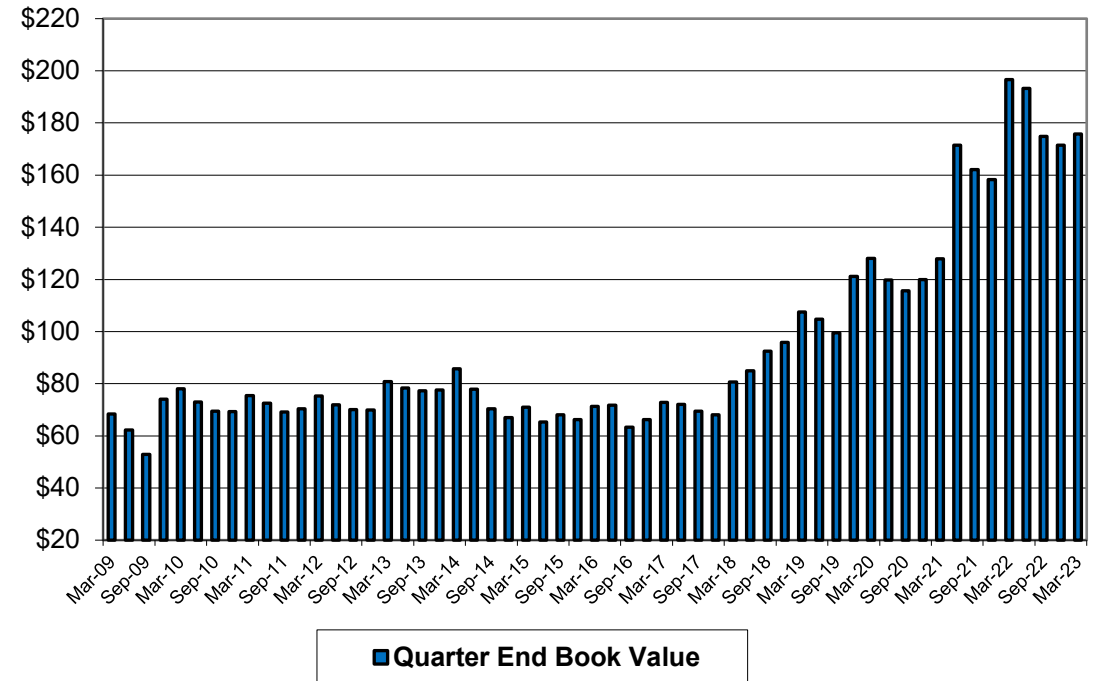
**Portfolio Composition - Hotel Bond Funds**



**Total Portfolio Performance**



**Total Portfolio (Millions)**





## Book & Market Value Comparison

Issuer/Description	Yield	Maturity Date	Book Value 12/31/22	Increases	Decreases	Book Value 03/31/23	Market Value 12/31/22	Change in Market Value	Market Value 03/31/23
Cash - Pooled	0.50%	04/01/23	\$ 7,671,938	\$ -	\$ (3,393,465)	\$ 4,278,473	\$ 7,671,938	\$ (3,393,465)	\$ 4,278,473
NOW	4.07%	04/01/23	20,826,173	-	(290,903)	20,535,270	20,826,173	(290,903)	20,535,270
NOW #2	4.07%	04/01/23	690,234	-	(48,388)	641,846	690,234	(48,388)	641,846
NOW #3 - Bond	4.84%	04/01/23	24,675,523	-	(6,932,260)	17,743,262	24,675,523	(6,932,260)	17,743,262
InterBank MMA	5.00%	04/01/23	27,552,668	8,358,595	-	35,911,263	27,552,668	8,358,595	35,911,263
TexSTAR - Bond	4.61%	04/01/23	4,578,605	-	(1,322,575)	3,256,030	4,578,605	(1,322,575)	3,256,030
LOGIC - Hotel Bond	4.82%	04/01/23	48,930	569	-	49,499	48,930	569	49,499
Prosperity Bank CD	0.30%	01/25/23	6,034,566	-	(6,034,566)	-	6,034,566	(6,034,566)	-
Prosperity Bank CD	0.25%	02/24/23	6,353,181	-	(6,353,181)	-	6,353,181	(6,353,181)	-
East West Bank CD	1.05%	02/24/23	3,026,960	-	(3,026,960)	-	3,026,960	(3,026,960)	-
Bank OZK CD	0.26%	03/15/23	6,140,748	-	(6,140,748)	-	6,140,748	(6,140,748)	-
East West Bank CD	1.28%	03/20/23	6,061,117	-	(6,061,117)	-	6,061,117	(6,061,117)	-
Prosperity Bank CD	0.21%	04/12/23	3,411,933	1,767	-	3,413,700	3,411,933	1,767	3,413,700
Citizen's 1st Bank CD	0.25%	05/07/23	3,011,344	1,905	-	3,013,249	3,011,344	1,905	3,013,249
Citizen's 1st Bank CD	0.25%	06/03/23	3,011,323	1,864	-	3,013,187	3,011,323	1,864	3,013,187
East West Bank CD	2.90%	06/30/23	3,044,420	21,847	-	3,066,267	3,044,420	21,847	3,066,267
East West Bank CD	2.85%	07/11/23	3,041,035	21,445	-	3,062,480	3,041,035	21,445	3,062,480
Veritex Community Bank CD	0.25%	07/26/23	3,136,769	1,977	-	3,138,746	3,136,769	1,977	3,138,746
Veritex Community Bank CD	0.25%	08/09/23	3,127,541	1,971	-	3,129,512	3,127,541	1,971	3,129,512
Southside Bank CD	4.50%	10/20/23	5,000,000	56,712	-	5,056,712	5,000,000	56,712	5,056,712
East West Bank CD	4.62%	11/21/23	6,031,216	69,095	-	6,100,311	6,031,216	69,095	6,100,311
Texas Capital Bank CD	3.32%	12/02/23	5,041,556	41,439	-	5,082,995	5,041,556	41,439	5,082,995
Veritex Community Bank CD	4.90%	12/15/23	9,000,000	108,740	-	9,108,740	9,000,000	108,740	9,108,740
Veritex Community Bank CD	4.84%	01/26/24	-	10,000,000	-	10,000,000	-	10,000,000	10,000,000
East West Bank CD	5.03%	02/26/24	-	9,076,581	-	9,076,581	-	9,076,581	9,076,581
Bank OZK CD	4.88%	03/15/24	-	6,144,701	-	6,144,701	-	6,144,701	6,144,701
FFCB	2.44%	04/18/24	2,994,505	1,043	-	2,995,548	2,915,370	18,030	2,933,400
FFCB	2.63%	05/16/24	4,994,292	1,023	-	4,995,315	4,861,850	28,800	4,890,650
FFCB	2.63%	06/10/24	2,996,972	517	-	2,997,489	2,916,480	17,100	2,933,580
Southside Bank CD	4.70%	03/14/25	-	10,000,000	-	10,000,000	-	10,000,000	10,000,000
<b>TOTAL / AVERAGE</b>	<b>4.03%</b>		<b>\$ 171,503,548.99</b>	<b>\$ 43,911,791</b>	<b>\$ (39,604,163)</b>	<b>\$ 175,811,177</b>	<b>\$ 171,211,480</b>	<b>\$ 4,368,974</b>	<b>\$ 175,580,454</b>

**Cash and Investments by Fund**

		<b>03/31/2023</b>	<b>12/01/2022</b>	<b>Difference</b>
General Fund	101	\$ 50,820,758	\$ 37,466,371	\$ 13,354,388
General Capital Projects Fund	102	2,484,884	2,747,576	(262,692)
Street Improvement Fund	103	1,345,181	1,532,671	(187,490)
Development Services Fund	202	4,230,032	4,053,275	176,757
Cemeteries Operating Fund	204	53,619	33,961	19,658
Forfeitures Fund	205	433,131	472,140	(39,008)
Court Technology Fund	207	64,870	(10,596)	75,465
Hotel-Motel Tax Fund	211	(180,988)	4,289,181	(4,470,169)
Donations Fund	216	874,948	841,486	33,463
TIF/TIRZ # 3	218	909,433	741,737	167,695
Tyler Tourism & Convention Facilities Fund	219	531,172	369,737	161,436
Half Cent Sales Tax Fund	231	28,705,986	24,903,572	3,802,414
Passenger Facility Fund	234	294,435	254,636	39,799
Oil & Natural Gas Fund	235	8,447,083	8,377,227	69,856
PEG Fee Fund	236	1,177,458	1,155,953	21,506
Fair Plaza Fund	240	(724)	(724)	-
Retained HUD Admin Fee Fund	274	435	432	3
Housing Assistance Fund	276	1,236,597	1,082,720	153,877
State/Federal Grants Fund	285	(53,444)	(57,854)	4,410
Transit System Fund	286	(902,191)	(1,072,751)	170,560
CDBG Grant Fund	294	84,846	(114,227)	199,073
HOME Grant Fund	295	343,147	330,752	12,394
HOT Debt Service Fund	302	(177,637)	5,162.99	(182,800)
Revenue Bond HOT 2021	402	49,499	48,929.72	569
Utilities Fund	502	15,053,206	14,472,248	580,958
Utilities Construction Fund	503	6,526,659	7,709,672	(1,183,013)
Utilities Debt Service Fund	504	3,843,429	3,374,247	469,182
Utilities Debt Reserve Fund	505	829,683	824,391	5,292
Revenue Bond Series 2021	512	3,256,030	4,578,605	(1,322,575)
Revenue Bond Series 2022	513	17,743,626	24,675,523	(6,931,896)
Revenue Bond Series 2019	519	641,846	690,234	(48,388)
Airport Fund	524	899,864	824,359	75,505
Airport Grant Fund	525	(81,618)	(84,537)	2,919
Solid Waste Fund	560	1,251,079	700,712	550,367
Solid Waste Capital Projects Fund	562	22,420	60,599	(38,179)
Storm Water Management	575	2,125,006	2,113,381	11,626
Productivity Improvement Fund	639	2,442,124	2,584,006	(141,882)
Fleet Replacement Fund	640	3,407,128	4,918,477	(1,511,349)
Prop, Liab, W/C Insurance Fund	650	2,401,615	2,217,382	184,232
Employee Benefits Fund	661	2,480,396	1,269,583	1,210,812
Prop & Facility Management Fund	663	972,131	1,247,828	(275,698)
Technology Fund	671	1,844,504	2,194,756	(350,252)
Payroll Fund	710	80,514	1,648,227	(1,567,713)
Cemetery Trust Fund	713	3,269,868	3,245,293	24,575
Landfill Trust Fund	720	3,007,322	2,979,169	28,154
Retiree Benefits Fund	761	(1,269,654)	(787,979)	(481,675)
Section 125 Trust Fund	772	268,278	261,471	6,807
<b>TOTAL</b>		<b>\$ 171,787,986.81</b>	<b>\$ 169,169,015.02</b>	<b>\$ 2,618,971.79</b>

**Investments held on December 31, 2022 by type and by major fund are shown below:**

Investment Category	Book Value	Market Value	Quarterly Average Yield	Average Maturity
<b>City Funds</b>				
Pools/Bank	60,725,006	60,725,006	4.37	1 day
Securities/CD's	93,395,534	93,164,811	3.63	180 days
<b>Hotel Bond</b>				
Pools/Bank	49,499	49,499	4.82	1 day
<b>Revenue Bond</b>				
Pools/Bank	21,641,138	21,641,138	4.78	1 day
Securities/CD's	0	0	0	0 days
	175,811,177	175,580,454	4.03	158 days

\*Totals listed about reflect rounded figures

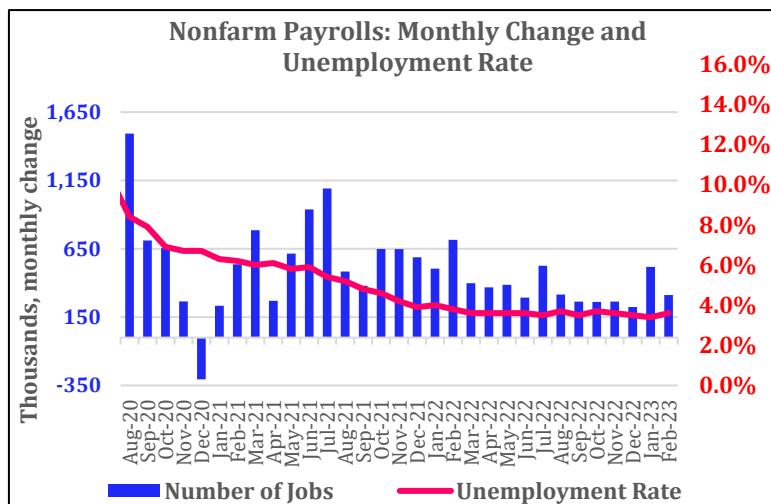
Benchmarks:           Rolling 3 month Treasury average yield was 4.78 percent  
                               Rolling 6 month Treasury average yield was 4.73 percent  
                               The Tex Pool average yield for this quarter was 4.61 percent  
                               The Fiscal Year-to-Date Average Yield was 3.51 percent

## Market Outlook

March 10, 2023

The Federal Open Market Committee (FOMC) will meet later this month to determine what adjustment should be made to the Fed Funds Rate target range. While the market previously anticipated a 25-basis point increase, February's employment report exceeded expectations giving some room to discuss a 50-basis point hike. Home buyers are still faced with high mortgage rates and low inventory. Retail sales saw an unexpected boost in January with data showing robust consumer spending after a slow down in 2022. Revised fourth quarter GDP showed market growth of 2.7%, however more modest growth is expected throughout 2023.

The February Employment report once again exceeded expectations and added 311,000 jobs, versus the 205,000 anticipated. The previous two months were adjusted with a net decrease of 34,000 jobs. January was revised to +504,000 from the previously reported +517,000, and December was revised to +239,000 from the previously reported +260,000 jobs. The three-month average is now +351,000 per month (the previous three-month average was +356,000 per month). Leisure/Hospitality (+105,000), Health/Education (+74,000), Retail (+50,000), Government (+46,000), Professional/Business (+45,000), and Construction (+24,000) experienced notable gains for the month. Mining saw no change, but Transportation/Warehousing (-22,000) and Manufacturing (-4,000) saw employment declines.



The February Labor Participation Rate, a measure of the percentage of eligible workers that hold jobs, inched up to 62.5% from 62.4% in January and is still slightly below the pre-pandemic number of 63.4%. The Unemployment Rate increased in February to 3.6% from January's 3.4%. The U6 rate (or the under-employed rate – those that are either over-qualified for their job or working fewer hours than they desire) again edged up to 6.8% from 6.6% the previous month. Average Hourly Earnings (AHE) rose 0.2%, slightly less than the 0.3% increase seen in January. Year-over-year AHE increased to 4.6% from last month's 4.4%. Job openings fell 410,000 in January to 10.8 million active job openings, higher than the 10.5 million the market expected. Increasing 242,000 from last month, approximately 5.9 million people report that they are currently unemployed and looking for work. Before the pandemic, that number was 5.7 million.

Existing Home Sales decreased 0.7% in January after falling 2.2% in December continuing the twelfth consecutive monthly decline, the longest stretch since 1999. The median existing-home sales price year-over-year is up 1.3% from one year ago at \$359,000, marking the 131<sup>st</sup> consecutive month of year-over-year increases, the longest-running streak on record. Inventories of Existing Homes for sale increased 2.1% from December, with the supply remaining at 2.9 months at the current sales pace. New Home Sales surged 7.2% in January, and December's increase of 2.3% was upwardly revised to 7.2%. The supply of New Homes for sale is currently at 7.9 months, a decrease from the previous 9.0 months, and still above the 6-month supply expected in a balanced market. The median sales price of new homes was \$427,500. The average 30-year mortgage rate is now at 6.79%, near the highs we saw in November 2022. The S&P Case Shiller report of home prices in 20 metropolitan areas reported a 0.9% decrease in home values during December and the Federal Housing Finance Agency (FHFA), the entity that analyzes all domestic home prices, showed a decrease of 0.1% for the same month. Year-over-year Case Shiller is up 4.6% (vs. 6.8% in November) and the FHFA index is up 6.6% (vs. 8.2% in November). Housing Starts declined 4.5% in January and Permits increased slightly by 0.1%. Pending Home Sales soared past market expectations and rose 8.1% in January, after climbing 1.1% in December. Year-over-year, pending home sales have fallen 24.1%. While the market was forecasting a slight gain, Construction Spending decreased 0.1% in January after December's decline of 0.7%.

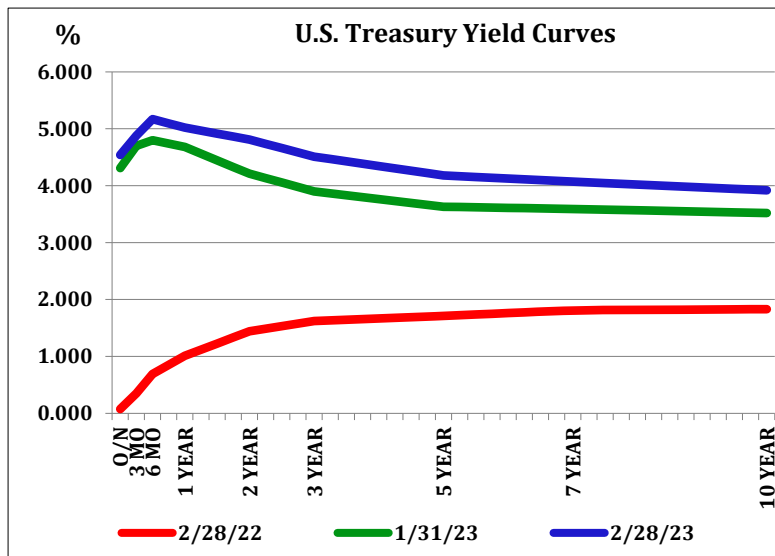
Fourth quarter GDP for 2022 was revised to +2.7% from the +2.9% Advance Estimate with consumer spending and net trade both revised lower. There will still be one more revision before the "final" GDP number. Industrial Production was flat in January after a 1.0% decrease in December. Durable Goods Orders decreased 4.5% after an increase of 5.1% in December. While December's gain was driven by orders for transportation equipment,

those orders plunged 13.3% in January contributing to the largest decline in Durable Goods Orders since April 2020. Excluding transportation, durable goods orders increased 0.7%. Also impacted by the reversal in transportation orders, Factory Orders decreased 1.6% following December's increase of 1.7%. Business inventories rose 0.3% in December after also rising 0.3% in November. As an inflation impact measurement, the Producer Price Index (PPI) increased 0.7% in January after decreasing 0.2% in December. It is up 6.0% from this time last year, but that marks its lowest reading since March 2021 and the seventh straight month of slowing. The Consumer Price Index (CPI) increased 0.5% in January after a 0.1% increase in December and is up 6.4% year-over-year. Core CPI year-over-year, or the results after food and energy numbers are excluded (due to price volatility), is up 5.6% following a 0.4% increase in January. The Purchasing Managers Index inched higher to 47.7% in February, but remains below 50% indicating a generally declining manufacturing economy. This is the fourth consecutive month of falling factory activity with companies continuing to slow output. They are hopeful for growth in the second half of the year as customers' inventories run low.

Personal consumption was revised downward showing growth of only 1.4% in the fourth quarter of 2022 versus the previous estimate of 2.1% and third quarter's expansion of 2.3%. Retail Sales for January were up 3.0%, following a decline of 1.1% in December. Excluding vehicle and gas purchases, sales were up 2.6% after dropping 0.4% in December. Consumers' attitudes as measured by both the Consumer Sentiment report (+2.1 points) and the Consumer Confidence report (-3.1 points) showed mixed readings for February, and inflation expectations remained mostly unchanged from January. Personal Consumption Expenditures (PCE) are up 5.4% year-over-year, up from December's 5.0%, and still outpacing year-over-year Average Hourly Earnings of 4.6%. The Core PCE Index measuring consumption net of food and energy, and one of the indicators watched closely by the FOMC, was +4.7% year-over-year in January, up slightly from December's +4.6%. This exceeded the FOMC's target inflation rate of 2.0% for the twenty-second consecutive month. Month-over-month the Personal Income component of the PCE series indicated that incomes rose 0.6% in January after rising 0.3% in December, while Personal Spending rose 1.8% in January after a 0.1% decline in December.

During testimony before Congress this week, Chair Powell maintained that the FOMC would continue to raise the Fed Funds Rate in its efforts to bring inflation down to 2% and restore price stability. He noted that the latest economic data was stronger than expected and the target level of the Fed Funds Rate may ultimately be higher than originally anticipated. He also indicated the FOMC is prepared to increase the pace of rate hikes if the data suggests faster tightening is necessary. The FOMC will hold their next meeting on March 21<sup>st</sup> and 22<sup>nd</sup> where they will announce any changes to the Fed Funds target range. At this point the market is slightly favoring a 25-basis point increase, but a 50-basis point increase is not out of the question.

Government Security Investment Pool yields continued rising with the highest currently yielding +/-4.62% up from +/-4.45% last month. After closing January at 4.68%, the 1-year Treasury closed February at 5.02%. The 2-year Treasury closed February at 4.81%, 60 basis-points higher than 4.21% at the end of January. The yield curve at the end of February remains inverted with short-term rates higher than longer-term rates peaking between 6-months and 1-year. Longer-term rates saw a significant boost from January to February as the market digested the real possibility of further increases and a sustained period of restrictive monetary policy. With an inverted yield curve, it is important to ladder your investments and lock-in rates along the yield curve in anticipation of rates falling. Following the March 10<sup>th</sup> employment numbers, we saw significant declines in rates across the board. The current 1-year treasury rate is 4.82% and the 2-year treasury rate is 4.58%. Bank appetite for deposits has continued to provide a competitive option with some offering 1-year CD yields exceeding 5.00% and 2-year CD yields at +/-4.60%. However, many banks appear hesitant to offer rates that lock them in longer than 1-year.



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