



**CITY OF TYLER
CITY COUNCIL COMMUNICATION**

Agenda Number: C-A-5

Date: August 23, 2023

Subject: Request that the City Council consider reviewing and accepting the Investment Report for the quarter ending June 30, 2023.

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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 June 30, 2023.

RECOMMENDATION:

Request that the City Council consider reviewing and accepting the Investment Report for the quarter ending June 30, 2023.

ATTACHMENTS:

[Investment Portfolio Jun 30 2023 signed](#)
[Investments_held_on_June_30](#)
[Market Outlook 2023 07 07](#)

Drafted/Recommended By:
Department Leader

Keidric Trimble, CFO

Edited/Submitted By:
City Manager



INVESTMENT PORTFOLIO SUMMARY

For the Quarter Ended

June 30, 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	March 31, 2023			June 30, 2023		
	Ave. Yield	Book Value	Market Value	Ave. Yield	Book Value	Market Value
Pools/Bank	4.37%	\$ 60,725,006	\$ 60,725,006	4.08%	\$ 35,924,630	\$ 35,924,630
Securities/CDs	3.63%	93,395,534	93,164,811	4.31%	113,710,066	113,446,561
Totals	3.92%	\$ 154,120,540	\$ 153,889,817	4.25%	\$ 149,634,696	\$ 149,371,191

Current Quarter Average Yield (1)

Total Portfolio 4.25%

Fiscal Year-to-Date Average Yield (2)

Total Portfolio 3.65%

Interest Earnings

Quarterly Interest Income \$ 1,517,692 Approximate
Year-to-date Interest Income \$ 3,241,779 Approximate

Bank Fees Offset

Quarterly Bank Fees Offset \$ 9,510
Year-to-date Bank Fees Offset \$ 31,737

Hotel Bond

Asset Type	March 31, 2023			June 30, 2023		
	Ave. Yield	Book Value	Market Value	Ave. Yield	Book Value	Market Value
Pools/Bank	4.82%	\$ 49,499	\$ 49,499	5.26%	\$ 50,137	\$ 50,137
Totals	4.82%	\$ 49,499	\$ 49,499	5.26%	\$ 50,137	\$ 50,137

Current Quarter Average Yield (1)

Total Portfolio 5.26%

Fiscal Year-to-Date Average Yield (2)

Total Portfolio 4.80%

Interest Earnings

Quarterly Interest Income \$ 638 Approximate
Year-to-date Interest Income \$ 1,672 Approximate

Summary
Quarter End Results by Investment Category

(Continued)

Water Utilities Revenue Bond

Asset Type	March 31, 2023			June 30, 2023		
	Ave. Yield	Book Value	Market Value	Ave. Yield	Book Value	Market Value
Pools/Bank	4.78%	\$ 21,641,138	\$ 21,641,138	5.24%	\$ 15,288,562	\$ 15,288,562
Securities/CDs	0.00%	–	–	0.00%	–	–
Totals	4.78%	\$ 21,641,138	\$ 21,641,138	5.24%	\$ 15,288,562	\$ 15,288,562

Current Quarter Average Yield (1)

Total Portfolio 5.24%

Fiscal Year-to-Date Average Yield (2)

Total Portfolio 4.69%

Interest Earnings

Quarterly Interest Income \$ 243,565 Approximate
 Year-to-date Interest Income \$ 889,551 Approximate

Total Portfolio

Current Quarter Average Yield (1)

Total Portfolio 4.35%

Rolling Three Month Treasury 5.28%
 Rolling Six Month Treasury 5.08%
 TexPool 5.05%

Fiscal Year-to-Date Average Yield (2)

Total Portfolio 3.79%

Rolling Three Month Treasury 4.75%
 Rolling Six Month Treasury 4.57%
 TexPool 4.55%

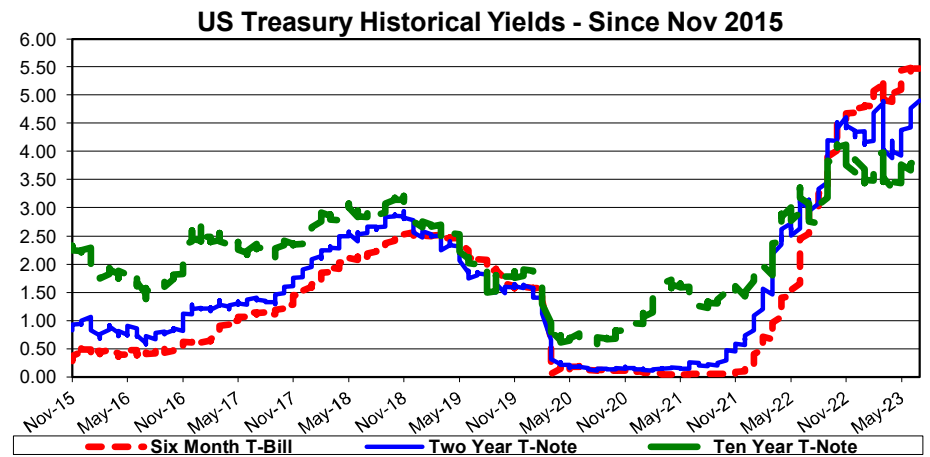
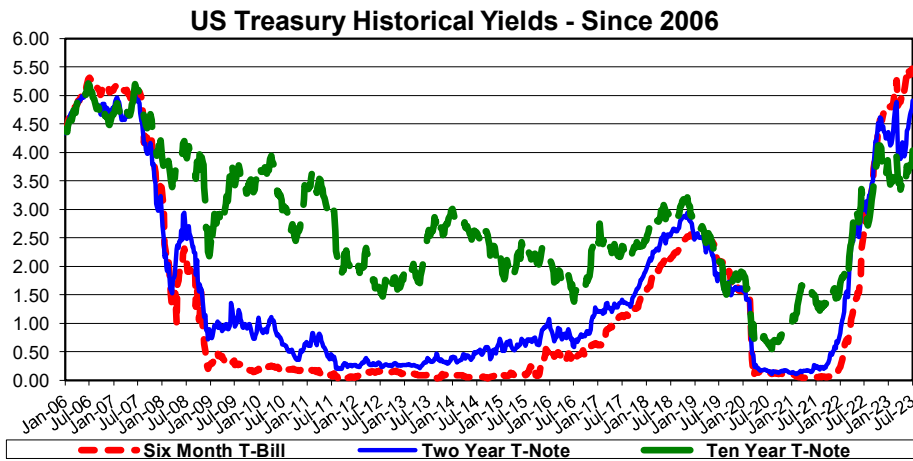
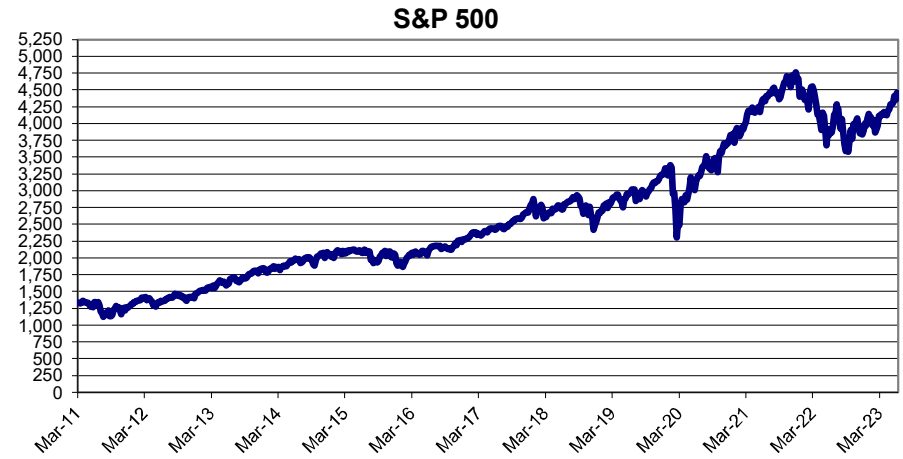
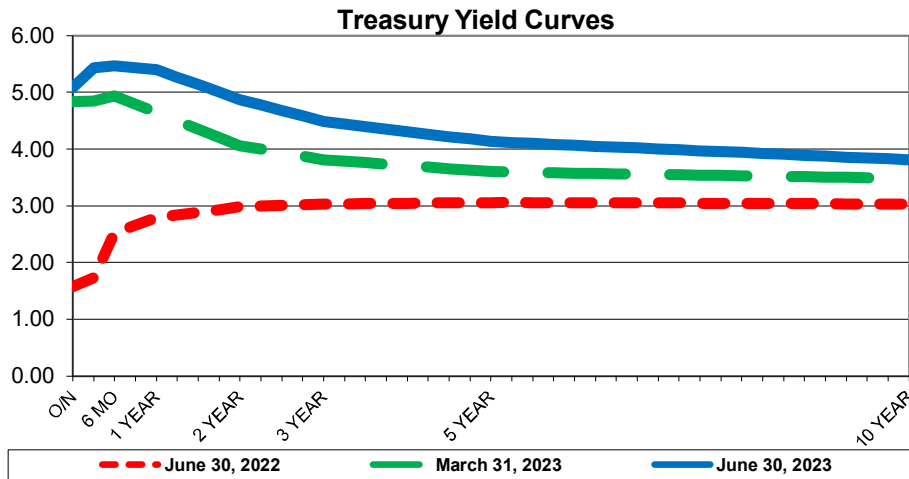
(1) **Current Quarter Weighted Average Yield** - calculated using quarter end report yields and adjusted book values; does not reflect a total return analysis, realized or unrealized gains/losses, or account for investment advisory fees. The yield for the reporting month is used for bank, pool, and money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

6/30/2023

The Federal Open Market Committee (FOMC) paused and kept the Fed Funds target range 5.00% - 5.25% June 14th (Effective Fed Funds are trading +/-5.08%). Another increase is projected after the July 25-26 meeting. First quarter 2023 GDP (Final) recorded 2.0%. June Non-Farm Payroll added 209k new jobs, below the 230k projection. The three month average declined to 244k. The S&P Stock Index continues moderate increases, trading +/-4,400. The yield curve rose from last month but remains steeply inverted with the expectation of future FOMC rate decreases. Crude Oil trades over +/--\$70 per barrel. Inflation declined slightly but is still over the FOMC 2% target (Core PCE +/-4.6% and CPI +/-5.3%). The Ukrainian/Russian war and Middle East conflicts increase market anxiety.



Investment Holdings

June 30, 2023

Description	Ratings	Coupon/ Discount	Maturity Date	Settlement Date	Par Value	Book Value	Market Price	Market Value	Life (days)	Yield
City Funds										
Cash - Pooled (3)		0.50%	07/01/23	06/30/23	\$ 6,433,570	\$ 6,433,570	1.00	\$ 6,433,570	1	0.50%
NOW		4.07%	07/01/23	06/30/23	9,677,023	9,677,023	1.00	9,677,023	1	4.07%
InterBank MMA		5.25%	07/01/23	06/30/23	19,814,037	19,814,037	1.00	19,814,037	1	5.25%
East West Bank CD		2.85%	07/11/23	07/11/22	3,084,317	3,084,317	100.00	3,084,317	11	2.88%
Veritex Community Bank CD		0.25%	07/26/23	07/26/21	3,140,681	3,140,681	100.00	3,140,681	26	0.25%
Veritex Community Bank CD		0.25%	08/09/23	08/09/21	3,131,420	3,131,420	100.00	3,131,420	40	0.25%
Southside Bank CD		4.50%	10/20/23	10/20/22	5,112,821	5,112,821	100.00	5,112,821	112	4.50%
East West Bank CD		4.62%	11/21/23	11/21/22	6,170,978	6,170,978	100.00	6,170,978	144	4.73%
Texas Capital Bank CD		3.32%	12/02/23	09/02/22	5,125,708	5,125,708	100.00	5,125,708	155	3.32%
Veritex Community Bank CD		4.90%	12/15/23	12/15/22	9,221,239	9,221,239	100.00	9,221,239	168	4.99%
Veritex Community Bank CD		4.84%	01/26/24	01/26/23	10,119,342	10,119,342	100.00	10,119,342	210	4.93%
East West Bank CD		5.03%	02/26/24	02/24/23	9,191,115	9,191,115	100.00	9,191,115	241	5.16%
Bank OZK CD		4.88%	03/15/24	03/15/23	6,220,744	6,220,744	100.00	6,220,744	259	5.00%
Bank OZK CD		4.92%	04/12/24	04/12/23	3,528,895	3,528,895	100.00	3,528,895	287	5.04%
FFCB	Aaa/AA+	2.44%	04/18/24	04/27/22	3,000,000	2,996,603	97.63	2,929,020	293	2.59%
FFCB	Aaa/AA+	2.63%	05/16/24	05/18/22	5,000,000	4,996,350	97.58	4,878,750	321	2.71%
FFCB	Aaa/AA+	2.63%	06/10/24	06/10/22	3,000,000	2,998,012	97.32	2,919,690	346	2.70%
Third Coast Bank CD		5.60%	06/29/24	06/29/23	5,000,000	5,000,000	100.00	5,000,000	365	5.72%
Southside Bank CD		4.50%	10/10/24	04/10/23	3,500,000	3,500,000	100.00	3,500,000	468	4.58%
Citizen's 1st Bank CD		4.52%	11/08/24	05/08/23	3,015,093	3,015,093	100.00	3,015,093	497	4.59%
Southside Bank CD		4.70%	03/14/25	03/14/23	10,118,466	10,118,466	100.00	10,118,466	623	4.78%
American Nat'l Bank & Trust CD		4.50%	05/05/25	05/04/23	4,015,288	4,015,288	100.00	4,015,288	675	4.59%
Texas Bank CD		4.56%	06/05/25	06/08/23	8,022,994	8,022,994	100.00	8,022,994	706	4.66%
Third Coast Bank CD		5.10%	06/29/25	06/29/23	5,000,000	5,000,000	100.00	5,000,000	730	5.20%
City Funds - Sub Total					\$ 149,643,731	\$ 149,634,696		\$ 149,371,191	253	4.25%
									(1)	(2)

Investment Holdings

June 30, 2023

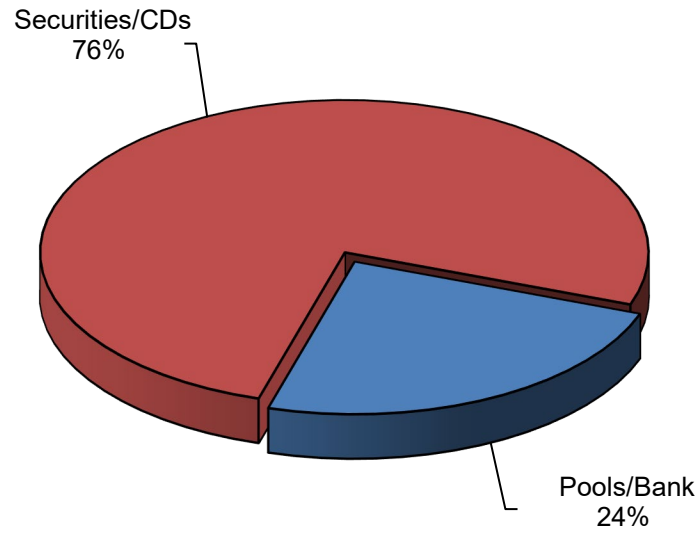
Description	Ratings	Coupon/ Discount	Maturity Date	Settlement Date	Par Value	Book Value	Market Price	Market Value	Life (days)	Yield
Hotel Bond										
LOGIC - Hotel Bond	AAAm	5.26%	07/01/23	06/30/23	50,137	50,137	1.00	50,137	1	5.26%
Hotel Bond - Sub Total					\$ 50,137	\$ 50,137		\$ 50,137	1	5.26%
									(1)	(2)
Water Utilities Revenue Bond										
NOW #2		4.07%	07/01/23	06/30/23	\$ 643,226	\$ 643,226	1.00	\$ 643,226	1	4.07%
NOW #3 - Bond		5.33%	07/01/23	06/30/23	12,208,213	12,208,213	1.00	12,208,213	1	5.33%
TexSTAR - Bond	AAAm	5.08%	07/01/23	06/30/23	2,437,123	2,437,123	1.00	2,437,123	1	5.08%
Water Utilities Revenue Bond - Sub Total					\$ 15,288,562	\$ 15,288,562		\$ 15,288,562	1	5.24%
									(1)	(2)
Total Portfolio					\$ 164,982,430	\$ 164,973,395		\$ 164,709,890	230	4.35%
									(1)	(2)

(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.

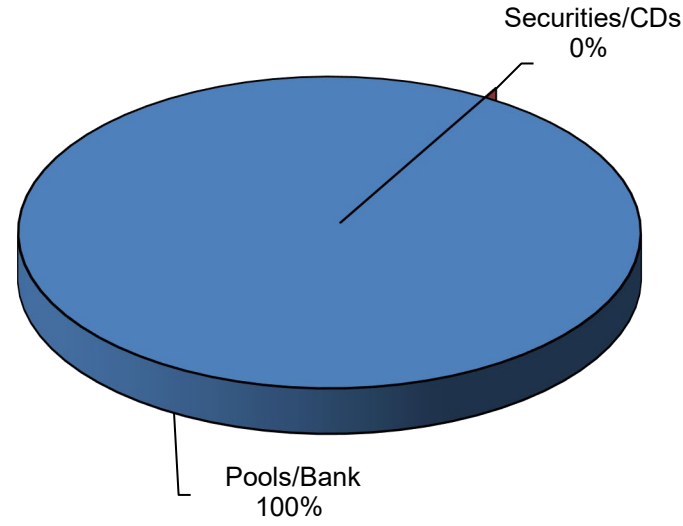
(2) **Weighted average yield to maturity** - The weighted average yield to maturity is based on adjusted book value, realized and unrealized gains/losses and investment advisory fees are not considered. The yield for the reporting month is used for TexPool, TexSTAR, and bank account investments.

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

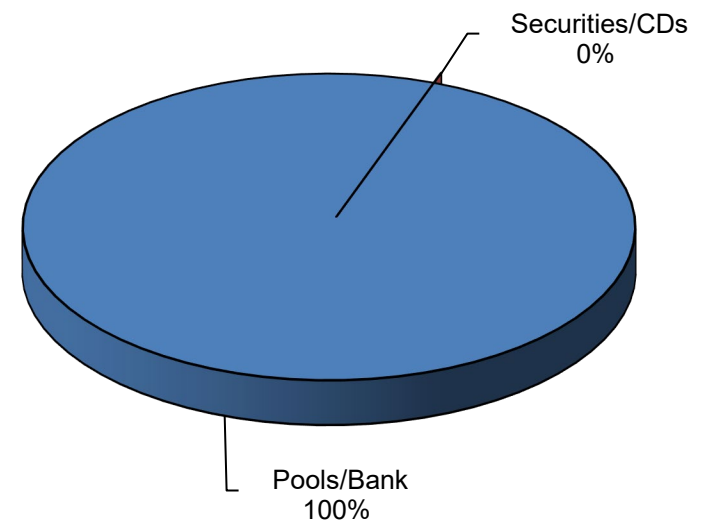
Portfolio Composition - City Funds



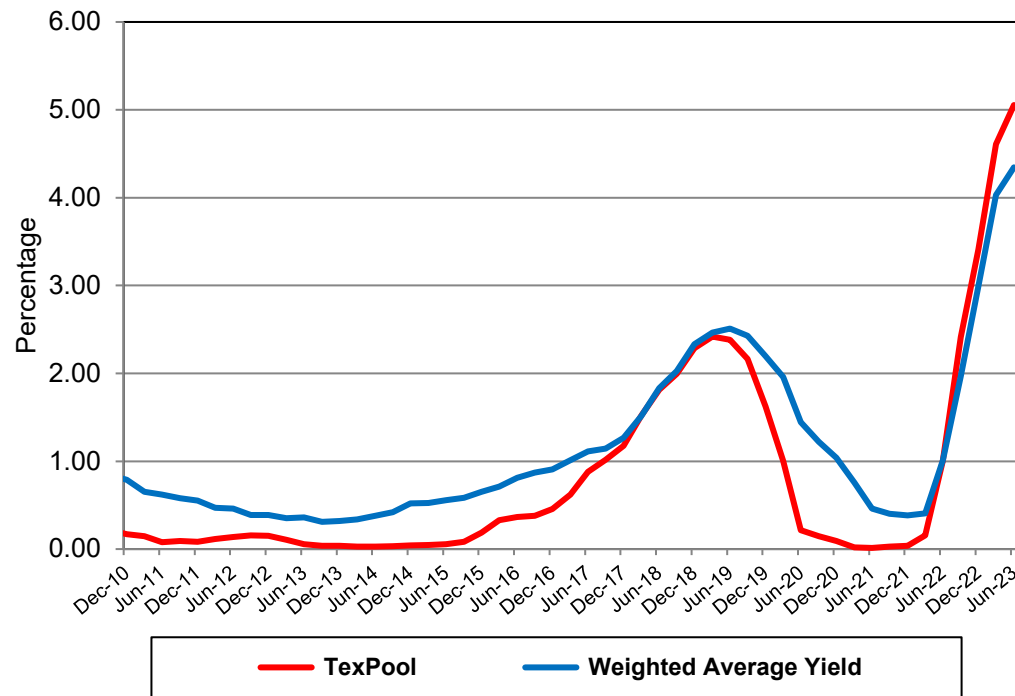
Portfolio Composition - Water Utility Revenue Bond Funds



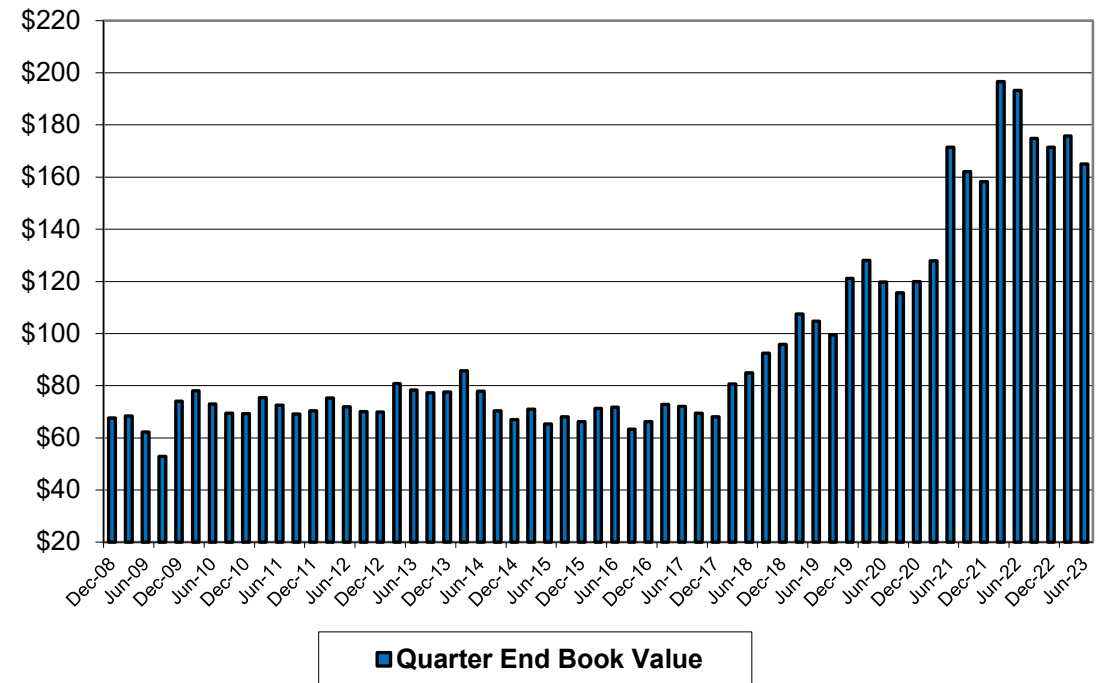
Portfolio Composition - Hotel Bond Funds



Total Portfolio Performance



Total Portfolio (Millions)



Book & Market Value Comparison

Issuer/Description	Yield	Maturity Date	Book Value 03/31/23	Increases	Decreases	Book Value 06/30/23	Market Value 03/31/23	Change in Market Value	Market Value 06/30/23
Cash - Pooled	0.50%	07/01/23	\$ 4,278,473	\$ 2,155,097	\$ -	\$ 6,433,570	\$ 4,278,473	\$ 2,155,097	\$ 6,433,570
NOW	4.07%	07/01/23	20,535,270	-	(10,858,247)	9,677,023	20,535,270	(10,858,247)	9,677,023
NOW #2	4.07%	07/01/23	641,846	1,380	-	643,226	641,846	1,380	643,226
NOW #3 - Bond	5.33%	07/01/23	17,743,262	-	(5,535,049)	12,208,213	17,743,262	(5,535,049)	12,208,213
InterBank MMA	5.25%	07/01/23	35,911,263	-	(16,097,226)	19,814,037	35,911,263	(16,097,226)	19,814,037
TexSTAR - Bond	5.08%	07/01/23	3,256,030	-	(818,907)	2,437,123	3,256,030	(818,907)	2,437,123
LOGIC - Hotel Bond	5.26%	07/01/23	49,499	638	-	50,137	49,499	638	50,137
Prosperity Bank CD	0.21%	04/12/23	3,413,700	-	(3,413,700)	-	3,413,700	(3,413,700)	-
Citizen's 1st Bank CD	0.25%	05/07/23	3,013,249	-	(3,013,249)	-	3,013,249	(3,013,249)	-
Citizen's 1st Bank CD	0.25%	06/03/23	3,013,187	-	(3,013,187)	-	3,013,187	(3,013,187)	-
East West Bank CD	2.90%	06/30/23	3,066,267	-	(3,066,267)	-	3,066,267	(3,066,267)	-
East West Bank CD	2.85%	07/11/23	3,062,480	21,837	-	3,084,317	3,062,480	21,837	3,084,317
Veritex Community Bank CD	0.25%	07/26/23	3,138,746	1,935	-	3,140,681	3,138,746	1,935	3,140,681
Veritex Community Bank CD	0.25%	08/09/23	3,129,512	1,908	-	3,131,420	3,129,512	1,908	3,131,420
Southside Bank CD	4.50%	10/20/23	5,056,712	56,109	-	5,112,821	5,056,712	56,109	5,112,821
East West Bank CD	4.62%	11/21/23	6,100,311	70,667	-	6,170,978	6,100,311	70,667	6,170,978
Texas Capital Bank CD	3.32%	12/02/23	5,082,995	42,712	-	5,125,708	5,082,995	42,712	5,125,708
Veritex Community Bank CD	4.90%	12/15/23	9,108,740	112,499	-	9,221,239	9,108,740	112,499	9,221,239
Veritex Community Bank CD	4.84%	01/26/24	10,000,000	119,342	-	10,119,342	10,000,000	119,342	10,119,342
East West Bank CD	5.03%	02/26/24	9,076,581	114,534	-	9,191,115	9,076,581	114,534	9,191,115
Bank OZK CD	4.88%	03/15/24	6,144,701	76,043	-	6,220,744	6,144,701	76,043	6,220,744
Bank OZK CD	4.92%	04/12/24	-	3,528,895	-	3,528,895	-	3,528,895	3,528,895
FFCB	2.44%	04/18/24	2,995,548	1,055	-	2,996,603	2,933,400	(4,380)	2,929,020
FFCB	2.63%	05/16/24	4,995,315	1,035	-	4,996,350	4,890,650	(11,900)	4,878,750
FFCB	2.63%	06/10/24	2,997,489	523	-	2,998,012	2,933,580	(13,890)	2,919,690
Third Coast Bank CD	5.60%	06/29/24	-	5,000,000	-	5,000,000	-	5,000,000	5,000,000
Southside Bank CD	4.50%	10/10/24	-	3,500,000	-	3,500,000	-	3,500,000	3,500,000
Citizen's 1st Bank CD	4.52%	11/08/24	-	3,015,093	-	3,015,093	-	3,015,093	3,015,093
Southside Bank CD	4.70%	03/14/25	10,000,000	118,466	-	10,118,466	10,000,000	118,466	10,118,466
American Nat'l Bank & Trust CD	4.50%	05/05/25	-	4,015,288	-	4,015,288	-	4,015,288	4,015,288
Texas Bank CD	4.56%	06/05/25	-	8,022,994	-	8,022,994	-	8,022,994	8,022,994
Third Coast Bank CD	5.10%	06/29/25	-	5,000,000	-	5,000,000	-	5,000,000	5,000,000
TOTAL / AVERAGE	4.35%		\$ 175,811,176.96	\$ 34,978,050	\$(45,815,832)	\$ 164,973,395	\$ 175,580,454	\$ (10,870,564)	\$ 164,709,890

Cash and Investments by Fund

		06/30/2023	03/31/2023	Difference
General Fund	101	\$ 44,673,871	\$ 50,820,758	\$ (6,146,887)
General Capital Projects Fund	102	2,125,052	2,484,884	(359,832)
Street Improvement Fund	103	1,617,145	1,345,181	271,964
Development Services Fund	202	4,417,048	4,230,032	187,016
Cemeteries Operating Fund	204	93,901	53,619	40,282
Forfeitures Fund	205	403,621	433,131	(29,511)
Court Technology Fund	207	83,801	64,870	18,931
TIF/TIRZ # 2	209	-	-	-
Hotel-Motel Tax Fund	211	(2,446,035)	(180,988)	(2,265,048)
Donations Fund	216	1,141,342	874,948	266,393
TIF/TIRZ # 3	218	918,691	909,433	9,259
Tyler Tourism & Convention Facilities Fund	219	515,471	531,172	(15,701)
Half Cent Sales Tax Fund	231	30,515,388	28,705,986	1,809,403
Passenger Facility Fund	234	346,952	294,435	52,517
Oil & Natural Gas Fund	235	8,540,610	8,447,083	93,527
PEG Fee Fund	236	1,226,305	1,177,458	48,847
Fair Plaza Fund	240	(724)	(724)	-
Retained HUD Admin Fee Fund	274	439	435	4
Housing Assistance Fund	276	1,363,203	1,236,597	126,606
State/Federal Grants Fund	285	(125,518)	(53,444)	(72,074)
Transit System Fund	286	(1,216,404)	(902,191)	(314,213)
CDBG Grant Fund	294	(146,250)	84,846	(231,097)
HOME Grant Fund	295	303,007	343,147	(40,139)
HOT Debt Service Fund	302	(177,637)	(177,637)	-
Revenue Bond HOT 2021	402	50,137	49,499.16	638
Utilities Fund	502	15,054,484	15,053,206	1,278
Utilities Construction Fund	503	5,640,832	6,526,659	(885,826)
Utilities Debt Service Fund	504	6,520,218	3,843,429	2,676,789
Utilities Debt Reserve Fund	505	837,835	829,683	8,151
Revenue Bond Series 2021	512	2,437,123	3,256,030	(818,907)
Revenue Bond Series 2022	513	12,208,213	17,743,626	(5,535,413)
Revenue Bond Series 2017	518	-	-	-
Revenue Bond Series 2019	519	643,226	641,846	1,380
Airport Fund	524	973,354	899,864	73,489
Airport Grant Fund	525	(1,351,076)	(81,618)	(1,269,457)
Solid Waste Fund	560	1,256,503	1,251,079	5,423
Solid Waste Capital Projects Fund	562	189,784	22,420	167,365
Storm Water Management	575	2,168,517	2,125,006	43,511
Productivity Improvement Fund	639	2,234,338	2,442,124	(207,786)
Fleet Replacement Fund	640	3,746,131	3,407,128	339,003
Prop, Liab, W/C Insurance Fund	650	2,657,843	2,401,615	256,228
Employee Benefits Fund	661	1,814,494	2,480,396	(665,902)
Prop & Facility Management Fund	663	1,159,881	972,131	187,750
Technology Fund	671	1,699,987	1,844,504	(144,517)
Payroll Fund	710	1,592,613	80,514	1,512,099
Cemetery Trust Fund	713	3,305,368	3,269,868	35,500
Landfill Trust Fund	720	3,048,923	3,007,322	41,600
Retiree Benefits Fund	761	(264,706)	(1,269,654)	1,004,948
Section 125 Trust Fund	772	274,587	268,278	6,308
TOTAL		\$ 162,071,887.42	\$ 171,787,986.81	\$ (9,716,099.39)

Investments held on June 30, 2023 by type and by major fund are shown below:

Investment Category	Book Value	Market Value	Quarterly Average Yield	Average Maturity
City Funds				
Pools/Bank	35,924,630	35,924,630	4.08	1 day
Securities/CD's	113,710,066	113,446,561	4.31	253 days
Hotel Bond				
Pools/Bank	50,137	50,137	5.26	1 day
Revenue Bond				
Pools/Bank	15,288,562	15,288,562	5.24	1 day
Securities/CD's	0	0	0	0 days
	164,973,395	164,709,890	4.03	230 days

*Totals listed about reflect rounded figures

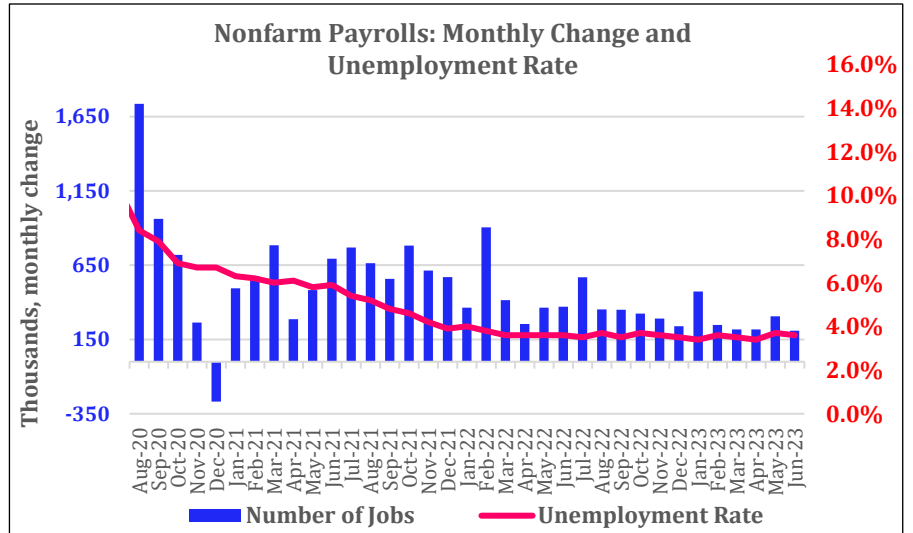
Benchmarks: Rolling 3 month Treasury average yield was 5.28 percent
 Rolling 6 month Treasury average yield was 5.08 percent
 The Tex Pool average yield for this quarter was 5.05 percent
 The Fiscal Year-to-Date Average Yield was 3.79 percent

Market Outlook

July 7, 2023

The Federal Open Market Committee (FOMC) met in June and voted to maintain the Fed Funds Rate target range at 5.00% to 5.25%. Housing market news was mixed with new home data more positive than existing home numbers, and high prices and interest rates continuing to raise affordability concerns. Retail sales exceeded expectations, showing resilient consumer spending despite high inflation and interest rates. First quarter GDP was revised to +2.0% with consumer spending accelerating more than expected.

The June Employment report added 209,000 jobs, lower than market expectations of 225,000. The previous two months were adjusted with a net decrease of 110,000 jobs. May was revised to +306,000 from the previously reported +339,000, and April was revised to +217,000 from the previously reported +294,000 jobs. The three-month average is now +244,000 per month (the previous three-month average was +283,000 per month). Notable job gains continued in June for Health/Education (+73,000), Government (+60,000), and Construction (+23,000). Professional/Business (+21,000), Leisure/Hospitality (+21,000), and Manufacturing (+7,000) experienced small, but positive job numbers. Retail (-11,200), Transportation/Warehousing (-6,900), and Mining (-1,100) saw slight declines for the month.



Retail (-11,200), Transportation/Warehousing (-6,900), and Mining (-1,100) saw slight declines for the month. The June Labor Participation Rate, a measure of the percentage of eligible workers that hold jobs, remained unchanged for the fourth consecutive month at 62.6%, still slightly below the pre-pandemic number of 63.4%. The Unemployment Rate decreased in June to 3.6%, from 3.7% in May. The U6 rate (or the under-employed rate – those that are either over-qualified for their job or working fewer hours than they desire) increased in June to 6.9% from 6.7% the previous month. Average Hourly Earnings (AHE) rose 0.4% in June, matching that of May. Year-over-year AHE remained at 4.4%. Job openings fell by 496,000 to 9.8 million, below market expectations, but still well above pre-pandemic levels. The number of unemployed people was little changed at approximately 6.0 million people. Pre-pandemic the number of job seekers averaged 5.7 million people.

Existing Home Sales increased 0.2% in May after two consecutive months of declines. April experienced a decline of 3.2% and March a decline of 2.6%. The median existing-home sales price year-over-year fell 3.1% from one year ago to \$396,100. Inventories of Existing Homes for sale were up 3.8% from April, with the supply at 3.0 months at the current sales pace. New Home Sales increased 12.2% in May, the largest rise since August 2022. The supply of New Homes for sale decreased from April's 7.6 months to 6.7 months, closer to the 6-month supply expected in a balanced market. Newly constructed homes are selling at a pre-pandemic pace because of their abundant inventory, while existing home sales activity drags due to current supply at roughly half the level of 2019. The median sales price of new homes was \$416,300 compared to \$450,700 one year ago. The average 30-year mortgage rate at the end of June was 6.81%, down 0.10% from the end of last month. The S&P Case Shiller report of home prices in 20 metropolitan areas reported a 1.7% increase in home values during April and the Federal Housing Finance Agency (FHFA), the entity that analyzes all domestic home prices, showed an increase of 0.7% for the same month. Year-over-year Case Shiller was down 1.7%, the largest decline since April 2012, and the FHFA index is up 3.1% (vs. 3.7% in March). Pending Home Sales were down 2.7% in May, following a 0.4% decrease in April. Year-over-year, pending home sales have fallen 22.2%. Housing Starts unexpectedly surged 21.7% in May, and April was negatively revised from 2.2% to -2.9%. Building Permits were up 5.6% after two consecutive months of declines, and Construction Spending in May increased 0.9% following a 0.4% rise in April.

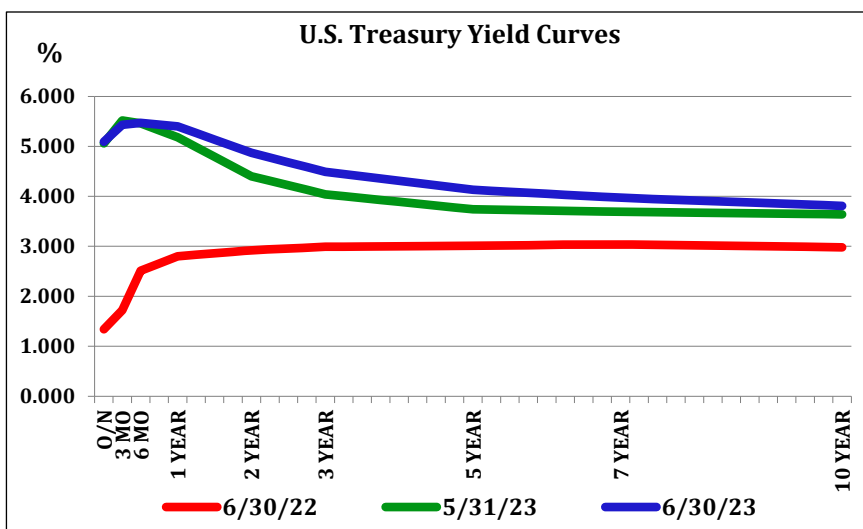
Final 2023 Q1 GDP came in at +2.0%, well above the +1.3% second estimate and +1.4% forecast. One contributor was the higher-than-expected growth in consumer spending of 4.2%, the strongest in nearly two years, with a surge in spending on durable goods. The FOMC still expects "subdued growth" but raised their forecast to +1.0% for all of 2023 from their March projection of +0.4%. Industrial Production was down 0.2% in May after rising 0.5% in April. Durable Goods Orders increased for the third consecutive month by 1.7% in May, beating market expectations of a 1.0% decline. Excluding transportation, durable goods orders were up 0.6% for the month. Factory Orders increased 0.3% in May,

the same as prior month, with transportation as the primary driver of that growth. Business inventories matched market forecasts with a 0.2% increase in April after declining 0.2% in March. As an inflation impact measurement, the Producer Price Index (PPI) decreased 0.3% in May after a 0.2% increase in April. It is up only 1.1% from this time last year, the least since December 2020, and its eleventh straight month of slowing. The Consumer Price Index (CPI) increased 0.1% in May after rising 0.4% in April and is up 4.0% year-over-year. Core CPI year-over-year, or the results after food and energy numbers are excluded (due to price volatility), is up 5.3% following a 0.4% increase in May. The Purchasing Managers Index decreased to 46.0% in June, remaining below 50%, which generally indicates a declining manufacturing economy. This marks the eighth consecutive month of contraction in the manufacturing sector, and optimism for manufacturing growth in the second half of 2023 is weakening.

Personal consumption for the first quarter of 2023 was revised upward with growth of 4.2% versus the second estimate of 3.8%. This was the strongest reading since Q2 of 2021. Retail Sales unexpectedly rose 0.3% while the market was expecting a 0.1% decline. Excluding vehicle and gas purchases, sales increased 0.1% after a 0.6% increase in April. Consumers' attitudes as measured by both the Consumer Sentiment report (+5.2 points) and the Consumer Confidence report (+7.2 points) demonstrated renewed confidence following the debt ceiling resolution and a positive outlook for softening inflation. Inflation expectations for the next year eased to 3.3% from 4.2% the previous month. Personal Consumption Expenditures (PCE) rose 3.8% year-over-year in May from April's 4.3%. The Core PCE Index measuring consumption net of food and energy, and one of the indicators watched closely by the FOMC, was 4.6% year-over-year in May, down from 4.7% in April. This exceeded the FOMC's target inflation rate of 2.0% for the twenty-sixth consecutive month. Month-over-month the Personal Income component of the PCE series indicated that incomes rose 0.4% in May, slightly higher than the 0.3% increase in April, while Personal Spending increased 0.1%, down from 0.8% the prior month.

The FOMC held their meeting on June 13th and 14th and announced their decision to keep the Fed Funds Rate unchanged with the target range at 5.00% to 5.25%. The Committee is still strongly committed to bringing inflation back down to their 2.0% goal, and they acknowledged further rate increases may be appropriate, but future decisions would be based on the totality of the incoming data. Chair Powell reiterated that the speed of rate hikes was important last year, but as they get closer to their destination of a sufficiently restrictive policy, it is reasonable to slow the pace to assess their progress. He discussed the process of bringing inflation back down succinctly providing that goods need to see a healing in supply conditions, housing needs to see new leases coming in at lower levels, and non-housing services need to see loosening labor market conditions. He also pointed out that not a single Committee member wrote down that they expect a rate decrease in 2023. The bank failures in March also sounded the alarm for bank resilience, so when asked about commercial real estate, Chair Powell acknowledged there is a substantial amount of exposure in the banking system, and to the extent it is well distributed, the system could take some losses, but banks with larger exposure could experience difficulties. The FOMC will hold their next meeting on July 25th and 26th, and the market is currently anticipating a 25 basis-point increase to come from that meeting. The FOMC's projections would imply yet another 25 basis-point increase before the end of 2023, but current market expectations give any additional hikes less than a 50% probability.

Government Security Investment Pool yields held steady with the highest currently yielding +/- 5.14% up slightly from +/- 5.12% last month. US Treasury and Agency rates increased throughout the month of June. The 1-year Treasury finished the month at 5.40%, 22 basis-points higher than the end of May. The 2-year Treasury jumped 47 basis-points to 4.87% at the end of June after it closed May at 4.40%. The yield curve at the end of June remains inverted with short-term rates higher than longer-term rates peaking between 3- and 6-months. After month end, the current 2-year Treasury rate rose again to 4.95% and even reached over 5% for a short period of time during the first week of July. Bank rates continue to provide a yield advantage with some banks offering 1-year CD yields at +/- 5.58% and 2-year CD yields at +/- 5.00%.



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