



**CITY OF TYLER
CITY COUNCIL COMMUNICATION**

Agenda Number: C-A-1

Date: February 28, 2024

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

RECOMMENDATION:

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

ATTACHMENTS:

[Investment Portfolio December 31, 2023 signed](#)
[Investments held on December 31](#)
[Market Outlook 2024 01 05](#)

Drafted/Recommended By:
Department Leader

Keidric Trimble, CFO

Edited/Submitted By:
City Manager



INVESTMENT PORTFOLIO SUMMARY

For the Quarter Ended

December 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	September 30, 2023			December 31, 2023		
	Ave. Yield	Book Value	Market Value	Ave. Yield	Book Value	Market Value
Pools/Bank	4.21%	\$ 26,340,557	\$ 26,340,557	4.36%	\$ 40,632,891	\$ 40,632,891
Securities/CDs	4.63%	111,514,382	111,320,540	4.74%	97,583,292	97,477,968
Totals	4.55%	\$ 137,854,939	\$ 137,661,097	4.63%	\$ 138,216,184	\$ 138,110,859

Current Quarter Average Yield (1)

Total Portfolio 4.63%

Fiscal Year-to-Date Average Yield (2)

Total Portfolio 4.63%

Interest Earnings

Quarterly Interest Income \$ 1,688,730 Approximate
 Year-to-date Interest Income \$ 1,688,730 Approximate

Bank Fees Offset

Quarterly Bank Fees Offset \$ 11,094
 Year-to-date Bank Fees Offset \$ 11,094

Hotel Bond

Asset Type	September 30, 2023			December 31, 2023		
	Ave. Yield	Book Value	Market Value	Ave. Yield	Book Value	Market Value
Pools/Bank	5.52%	\$ 7,156	\$ 7,156	5.54%	\$ 7,257	\$ 7,257
Totals	5.52%	\$ 7,156	\$ 7,156	5.54%	\$ 7,257	\$ 7,257

Current Quarter Average Yield (1)

Total Portfolio 5.54%

Fiscal Year-to-Date Average Yield (2)

Total Portfolio 5.54%

Interest Earnings

Quarterly Interest Income \$ 68 Approximate
 Year-to-date Interest Income \$ 68 Approximate

Summary
Quarter End Results by Investment Category

(Continued)

Water Utilities Revenue Bond

Asset Type	September 30, 2023			December 31, 2023		
	Ave. Yield	Book Value	Market Value	Ave. Yield	Book Value	Market Value
Pools/Bank	5.47%	\$ 8,573,914	\$ 8,573,914	5.13%	\$ 66,492,672	\$ 66,492,672
Securities/CDs	0.00%	-	-	0.00%	-	-
Totals	5.47%	\$ 8,573,914	\$ 8,573,914	5.13%	\$ 66,492,672	\$ 66,492,672

Current Quarter Average Yield (1)

Total Portfolio 5.13%

Fiscal Year-to-Date Average Yield (2)

Total Portfolio 5.13%

Interest Earnings

Quarterly Interest Income \$ 347,845 Approximate
 Year-to-date Interest Income \$ 347,845 Approximate

Total Portfolio

Current Quarter Average Yield (1)

Total Portfolio 4.79%

Rolling Three Month Treasury 5.53%
 Rolling Six Month Treasury 5.49%
 TexPool 5.37%

Fiscal Year-to-Date Average Yield (2)

Total Portfolio 4.79%

Rolling Three Month Treasury 5.53%
 Rolling Six Month Treasury 5.49%
 TexPool 5.37%

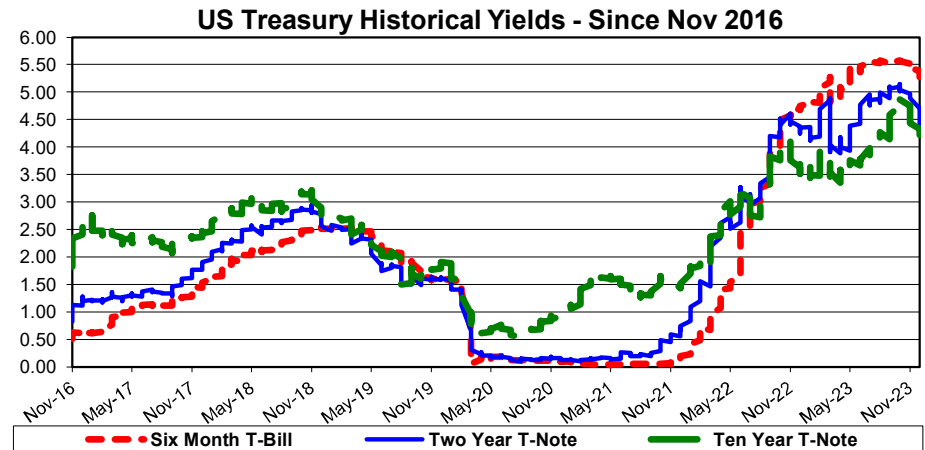
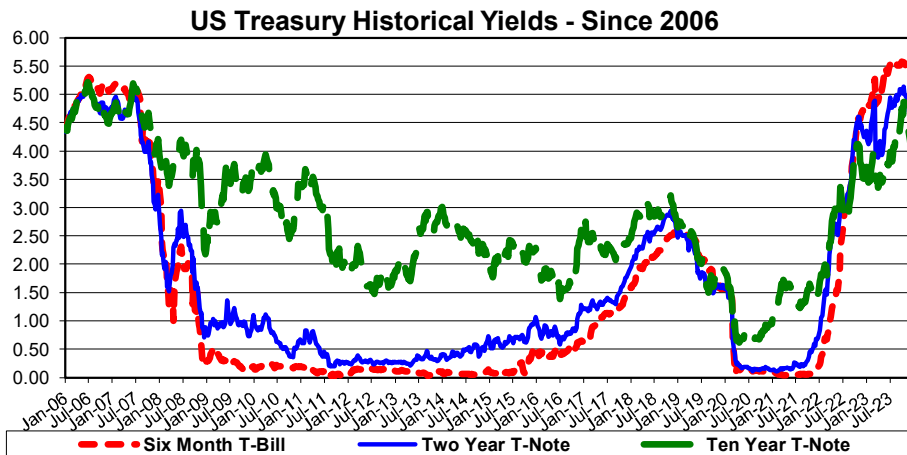
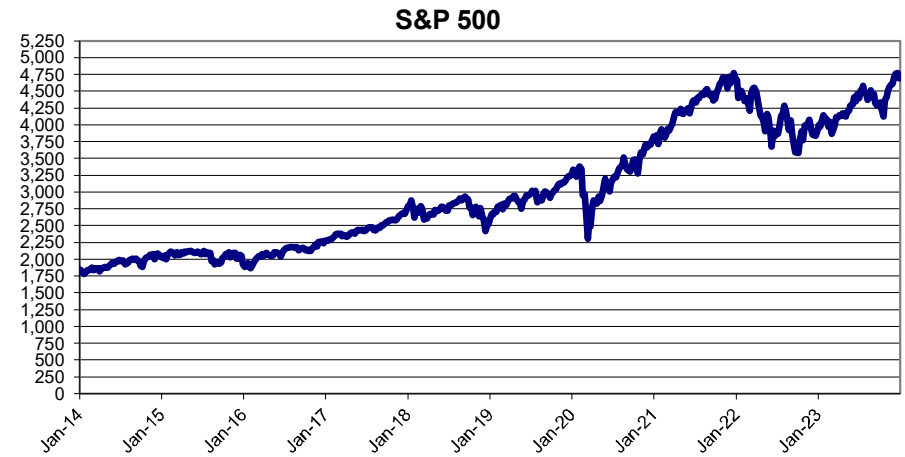
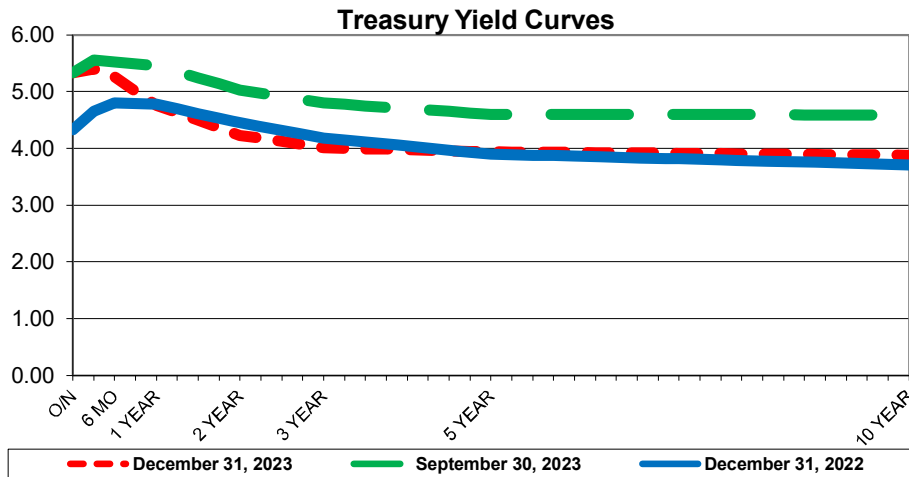
(1) **Current Quarter Weighted Average Yield** - calculated using quarter end report yields and adjusted book values; does not reflect a total return analysis, realized or unrealized gains/losses, or account for investment advisory fees. The yield for the reporting month is used for bank, pool, and money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

12/31/2023

The Federal Open Market Committee (FOMC) maintained the Fed Funds target range 5.25% - 5.50% (Effective Fed Funds are trading +/-5.33%). Any additional actions, up or down, will be data-dependent. Final Third Quarter 2023 GDP revised downward to 4.9%, but still robust growth. December Non-Farm Payroll posted 216k new jobs (above the estimated 170k). The Three Month Rolling Average declined to 165k. The S&P 500 Stock Index reached a new peak trading over 4,770 (exceeding 4,766 in Dec 2021). The yield curve shifted lower anticipating future FOMC target reductions. Crude Oil stabilized at +/- \$73 per barrel. Inflation continued to decline but still remained above the FOMC 2% target (Core PCE +/-3.2% and Core CPI +/-4.0%). Reduced global economic outlooks and ongoing/expanding military conflicts increase uncertainty.



Investment Holdings
December 31, 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%	01/01/24	12/31/23	\$ 9,987,530	\$ 9,987,530	1.00	\$ 9,987,530	1	0.50%
NOW		5.66%	01/01/24	12/31/23	23,404,325	23,404,325	1.00	23,404,325	1	5.66%
InterBank MMA		5.50%	01/01/24	12/31/23	7,241,036	7,241,036	1.00	7,241,036	1	5.50%
Veritex Community Bank CD		4.84%	01/26/24	01/26/23	10,366,391	10,366,391	100.00	10,366,391	26	4.93%
East West Bank CD		5.03%	02/26/24	02/24/23	9,427,135	9,427,135	100.00	9,427,135	57	5.16%
Bank OZK CD		4.88%	03/15/24	03/15/23	6,374,813	6,374,813	100.00	6,374,813	75	5.00%
Bank OZK CD		4.92%	04/12/24	04/12/23	3,617,020	3,617,020	100.00	3,617,020	103	5.04%
FFCB	Aaa/AA+	2.44%	04/18/24	04/27/22	3,000,000	2,998,740	99.17	2,975,100	109	2.59%
FFCB	Aaa/AA+	2.63%	05/16/24	05/18/22	5,000,000	4,998,441	99.00	4,950,150	137	2.71%
FFCB	Aaa/AA+	2.63%	06/10/24	06/10/22	3,000,000	2,999,073	98.86	2,965,680	162	2.70%
Third Coast Bank CD		5.60%	06/29/24	06/29/23	5,141,369	5,141,369	100.00	5,141,369	181	5.72%
Southside Bank CD		4.50%	10/10/24	04/10/23	3,579,411	3,579,411	100.00	3,579,411	284	4.58%
Citizen's 1st Bank CD		4.52%	11/08/24	05/08/23	3,084,124	3,084,124	100.00	3,084,124	313	4.59%
Southside Bank CD		4.70%	03/14/25	03/14/23	10,358,306	10,358,306	100.00	10,358,306	439	4.78%
American Nat'l Bank & Trust CD		4.50%	05/05/25	05/04/23	4,106,735	4,106,735	100.00	4,106,735	491	4.59%
Texas Bank CD		4.56%	06/05/25	06/08/23	8,209,338	8,209,338	100.00	8,209,338	522	4.66%
Third Coast Bank CD		5.10%	06/29/25	06/29/23	5,128,667	5,128,667	100.00	5,128,667	546	5.20%
Veritex Community Bank CD		5.00%	07/11/25	07/11/23	3,063,406	3,063,406	100.00	3,063,406	558	5.12%
American Nat'l Bank & Trust CD		5.10%	08/14/25	08/17/23	3,057,976	3,057,976	100.00	3,057,976	592	5.23%
American Nat'l Bank & Trust CD		5.30%	10/23/25	10/26/23	5,048,877	5,048,877	100.00	5,048,877	662	5.44%
American Nat'l Bank & Trust CD		5.00%	11/27/25	11/29/23	3,013,179	3,013,179	100.00	3,013,179	697	5.13%
American Nat'l Bank & Trust CD		5.00%	12/04/25	12/07/23	3,010,291	3,010,291	100.00	3,010,291	704	5.13%
City Funds - Sub Total					\$ 138,219,929	\$ 138,216,184		\$ 138,110,859	223	4.63%
									(1)	(2)

Investment Holdings

December 31, 2023

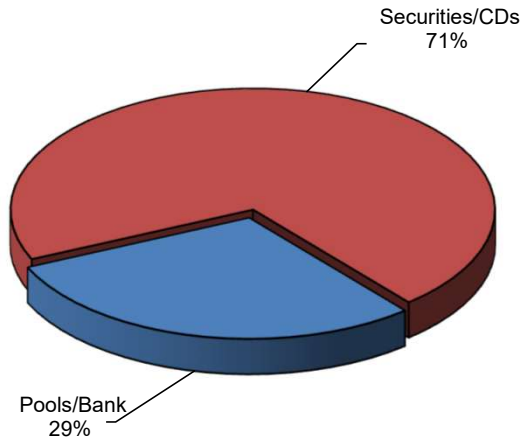
Description	Ratings	Coupon/ Discount	Maturity Date	Settlement Date	Par Value	Book Value	Market Price	Market Value	Life (days)	Yield
Hotel Bond										
LOGIC - Hotel Bond	AAAm	5.54%	01/01/24	12/31/23	7,257	7,257	1.00	7,257	1	5.54%
Hotel Bond - Sub Total					\$ 7,257	\$ 7,257		\$ 7,257	1	5.54%
									(1)	(2)
Water Utilities Revenue Bond										
NOW #2		5.66%	01/01/24	12/31/23	\$ 354,738	\$ 354,738	1.00	\$ 354,738	1	5.66%
NOW #3 - Bond		5.67%	01/01/24	12/31/23	537,485	537,485	1.00	537,485	1	5.67%
NOW #4 - Bond		5.12%	01/01/24	12/31/23	34,973,471	34,973,471	1.00	34,973,471	1	5.12%
NOW #5 - Bond		5.12%	01/01/24	12/31/23	30,106,849	30,106,849	1.00	30,106,849	1	5.12%
TexSTAR - Bond	AAAm	5.34%	01/01/24	12/31/23	520,129	520,129	1.00	520,129	1	5.34%
Water Utilities Revenue Bond - Sub Total					\$ 66,492,672	\$ 66,492,672		\$ 66,492,672	1	5.13%
									(1)	(2)
Total Portfolio					\$ 204,719,858	\$ 204,716,113		\$ 204,610,788	151	4.79%
									(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.

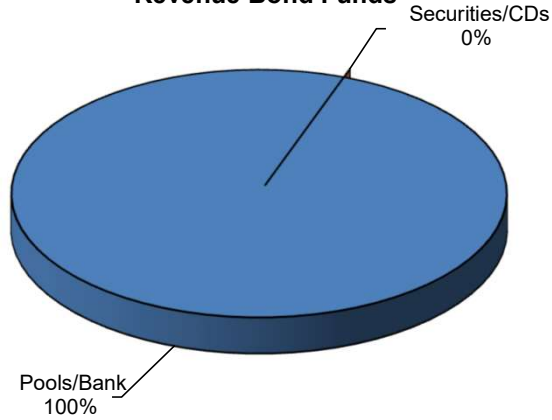
(2) **Weighted average yield to maturity** - The weighted average yield to maturity is based on adjusted book value, realized and unrealized gains/losses and investment advisory fees are not considered. The yield for the reporting month is used for TexPool, TexSTAR, and bank account investments.

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

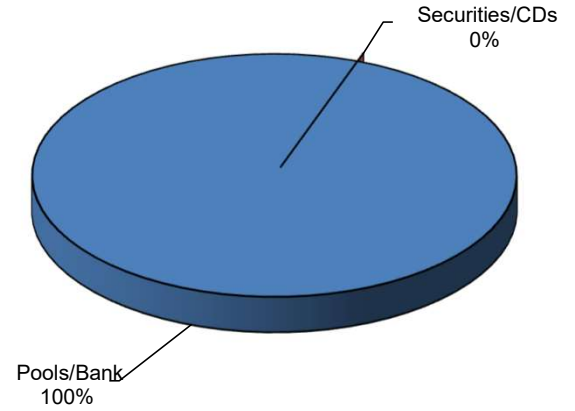
Portfolio Composition - City Funds



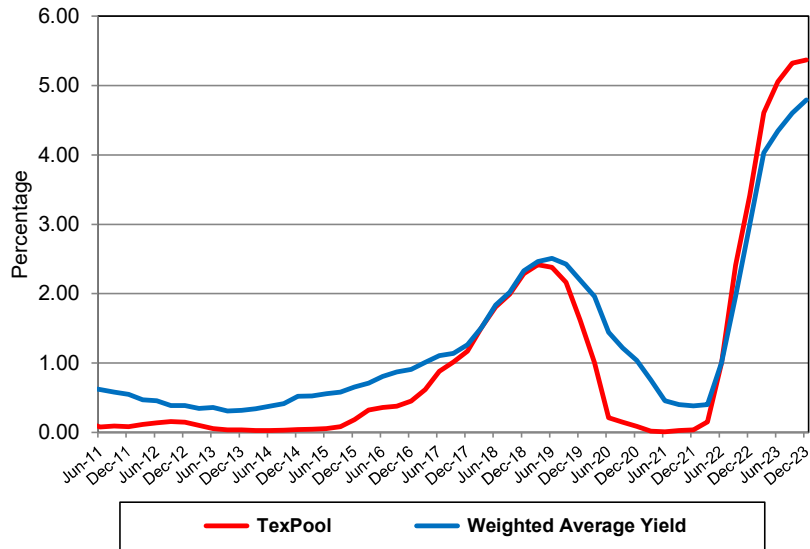
Portfolio Composition - Water Utility Revenue Bond Funds



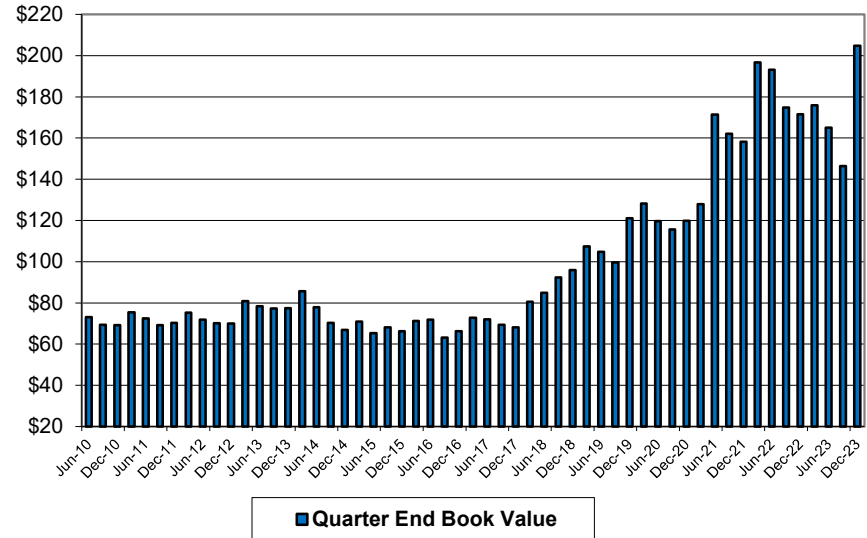
Portfolio Composition - Hotel Bond Funds



Total Portfolio Performance



Total Portfolio (Millions)



Book & Market Value Comparison

Issuer/Description	Yield	Maturity Date	Book Value 09/30/23	Increases	Decreases	Book Value 12/31/23	Market Value 09/30/23	Change in Market Value	Market Value 12/31/23
Cash - Pooled	0.50%	01/01/24	\$ 4,997,216	\$ 4,990,314	\$ -	\$ 9,987,530	\$ 4,997,216	\$ 4,990,314	\$ 9,987,530
NOW	5.66%	01/01/24	6,272,176	17,132,149	-	23,404,325	6,272,176	17,132,149	23,404,325
NOW #2	5.66%	01/01/24	350,200	4,539	-	354,738	350,200	4,539	354,738
NOW #3 - Bond	5.67%	01/01/24	6,352,458	-	(5,814,973)	537,485	6,352,458	(5,814,973)	537,485
NOW #4 - Bond	5.12%	01/01/24	-	34,973,471	-	34,973,471	-	34,973,471	34,973,471
NOW #5 - Bond	5.12%	01/01/24	-	30,106,849	-	30,106,849	-	30,106,849	30,106,849
InterBank MMA	5.50%	01/01/24	15,071,165	-	(7,830,129)	7,241,036	15,071,165	(7,830,129)	7,241,036
TexSTAR - Bond	5.34%	01/01/24	1,871,257	-	(1,351,128)	520,129	1,871,257	(1,351,128)	520,129
LOGIC - Hotel Bond	5.54%	01/01/24	7,156	101	-	7,257	7,156	101	7,257
Southside Bank CD	4.50%	10/20/23	5,170,183	-	(5,170,183)	-	5,170,183	(5,170,183)	-
East West Bank CD	4.62%	11/21/23	6,243,254	-	(6,243,254)	-	6,243,254	(6,243,254)	-
Texas Capital Bank CD	3.32%	12/02/23	5,168,779	-	(5,168,779)	-	5,168,779	(5,168,779)	-
Veritex Community Bank CD	4.90%	12/15/23	9,335,128	-	(9,335,128)	-	9,335,128	(9,335,128)	-
Veritex Community Bank CD	4.84%	01/26/24	10,241,451	124,940	-	10,366,391	10,241,451	124,940	10,366,391
East West Bank CD	5.03%	02/26/24	9,308,377	118,758	-	9,427,135	9,308,377	118,758	9,427,135
Bank OZK CD	4.88%	03/15/24	6,297,728	77,085	-	6,374,813	6,297,728	77,085	6,374,813
Bank OZK CD	4.92%	04/12/24	3,572,927	44,093	-	3,617,020	3,572,927	44,093	3,617,020
FFCB	2.44%	04/18/24	2,997,669	1,071	-	2,998,740	2,943,120	31,980	2,975,100
FFCB	2.63%	05/16/24	4,997,391	1,051	-	4,998,441	4,914,750	35,400	4,950,150
FFCB	2.63%	06/10/24	2,998,542	531	-	2,999,073	2,941,890	23,790	2,965,680
Third Coast Bank CD	5.60%	06/29/24	5,070,575	70,794	-	5,141,369	5,070,575	70,794	5,141,369
Southside Bank CD	4.50%	10/10/24	3,539,267	40,144	-	3,579,411	3,539,267	40,144	3,579,411
Citizen's 1st Bank CD	4.52%	11/08/24	3,049,413	34,711	-	3,084,124	3,049,413	34,711	3,084,124
Southside Bank CD	4.70%	03/14/25	10,238,335	119,971	-	10,358,306	10,238,335	119,971	10,358,306
American Nat'l Bank & Trust CD	4.50%	05/05/25	4,061,003	45,732	-	4,106,735	4,061,003	45,732	4,106,735
Texas Bank CD	4.56%	06/05/25	8,115,631	93,707	-	8,209,338	8,115,631	93,707	8,209,338
Third Coast Bank CD	5.10%	06/29/25	5,064,274	64,393	-	5,128,667	5,064,274	64,393	5,128,667
Veritex Community Bank CD	5.00%	07/11/25	3,025,534	37,872	-	3,063,406	3,025,534	37,872	3,063,406
American Nat'l Bank & Trust CD	5.10%	08/14/25	3,018,921	39,055	-	3,057,976	3,018,921	39,055	3,057,976
American Nat'l Bank & Trust CD	5.30%	10/23/25	-	5,048,877	-	5,048,877	-	5,048,877	5,048,877
American Nat'l Bank & Trust CD	5.00%	11/27/25	-	3,013,179	-	3,013,179	-	3,013,179	3,013,179
American Nat'l Bank & Trust CD	5.00%	12/04/25	-	3,010,291	-	3,010,291	-	3,010,291	3,010,291
TOTAL / AVERAGE	4.79%		\$ 146,436,009	\$ 99,193,676	\$(40,913,573)	\$ 204,716,113	\$ 146,242,168	\$ 58,368,620	\$ 204,610,788

Cash and Investments by Fund

		12/31/2023	09/30/2023	Difference
General Fund	101	\$ 35,547,309	\$ 33,396,354	\$ 2,150,955
General Capital Projects Fund	102	1,449,201	1,413,869	35,333
Street Improvement Fund	103	1,811,016	1,572,870	238,145
Development Services Fund	202	4,505,358	4,567,454	(62,096)
Cemeteries Operating Fund	204	111,324	69,575	41,749
Forfeitures Fund	205	363,449	390,968	(27,518)
Court Technology Fund	207	172,519	139,384	33,135
Hotel-Motel Tax Fund	211	(1,400,094)	804,131	(2,204,225)
Donations Fund	216	1,220,344	1,116,358	103,986
TIF/TIRZ # 3	218	940,467	929,056	11,410
Tyler Tourism & Convention Facilities Fund	219	457,018	583,279	(126,262)
Half Cent Sales Tax Fund	231	27,683,134	28,717,547	(1,034,413)
Passenger Facility Fund	234	465,502	406,387	59,114
Oil & Natural Gas Fund	235	9,355,532	11,115,574	(1,760,042)
PEG Fee Fund	236	1,187,091	1,233,230	(46,139)
Fair Plaza Fund	240	(1,728)	(724)	(1,004)
Retained HUD Admin Fee Fund	274	449	444	5
Housing Assistance Fund	276	987,907	1,417,715	(429,807)
State/Federal Grants Fund	285	(70,982)	(82,121)	11,140
Transit System Fund	286	(993,544)	(482,000)	(511,544)
CDBG Grant Fund	294	(17,111)	30,457	(47,568)
HOME Grant Fund	295	237,738	356,438	(118,700)
HOT Debt Service Fund	302	595,963	3,763	592,200
Revenue Bond HOT 2021	402	7,257	7,156.15	101
Utilities Fund	502	17,374,152	17,105,168	268,984
Utilities Construction Fund	503	4,491,050	4,955,490	(464,440)
Utilities Debt Service Fund	504	4,839,739	1,203,682	3,636,057
Utilities Debt Reserve Fund	505	856,797	847,125	9,672
Revenue Bond Series 2021	512	520,129	1,871,257	(1,351,128)
Revenue Bond Series 2022	513	537,485	6,352,458	(5,814,973)
Revenue Bond Series 2019	519	354,738	350,200	4,539
Revenue Bond Series 2023 CIP	520	34,973,471	-	34,973,471
Revenue Bond Series 2023 CD	521	30,106,849	-	30,106,849
Airport Fund	524	1,179,912	1,042,554	137,358
Airport Grant Fund	525	(1,547,334)	(1,837,581)	290,247
Solid Waste Fund	560	(156,786)	349,486	(506,272)
Solid Waste Capital Projects Fund	562	542,914	509,208	33,707
Storm Water Management	575	2,099,108	2,123,908	(24,801)
Productivity Improvement Fund	639	2,453,456	2,111,620	341,836
Fleet Replacement Fund	640	4,623,717	4,870,438	(246,721)
Prop, Liab, W/C Insurance Fund	650	1,916,946	2,849,248	(932,302)
Employee Benefits Fund	661	2,708,096	1,037,959	1,670,136
Prop & Facility Management Fund	663	873,111	1,068,590	(195,479)
Technology Fund	671	2,363,347	3,002,845	(639,497)
Payroll Fund	710	1,687,316	1,105,392	581,924
Cemetery Trust Fund	713	3,332,092	3,306,701	25,391
Landfill Trust Fund	720	3,133,119	3,091,783	41,336
Retiree Benefits Fund	761	(1,232,655)	(809,714)	(422,941)
Section 125 Trust Fund	772	309,405	296,557	12,849
TOTAL		\$ 202,955,292.84	\$ 144,511,535.81	\$ 58,443,757.03

Investments held on December 31, 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	40,632,891	40,632,891	4.36	1 day
Securities/CD's	97,583,292	97,477,968	4.74	223 days
Hotel Bond				
Pools/Bank	7,257	7,257	5.54	1 day
Revenue Bond				
Pools/Bank	66,492,672	66,492,672	5.13	1 day
Securities/CD's	0	0	0	0 days
	204,716,112	204,610,788	4.79	151 days

*Totals listed about reflect rounded figures

Benchmarks: Rolling 3 month Treasury average yield was 5.53 percent
 Rolling 6 month Treasury average yield was 5.49 percent
 The Tex Pool average yield for this quarter was 5.37 percent
 The Fiscal Year-to-Date Average Yield was 4.79 percent

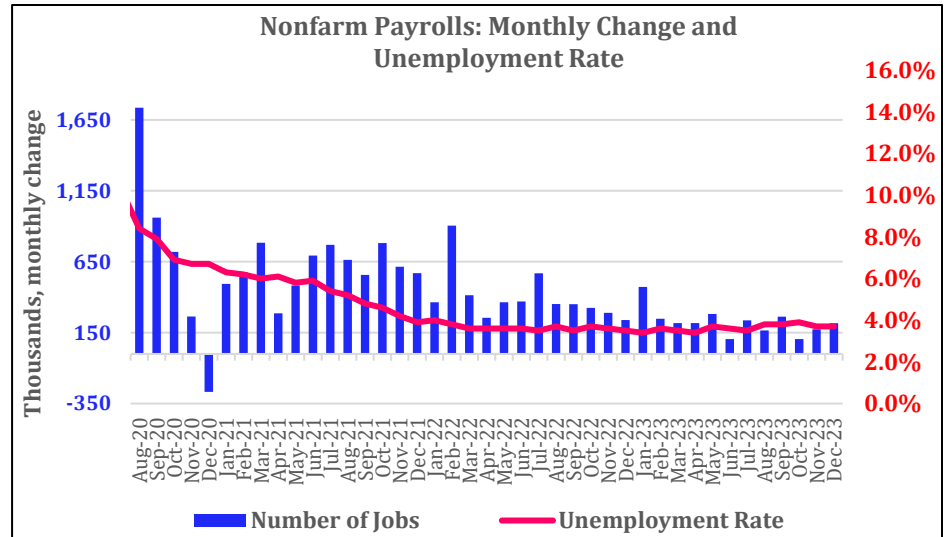
Market Outlook

January 5, 2024

The Federal Open Market Committee (FOMC) voted to maintain the current Fed Funds target range of 5.25% to 5.50% at their last meeting on December 12th and 13th. Treasury yields fell in anticipation of future FOMC target reductions. Mortgage rates have come down significantly from their highs in October, however the continued lack of supply remains an obstacle for potential buyers. Third quarter GDP was revised downward to 4.9%, but it still reflected stronger than expected growth. Retail sales showed a positive start to the holiday shopping season, and gas prices declined helping lower costs for producers and consumers alike.

The December Employment report added 216,000 jobs, beating market expectations of 170,000. The previous two months were adjusted with a net decrease of 71,000 jobs. November was revised to +173,000 from the +199,000 previously reported, and October was revised to +105,000 from the previously reported +150,000 jobs. The three-month average declined to +165,000 per month (the previous three-month average was +204,000 per month).

Health/Education (+74,000), Government (+52,000), and Construction (+17,000) saw notable gains for the month. Within their sector, Leisure/Hospitality (+40,000), Retail (+17,400), Professional/Business (+13,000), Manufacturing (+6,000), and Mining (+800) experienced little change, but remained positive while Transportation/Warehousing (-22,600) declined more markedly. The December Labor Participation Rate, a measure of the percentage of eligible workers that hold jobs, declined to 62.5%, the biggest drop since January 2021, remaining below its pre-pandemic level of 63.4%. The December Unemployment Rate was unchanged from November at 3.7%. 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 December to 7.1% from 7.0% in November. Average Hourly Earnings (AHE) for December increased 0.4%, bringing AHE year-over-year to 4.1%, up slightly from last month. Job openings decreased in November by 62,000 to 8.7 million jobs, the lowest level since March 2021 and the third consecutive month of declines. The number of unemployed people remained at approximately 6.3 million.



For the first time since May 2023, Existing Home Sales rose 0.8% helped along by decreasing mortgage rates. The median existing-home sales price increased 4.0% from one year ago to \$387,600. Inventories of Existing Homes for sale declined 1.7% from October, with the supply at 3.5 months at the current sales pace. New Home Sales unexpectedly fell 12.2% in November, the sharpest decline since April 2022. The supply of New Homes for sale increased to 9.2 months in November from 7.8 months in October and remains above the 6-month supply expected in a balanced market. The median sales price of new homes was \$434,700, 6% lower than one year ago. The average 30-year mortgage rate at the end of December dropped to 6.61% from the 7.79% peak in October. The S&P Case Shiller report of home prices in 20 metropolitan areas reported a 0.1% increase in home values during October and the Federal Housing Finance Agency (FHFA), the entity that analyzes all domestic home prices, showed an increase of 0.3% for the same month. Year-over-year Case Shiller is up 4.9% (versus 3.9% from September), and the FHFA index is up 6.3% (compared to 6.1% in September). Pending Home Sales were flat in November falling short of the 1.0% increase the market anticipated. Year-over-year, pending home sales have fallen 5.2%. Housing Starts increased 14.8% in November, the largest increase in six months, amid declining mortgage rates and low housing inventory. Building Permits decreased 2.1% in November to its lowest level in four months. Construction Spending increased 0.4% for the month but came in below market expectations of 0.6% growth.

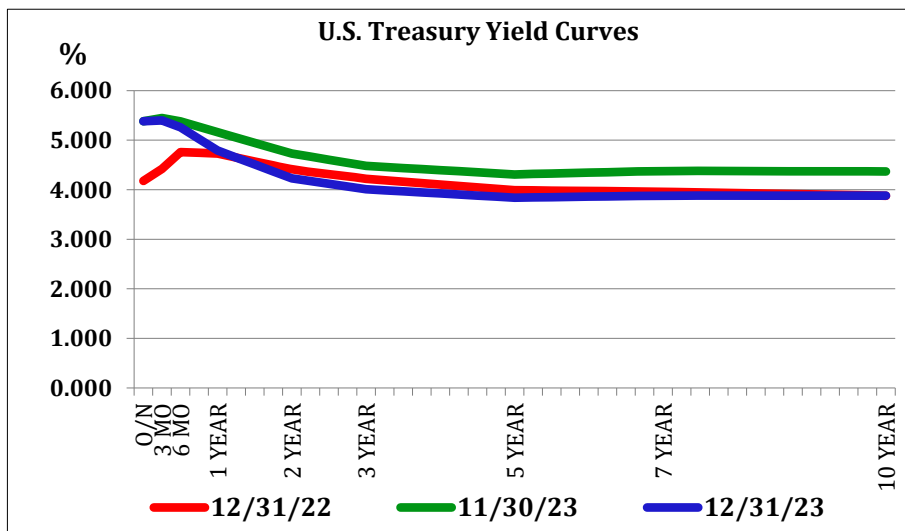
Final 2023 Q3 GDP was revised lower to +4.9% from the Second Estimate of +5.2%, the main driver being a slowdown in services spending by consumers. Despite the downward revision, this still represents a surprising resilience in the US economy with growth still outpacing the FOMC's projected 2.6% GDP for 2023. Industrial Production increased 0.2% in November, slightly below market expectations of 0.3%. Durable Goods Orders

reversed the 5.1% decline from last month and increased 5.4% in November led by a surge in demand for transportation equipment. Excluding transportation, durable goods orders increased 0.5% for the month. Factory Orders exceeded market expectations, increasing 2.6% in November also heavily driven by orders for transportation equipment. Excluding transportation, Factory Orders increased 0.1%. Business inventories decreased 0.1% in October after three consecutive months of increases. As an inflation impact measurement, the Producer Price Index (PPI) was flat in November while the market was anticipating a 0.1% increase. PPI is up 0.9% from this time last year compared to 1.2% in October. The Consumer Price Index (CPI) increased 0.1% in November, slightly above market expectations for a flat month, with lower gas prices offset by higher shelter costs. Year-over-year, CPI decreased to 3.1% in November from 3.2% the prior month. Core CPI, or the results after food and energy numbers are excluded (due to price volatility), increased 0.3% in November, in line with market expectations, keeping the year-over-year at 4.0%. The Purchasing Managers Index improved to 47.4% in December from November's 46.7%, but is still below 50% (which is generally indicative of a declining manufacturing economy) and is now on its fourteenth consecutive month of contraction, the most extended period of declining activity since 2000-2001.

Personal consumption for the third quarter of 2023 was revised down to 3.1% growth from the 3.6% previously estimated. Retail Sales unexpectedly increased 0.3% in November, with the market anticipating a 0.1% decline. Year-over-year retail sales rebounded to 4.1% from 2.2% the prior month. Excluding vehicle and gas purchases, sales increased for the eighth consecutive month by 0.6% in November. Consumers' attitudes as measured by both the Consumer Sentiment report (+8.4 points) and the Consumer Confidence report (+9.7 points) moved positively as consumers' inflation expectations improved substantially. Consumer inflation expectations in the next year dropped to 3.1% from 4.5% in November. Personal Consumption Expenditures (PCE) declined 0.1% in November, bringing the year-over-year to 2.6% from prior month's 2.9%. The Core PCE Index measuring consumption net of food and energy, and one of the indicators watched closely by the FOMC, once again eased to 3.2% year-over-year in November from October's 3.4%. This exceeded the FOMC's target inflation rate of 2.0% for the thirty-second consecutive month. Month-over-month the Personal Income component of the PCE series indicated that incomes rose 0.4% in November matching market forecasts, and Personal Spending increased by 0.2% for the month, just slightly below forecasts of a 0.3% increase.

The FOMC met December 12th and 13th and announced they would maintain the current Fed Funds target range of 5.25% to 5.50%. The goals to reduce inflation and regain price stability remain unchanged, and Chair Powell has reiterated that future decisions will be based on the totality of incoming data. However, there was a noticeable change with Chair Powell acknowledging the Committee may include future rate reductions in their discussions. The market is not currently anticipating any change to the Fed Funds Rate at their next meeting on January 30th and 31st, however the market is currently giving about a 65% probability of a rate decrease in March 2024. The FOMC projections provided at the December meeting estimate a Fed Funds rate of 4.6% at the end of 2024, however the markets anticipate more aggressive easing with an implied rate of 3.9% by the end of the year.

Government Security Investment Pool yields were again largely unchanged from last month, currently yielding +/- 5.36%. US Treasury and Agency rates continued to fall with more market data revealing impacts of the FOMC's restrictive monetary policy. The 1-year Treasury closed December at 4.79% after ending November at 5.16%. The 2-year Treasury fell to 4.23% after ending November at 4.73%. The yield curve saw another downward shift in December and remains inverted with short-term rates higher than longer-term rates, peaking before 3-months. Bank CDs continue to offer opportunities to lock-in rates above securities in the short-term with 1-year CD yields at +/- 5.07%. Bank appetite is waning for longer-term maturities. With the market anticipating aggressive rate declines, locking-in higher rates ahead of further rate declines will help sustain higher portfolio yields for a longer period of time.



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