



PUBLIC FUNDS ADVISORY

# City of Killeen

## Quarterly Investment Report

PRESENTED BY:

JASON HEADINGS - SR. VICE PRESIDENT

SCOTT GRUBER - DIRECTOR, ADVISORY SERVICES

DECEMBER 31, 2022



**MEEDER**

PUBLIC FUNDS  
PATTERSON GROUP

## Compliance Certification



The undersigned have acknowledged that they have reviewed this quarterly investment report for the period ending December 31, 2022. The City officials designated as investment officers by the City's Investment Policy attest that all investments are in compliance with the Texas Public Funds Investment Act and the City's Investment Policy.

A handwritten signature in blue ink, appearing to read 'A. High', written over a horizontal line.

City Manager

A handwritten signature in black ink, appearing to read 'J. Heylin', written over a horizontal line.

Interim Executive Director of Finance

## Executive Summary

- In the fourth quarter, the Federal Reserve increased the target rate for the federal funds rate another 1.25 percentage points, ending the year at a range of 4.25% to 4.50%. At the December meeting, the FOMC voted to slow the pace of increase to just 0.50%, following four consecutive 0.75% hikes. The updated Statement of Economic Projections released in December showed the majority of the FOMC members expect the target range to end 2023 at 5.00% to 5.25%, meaning that we could see a total of 0.75% of hikes in 2023. Meanwhile, the bond market continues to push against this, as the yield curve is inverted and is pricing in rate cuts towards the end of 2023 as market participants expect economic data will continue to soften and that the Federal Reserve will pivot in the second half of the year.
- This past quarter was the first full quarter of working with the City. In collaboration with the Finance staff, we were able to identify some bank holdings and negotiate hire rates on those existing positions to create more income without impacting the holding period overall. Additionally, we were able to maintain a proper cash to investment balance as the City was receiving tax revenue to maximize the earning potential on available funds.
- Looking to 2023, the City should expect the same areas of focus: continued cash flow analysis to work with the City on the amount to be invested in the City's portfolio, identifying opportunities to rebalance positions in the 0–1-year maturity to take advantage of the higher interest rates, and extending the portfolio to our longer-term targets while matching known future debt payments.



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# Economic Update

## Year In Review



### Fed started down the path to aggressive tightening

Fed Funds rate went from 0-0.25% to 4.25-4.50%  
Included 4 extraordinary 0.75% hikes

Russia invaded the nation of Ukraine, causing **market volatility** and concerns about energy and grain distribution

Hastening a **push to de-globalization**

FTX declared bankruptcy after seeing a valuation of \$32bln in January, in what may be the **largest financial crime** since Bernie Madoff

**Bitcoin dropped 64%**

The US officially passed 1 million **COVID deaths** early in the year

The Omicron COVID variant begins to spread and causes many countries to take **restrictive steps**

Markets began the year pricing in a rate of **0.82%** for Fed Funds by year end 2022  
The 2yr Treasury note yielded **0.73%** and ended the year at **4.42%**

The 10yr Treasury note yielded **1.51%** in Dec 2021 and ended 2022 at **3.87%**

Will Smith smacks Chris Rock at the **Oscar's** award ceremonies

Elon Musk purchased **Twitter**

**Stock indices** endured one of the worst years in recent history  
The S&P 500 was down 18.13% and the NASDAQ was down 32.51%

**Bond markets** suffered the same fate  
Bloomberg Barclays Aggregate Index was down 13%

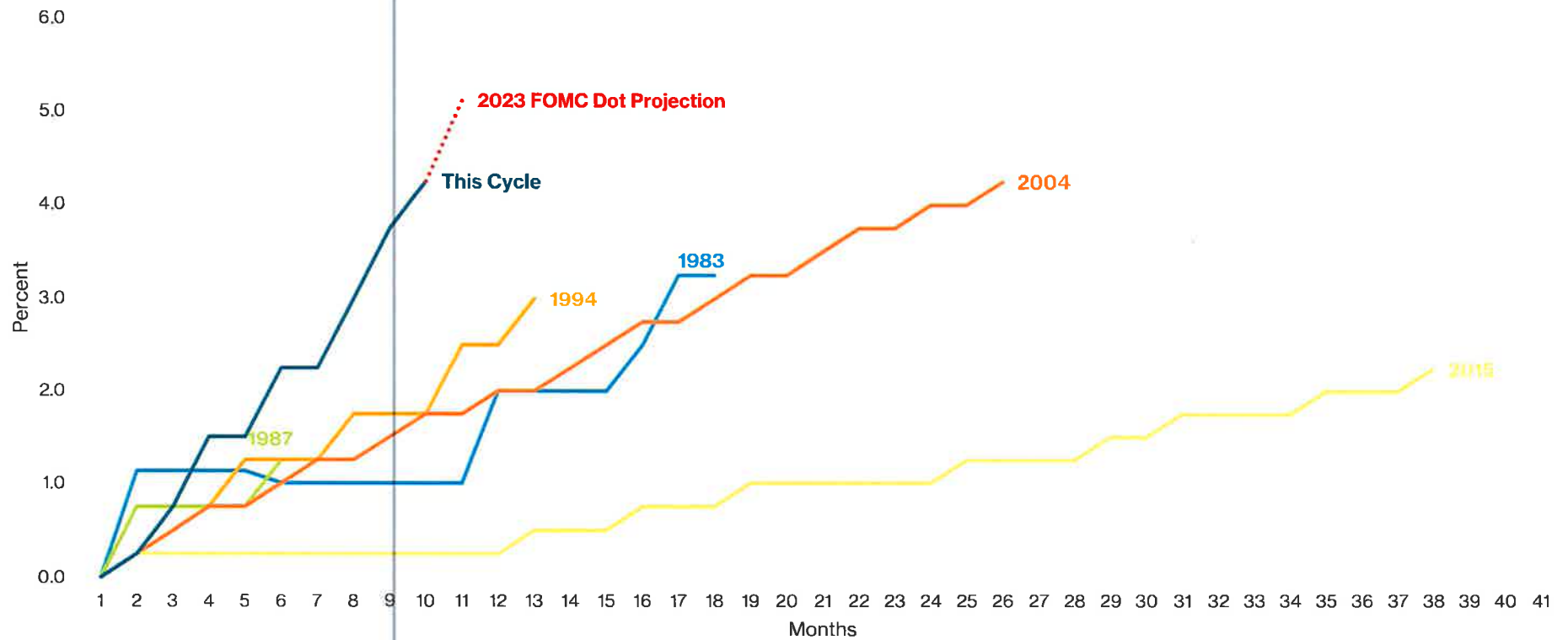
Elizabeth Holmes is **found guilty** of defrauding investors in Theranos

Rishi Sunak **replaces** Liz Truss, who went down in history as the shortest sitting UK Prime Minister

**Queen Elizabeth** of England passed away in September

## Fastest Rate Hiking Cycle

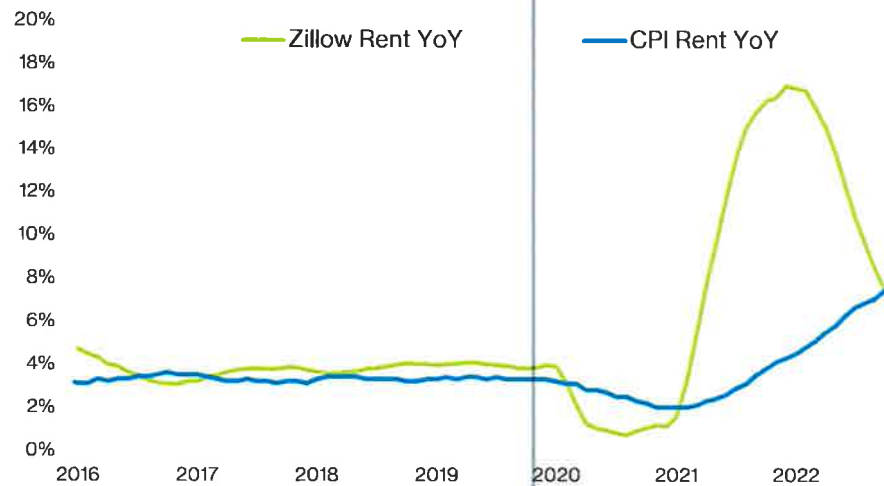
The current hiking cycle has been faster than each of the cycles since 1983



SOURCE: BLOOMBERG

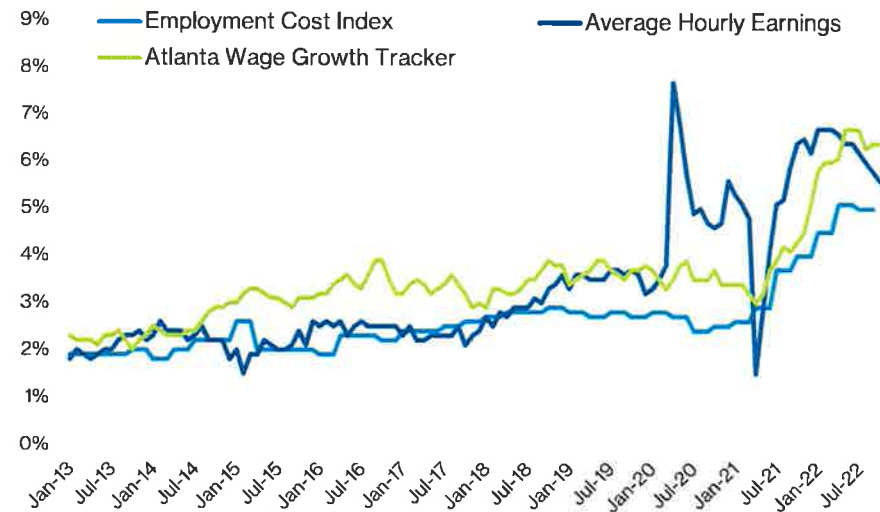
FOR INFORMATIONAL PURPOSES ONLY. SEE IMPORTANT DISCLOSURES AT THE END OF THE PRESENTATION.

## Earnings and Rents Driving Inflation



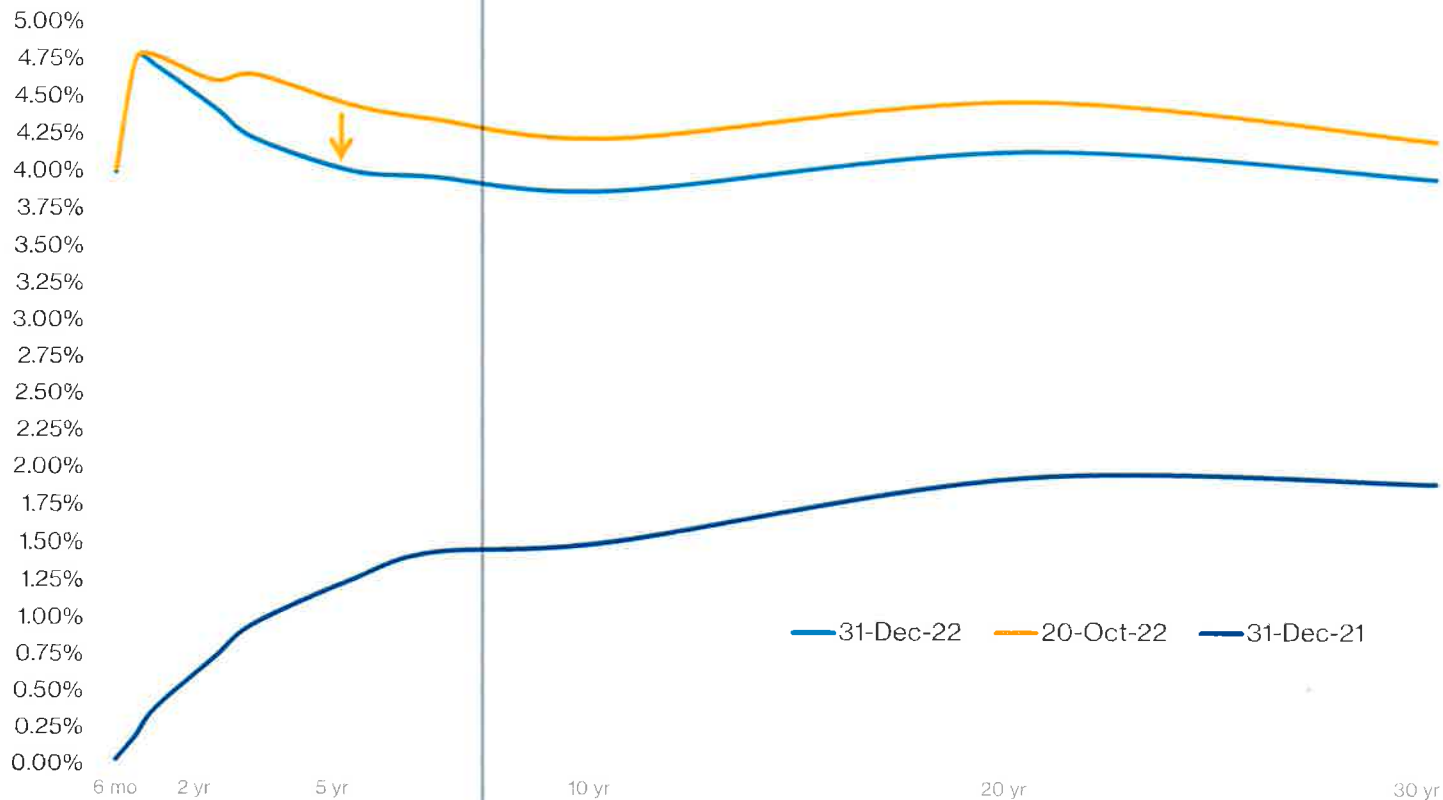
- Shelter, the service that a housing unit provides its occupants, is one of the largest parts of the Consumer Price Index (CPI) basket at 33% of CPI
- Methodology to calculate CPI Shelter historically lags homes price change by 4 quarters.
- Zillow's measure of market rents – rents for new lease by a new tenant indicates CPI rent should fall over next year.

SOURCE: BLOOMBERG; ZILLOW DATA



- A weaker labor market is a key goal for Fed – December SEP has unemployment rate rising from 3.7% to 4.6% by end of 2023
- Economists estimate wage growth of 2%-3.5% as being consistent with 2.00% inflation target.
- Multiple indicators point to wage growth having peaked

## US Treasury Yield Curves

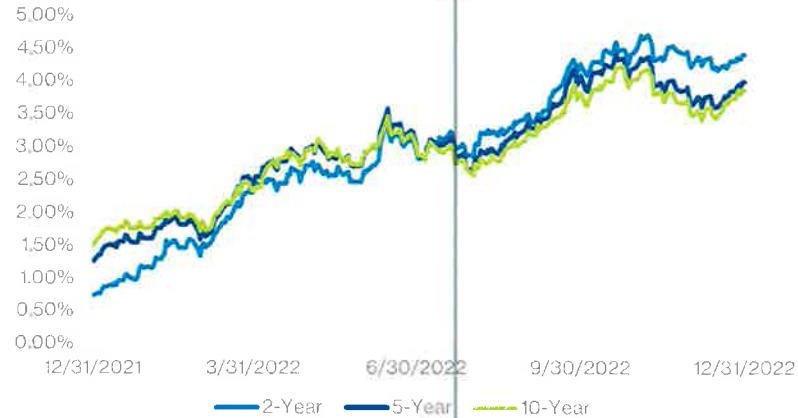


- Yield curve has continued to invert with 3-month yields far exceeding 10-year yields
- Yield curve reflects market expectations for economic growth and inflation
- Shape of the curve indicates heightened expectation for a recession

SOURCE: BLOOMBERG AS OF 12/31/2022

## Rates at a Glance

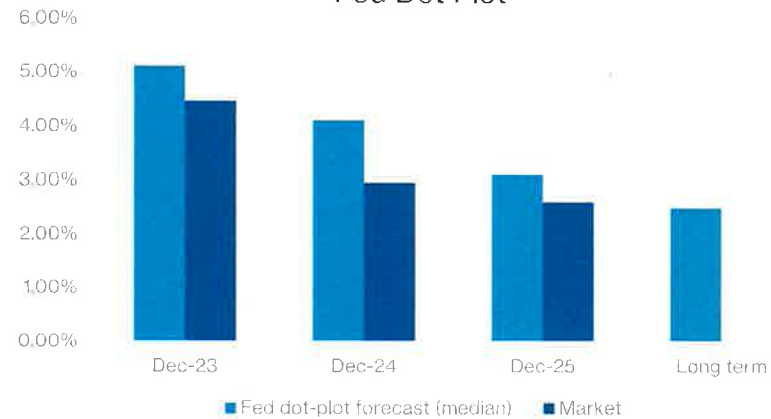
U.S. Treasury Note Yields



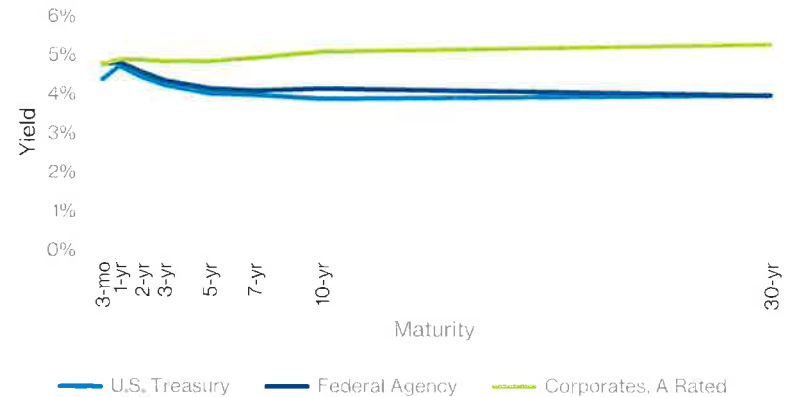
U.S. Treasury Yields

| Maturity | Dec '22 | Sep '22 | Change over Quarter | Dec '21 | Change over Year |
|----------|---------|---------|---------------------|---------|------------------|
| 3-Month  | 4.37%   | 3.27%   | 1.10%               | 0.04%   | 4.33%            |
| 1-Year   | 4.71%   | 3.99%   | 0.72%               | 0.38%   | 4.33%            |
| 2-Year   | 4.43%   | 4.28%   | 0.15%               | 0.73%   | 3.70%            |
| 5-Year   | 4.01%   | 4.09%   | (0.09%)             | 1.26%   | 2.74%            |
| 10-Year  | 3.88%   | 3.83%   | 0.04%               | 1.51%   | 2.37%            |
| 30-Year  | 3.97%   | 3.78%   | 0.19%               | 1.90%   | 2.06%            |

Fed Dot Plot



Yield Curves as of 12/31/2022





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# Portfolio Review

## Quarterly Portfolio Summary – All Funds



This quarterly report is prepared in compliance with the Investment Policy and Strategy of the City of Killeen and the Public Funds Investment Act (Chapter 2256, Texas Government Code).

| Portfolio as of September 30, 2022 |               | Portfolio as of December 31, 2022 |               |
|------------------------------------|---------------|-----------------------------------|---------------|
| Beginning Book Value               | \$193,568,434 | Ending Book Value                 | \$234,709,901 |
| Beginning Market Value             | \$192,246,993 | Ending Market Value               | \$233,380,960 |
| Unrealized Gain/(Loss)             | (\$1,321,441) | Unrealized Gain/(Loss)            | (\$1,328,941) |
|                                    |               | Change in Unrealized Gain/(Loss)  | (\$7,500)     |
| Weighted Average Maturity          | 228 days      | Weighted Average Maturity         | 208 days      |
| Weighted Average Yield             | 1.64%         | Weighted Average Yield            | 3.30%         |

| Portfolio Market Value by Fund | 9/30/2022               | 12/31/2022              | Change                 |
|--------------------------------|-------------------------|-------------------------|------------------------|
| Pooled Investments             | \$191,638,239.14        | \$232,694,890.20        | \$41,056,651.06        |
| Internal Services Fund         | \$79,421.28             | \$159,000.00            | \$79,578.72            |
| Employee Benefits Trust Fund   | \$65,343.69             | \$44,001.06             | (\$21,342.63)          |
| Enterprise Funds               | \$4,027.12              | \$4,035.90              | \$8.78                 |
| General Fund                   | \$80,453.33             | \$99,524.16             | \$19,070.83            |
| Special Revenue Fund           | \$379,508.31            | \$379,508.31            | \$0.00                 |
| <b>Total</b>                   | <b>\$192,246,992.87</b> | <b>\$233,380,959.63</b> | <b>\$41,133,966.76</b> |

## Portfolio Summary – Investment Pool

As of 12/31/2022



### Your Portfolio

|                            |               |
|----------------------------|---------------|
| Cash/LGIPs                 | \$58,843,057  |
| Securities Book Value      | \$175,180,774 |
| Total Portfolio Book Value | \$234,023,831 |

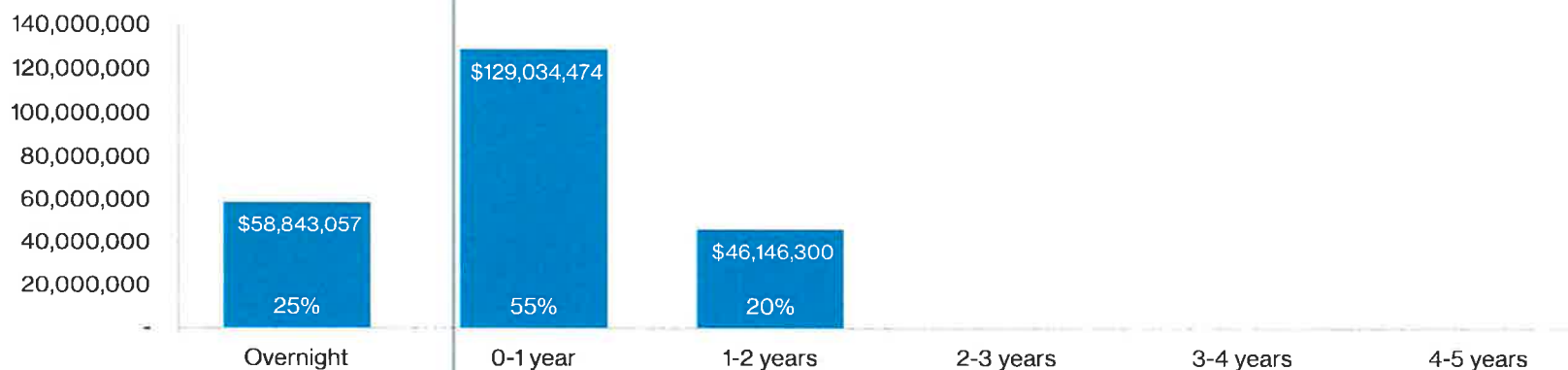
### Your Securities

|                           |            |
|---------------------------|------------|
| Weighted Average Maturity | 0.57 years |
| Weighted Average Yield    | 3.31%      |

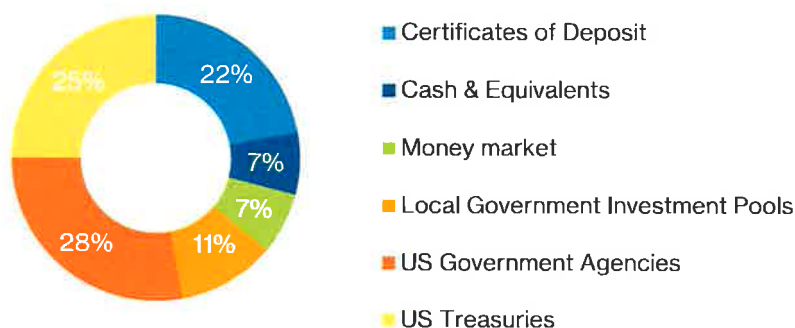
### Interest Earnings:

|                              |             |
|------------------------------|-------------|
| Quarterly Interest Earned    | \$1,213,023 |
| Year-to-date Interest Earned | \$1,213,023 |

### Your Maturity Distribution

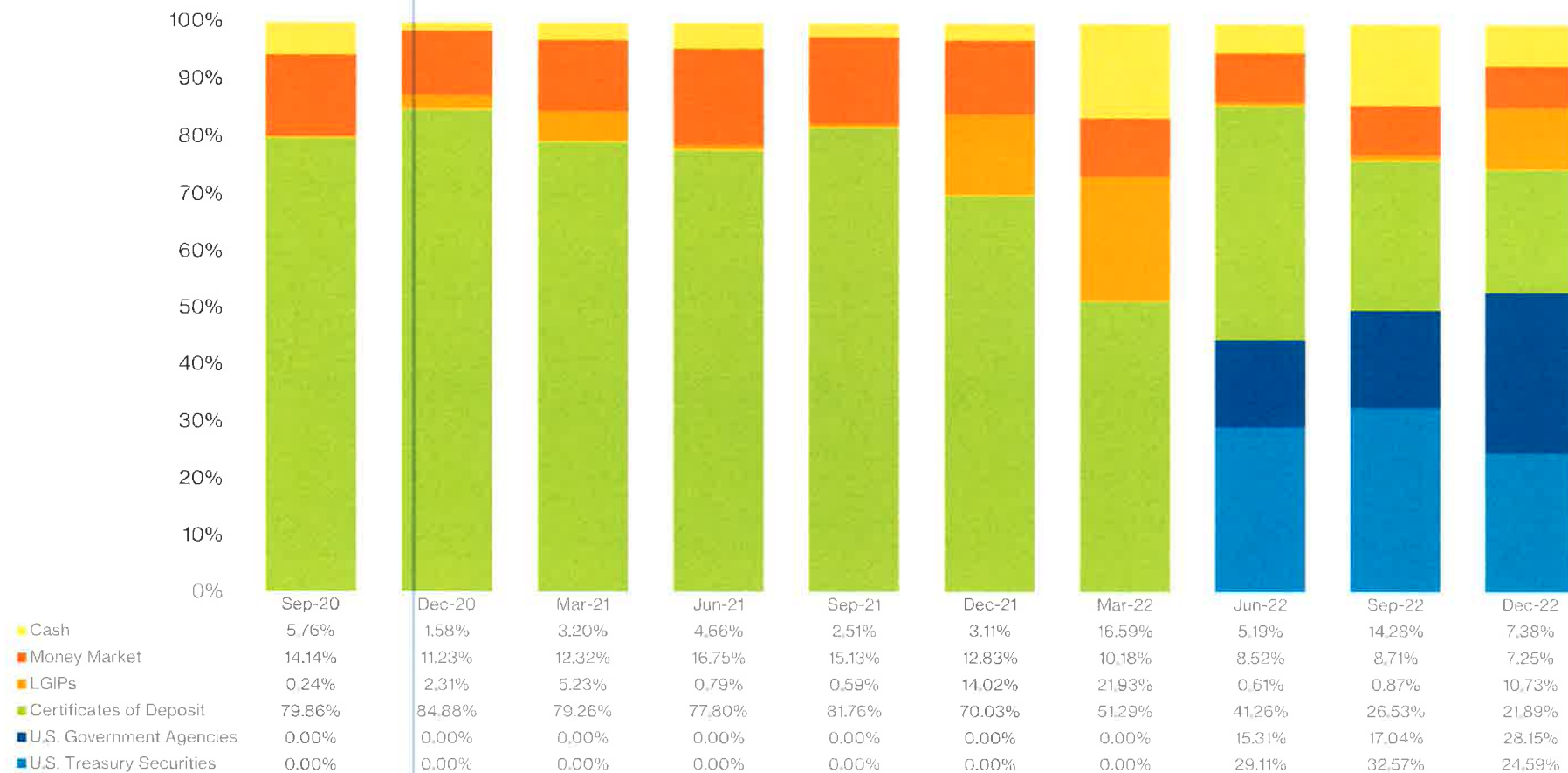


### Your Asset Allocation



YIELD AND INTEREST INCOME INFORMATION IS ANNUALIZED. ALL YIELD INFORMATION IS SHOWN GROSS OF ANY ADVISORY AND CUSTODY FEES AND IS BASED ON YIELD TO MATURITY AT COST. PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.

## Asset Composition



## Disclosures



### PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

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Estimates and illustrations of expected yield for illustrated portfolios is hypothetical in nature, does not reflect actual investment results, and does not guarantee future returns. Hypothetical illustrations are offered to illustrate the yield expected from classes of securities and do not reflect actual securities available for investment. Estimates of current yield are generated from indexes and other information deemed by the adviser to provide a reliable estimate of the current yield available from investments in that asset class. Securities indices are unmanaged and investments cannot be made directly in an index. Yield assumptions were developed with the benefit of hindsight and the securities purchased for such an account may generate more or less than the illustrated yield.

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