



PUBLIC FUNDS ADVISORY

City of Killeen

Quarterly Investment Report

PRESENTED BY:

SCOTT GRUBER, CMT - DIRECTOR, ADVISORY SERVICES

MARCH 31, 2024



MEEDER
PUBLIC FUNDS

Compliance Certification



The undersigned have acknowledged that they have reviewed this quarterly investment report for the period ending March 31, 2024. 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.

Executive Director of Finance

Assistant Director of Executive Finance

Controller

Executive Summary

- This past quarter, interest rates moved higher as strong economic data led to market participants reducing their expectations for rate cuts in 2024. The updated dot plot from the March FOMC meeting showed the Federal Reserve still expects three rate cuts in 2024, and markets now agree as they are pricing in approximately three rate cuts. Although still above 2% core PCE is moderating and slowed to an annual pace of 2.8% in March, well below the peak of 5.6% in February 2022. The Federal Reserve does not need to be as restrictive as it has been and can begin easing off the brakes later this year.
- As the yield curve shifted higher from the updated federal reserve outlook, we continued to look for opportunities to reinvest out 3-5 years to further increase yield to the portfolio. At the same time, we have had to continue to build up maturities in the front-end of the portfolio to assist with matching upcoming debt liabilities.
- With interest rates still above long-term averages, portfolios will benefit from buying bonds today as rates should continue to fall once rate cuts begin. We'll continue looking for opportunities to extend the portfolio based on the current long term rate outlook, while also matching upcoming debt payments along with expected capital outlays. While the commercial paper market has softened slightly, the ability to rebalance existing holdings into current rates will allow for additional income generation on those positions.



ECONOMIC UPDATE

“FIGEY” Model of Interest Rates

Fed, Inflation, Growth, Employment, Yields



- U.S. Treasury yields/rates are primarily a function of Federal Reserve policy, inflation, economic growth, and employment.
- Shorter-term yields are highly correlated with the Fed Funds rate set by the Fed's Federal Open Market Committee (FOMC).
- Intermediate-term and longer-term yields are more correlated to the expected future rates of inflation, economic growth, and the unemployment rate.

“FIGEY” Model of Interest Rates: Near-Term Outlook

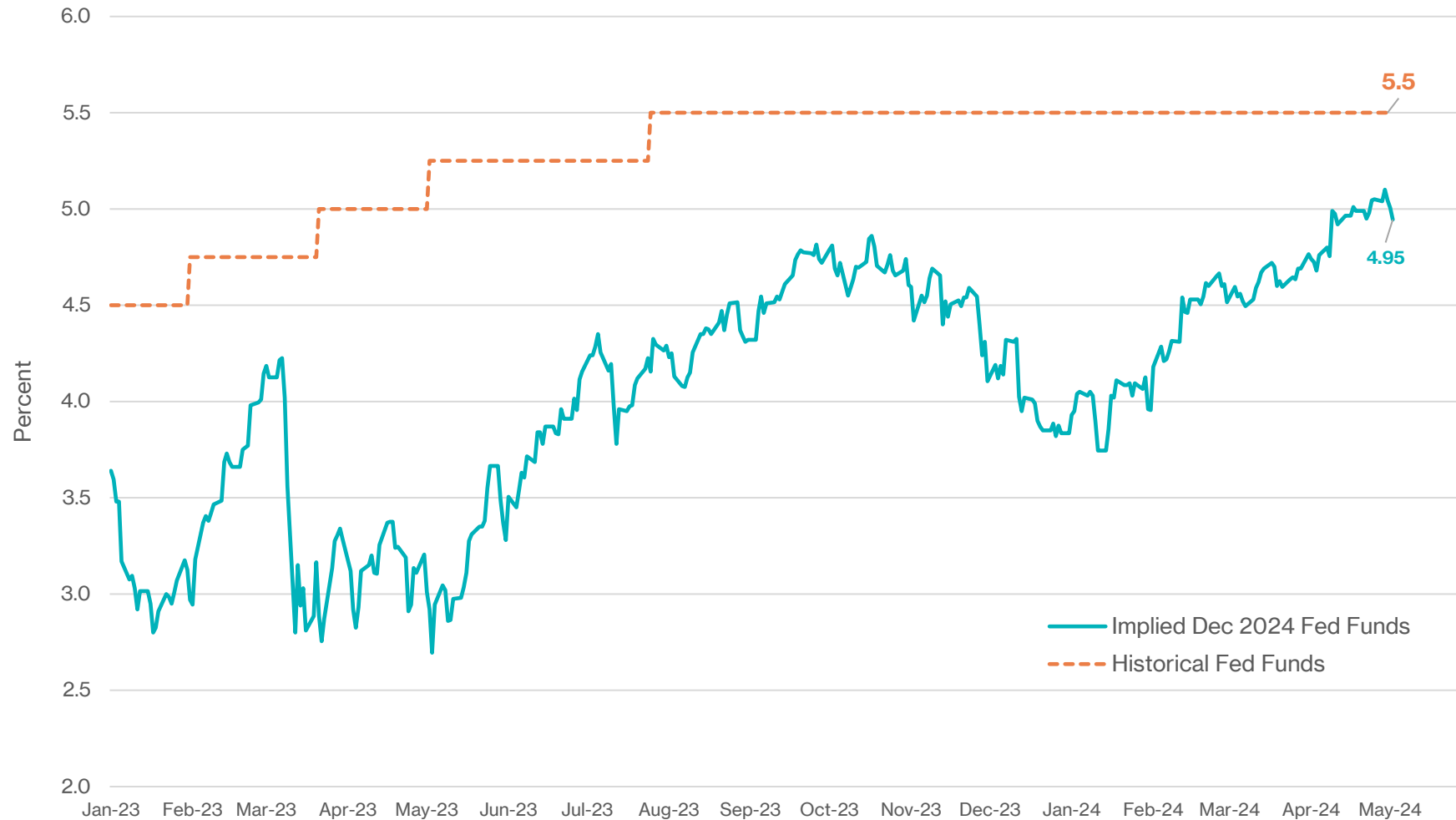
Metric

Outlook

Fed Funds Rate	Chair Powell said to expect “patience” regarding rate cuts, we agree.
Inflation	The path to the Fed’s 2% inflation target will take longer than anticipated.
Growth	Gross Domestic Product (GDP) growth will slow from 2023’s rate.
Employment	Employment will remain moderately robust, with job growth slowing.
Yields	Short-term rates will track Fed Funds, longer-term rates rangebound.

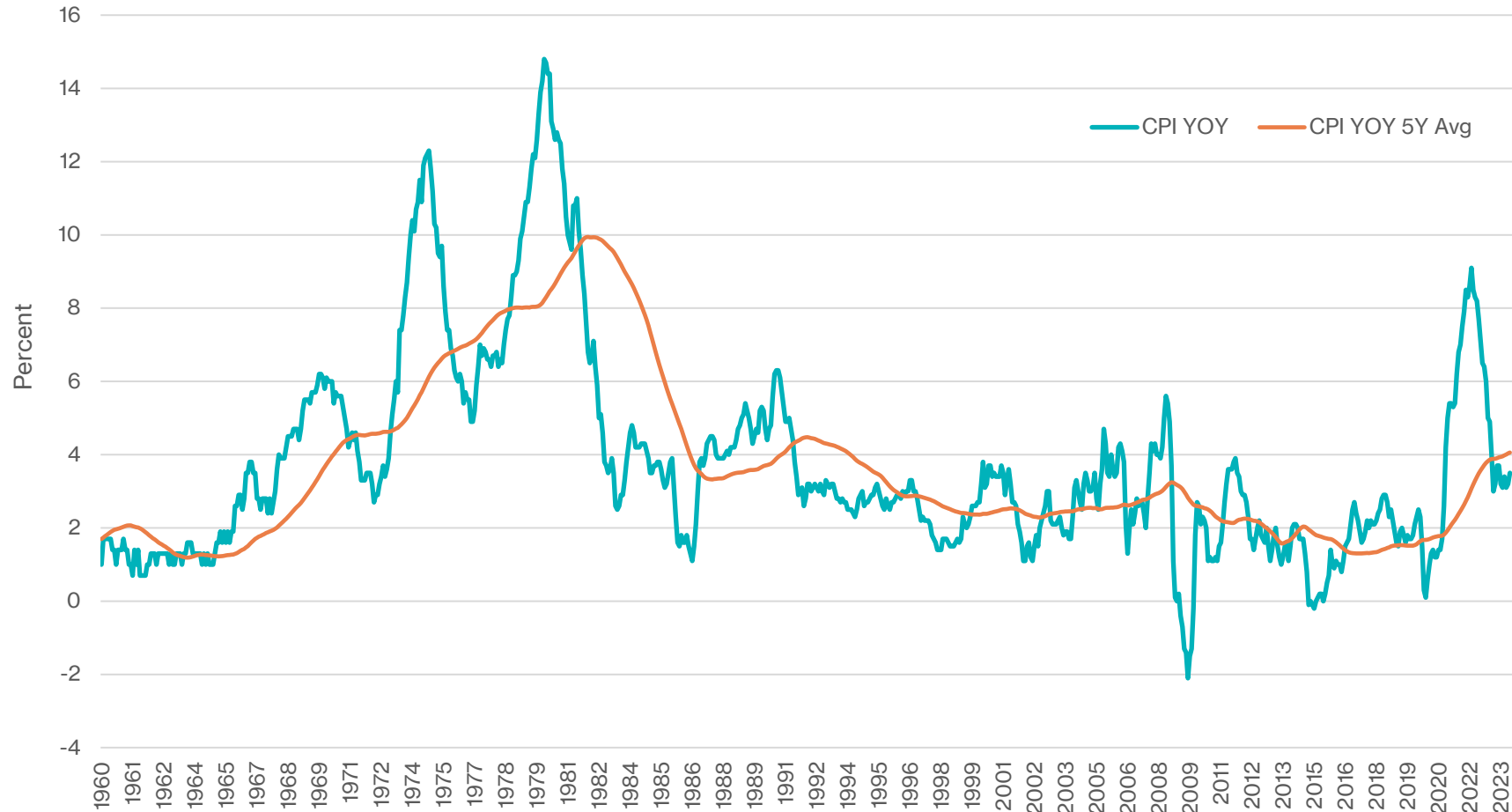
Fed Funds

Fed Funds: Historical and Implied Per Fed Funds Futures



- After four quarter point hikes in 2023, the Federal Reserve has held this rate steady since last July.
- At the last Federal Open Market Committee Meeting (FOMC) press conference, Chair Powell stated, “so far this year, the data have not given us that greater confidence” to lower the Fed Funds rate.
- At the beginning of May, the futures market is implying between one and two .25% Fed cuts between now and the end of the year.

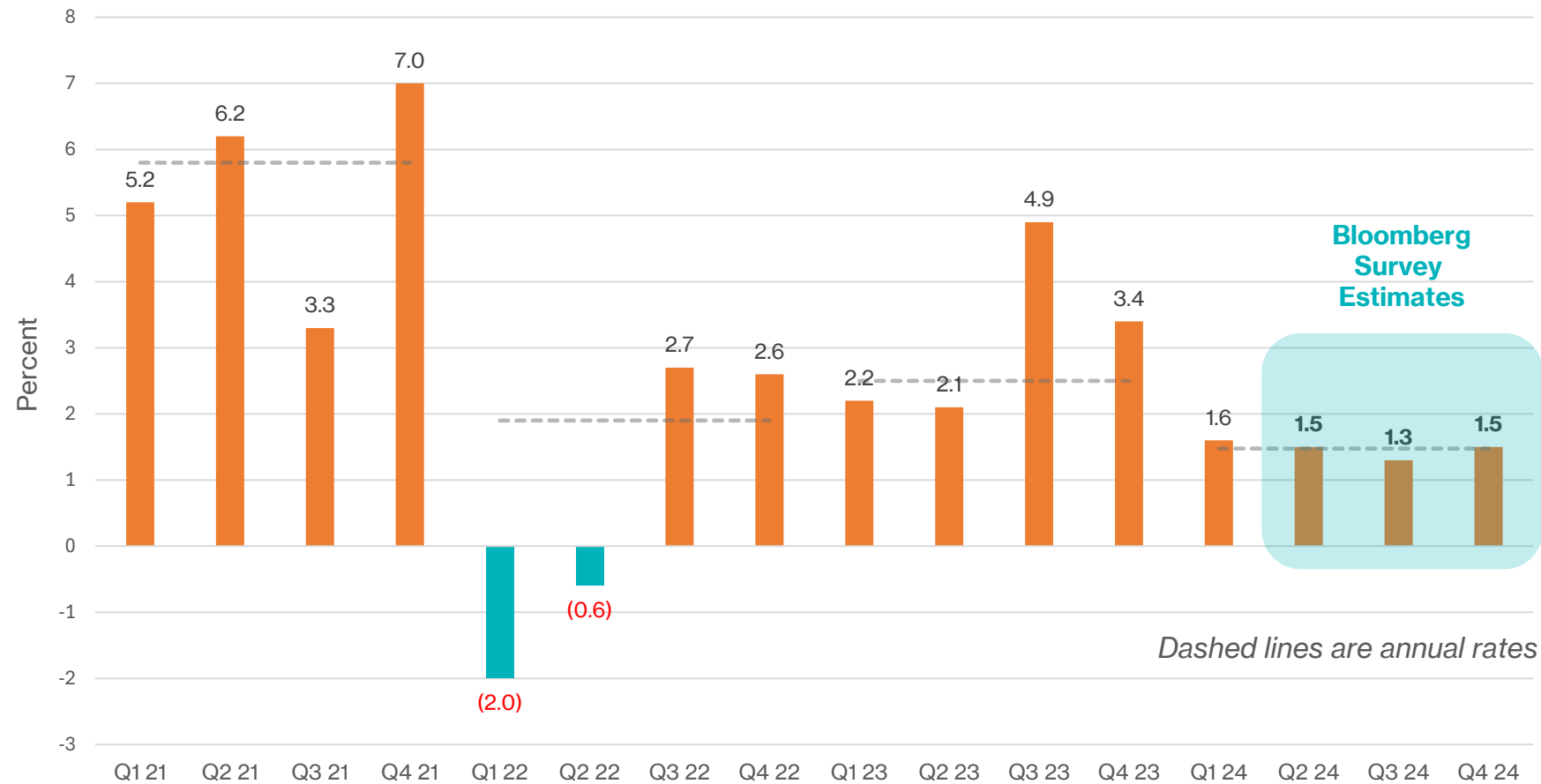
YOY Consumer Price Index (CPI)



SOURCE: BLOOMBERG, BUREAU OF LABOR STATISTICS

- Since mid-1994, YOY CPI has averaged below 4% on a five-year moving average until November 2023.
- One of the big inflation questions is whether long-run average inflation will be somewhat higher in the years ahead.
- With an increase in geopolitical risks and a decline in globalization, slightly higher average inflation may be on the horizon.
- If this is the case, average future interest rates should be slightly higher as well.

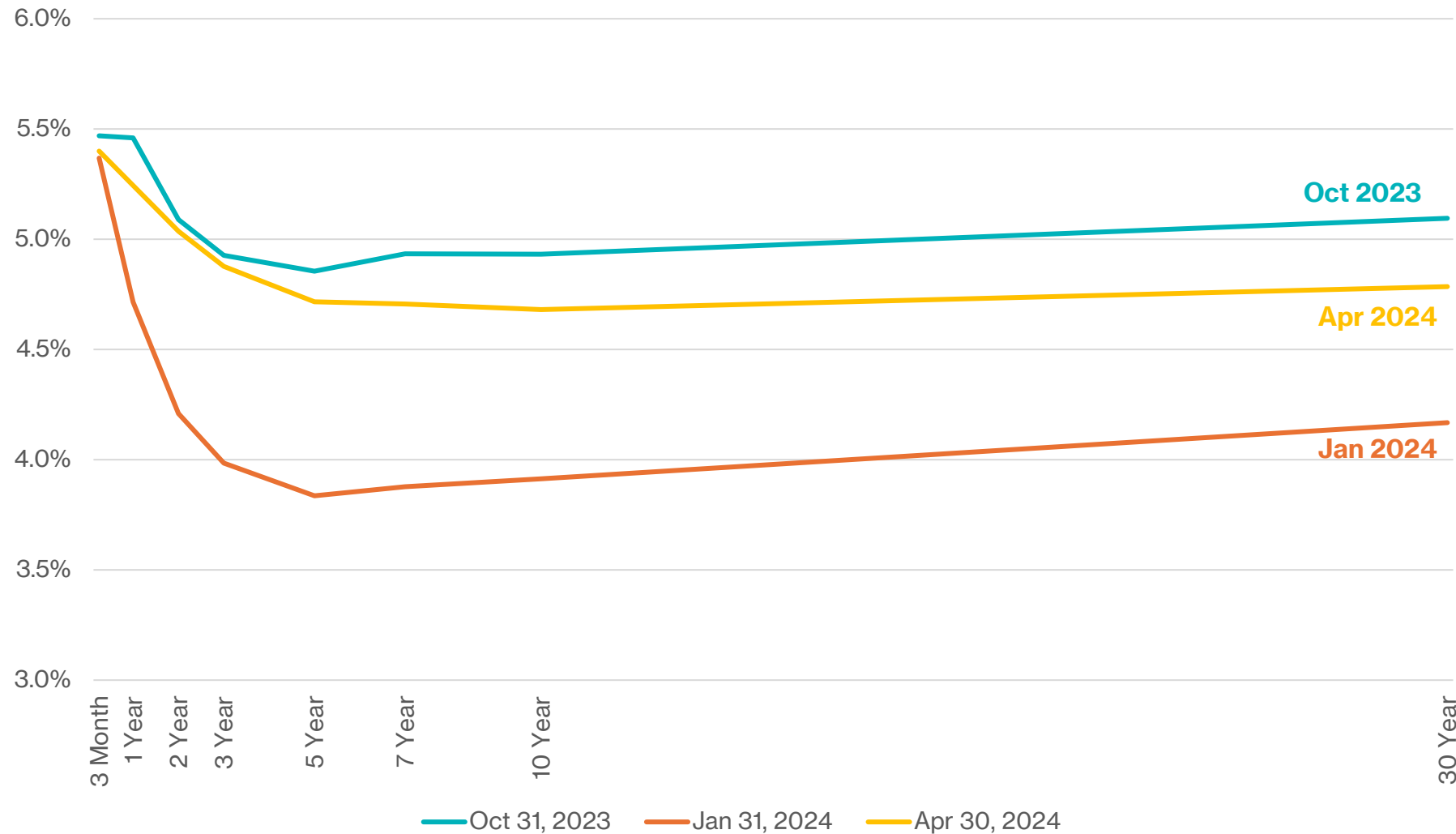
U.S. Quarterly Gross Domestic Product (GDP) Change



- U.S. GDP growth for the first quarter of 2024 was much slower than most economists expected.
- Economists and strategists surveyed by Bloomberg expect GDP to slow below trend during 2024.
- This slowing growth is due to a few factors; one primary one is less stimulus from the federal government as compared to the previous few years, another is weakening household spending.

SOURCE: BLOOMBERG, BUREAU OF ECONOMIC ANALYSIS

Yields: US Treasury Yield Curves



- U.S. intermediate-term and long-term treasury rates peaked last October.
- Rates dropped from last fall into the first part of 2024 partly due to the Fed pivoting to three expected .25% rate cuts in 2024 from rate hikes in 2023.
- Over the past few months intermediate-term and long-term treasury rates have bounced higher on sticky inflation and higher commodity prices.
- We expect at least one rate cut later in the year and that would most likely put downward pressure on treasury yields.



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 December 31, 2023		Portfolio as of March 31, 2024	
Beginning Book Value	\$254,302,763	Ending Book Value	\$278,292,459
Beginning Market Value	\$255,120,294	Ending Market Value	\$277,582,988
Unrealized Gain/(Loss)	\$817,531	Unrealized Gain/(Loss)	(\$709,471)
		Change in Unrealized Gain/(Loss)	(\$1,527,002)
Weighted Average Maturity	523 days	Weighted Average Maturity	526 days
Weighted Average Yield	4.33%	Weighted Average Yield	4.44%

Portfolio Market Value by Fund	12/31/2023	3/31/2024	Change
Pooled Investments	\$254,269,249.59	\$277,025,074.55	\$22,755,824.96
Internal Services Fund	\$159,000.00	\$131,538.84	(\$27,461.16)
Employee Benefits Trust Fund	\$107,936.86	\$104,395.56	(\$3,541.30)
Enterprise Funds	\$4,040.07	\$52.46	(\$3,987.61)
General Fund	\$200,558.83	\$319,926.48	\$119,367.65
Special Revenue Fund	\$379,508.31	\$2,000.00	(\$377,508.31)
Total	\$255,120,293.66	\$277,582,987.89	\$22,462,694.23

Portfolio Summary – Investment Pool

As of 3/31/2024



Your Portfolio

Cash/LGIPs	\$77,913,620
Securities Book Value	\$199,820,926
Total Portfolio Book Value	\$277,734,546

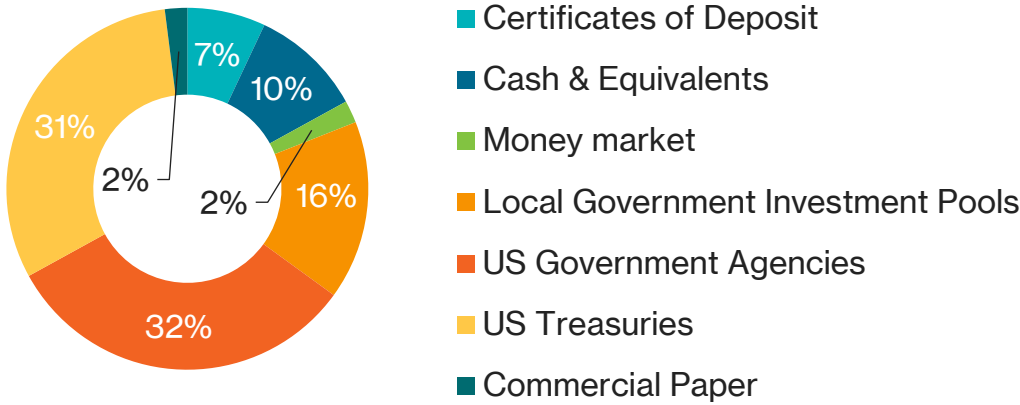
Your Securities

Weighted Average Maturity	1.44 years
Weighted Average Yield	4.44%

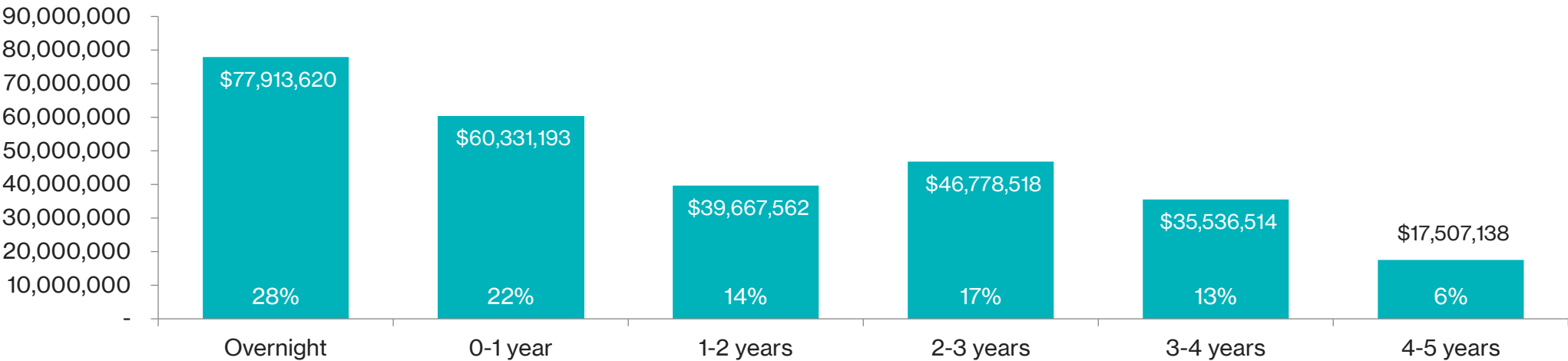
Interest Earnings:

Quarterly Interest Earned	\$3,101,527
Year-to-date Interest Earned	\$5,762,149

Your Asset Allocation

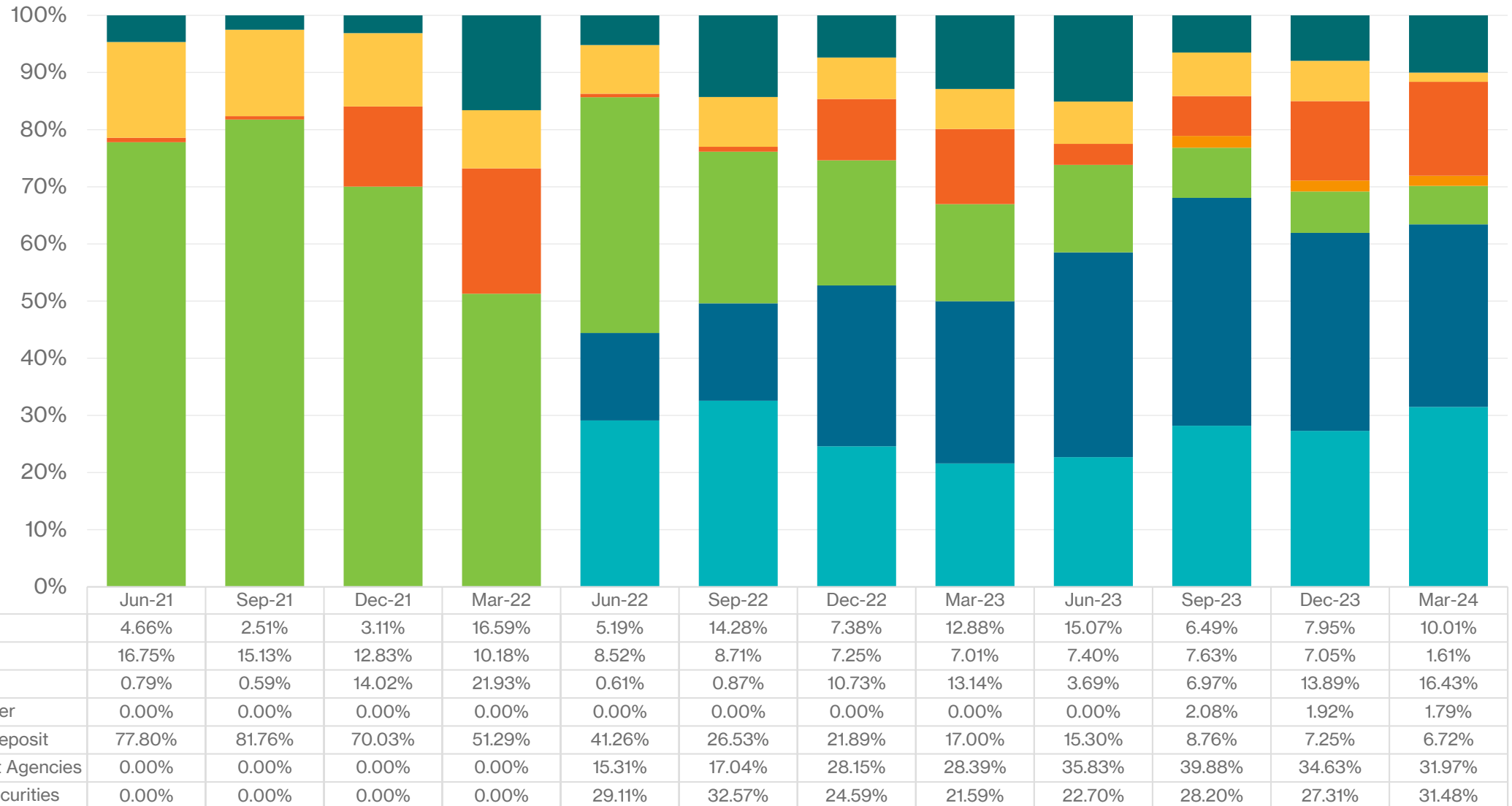


Your Maturity Distribution



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



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