

## Portfolio Summary of the Local Government Investment Pool

### Summary

- Ending December market value for the LGIP was \$1.286 bil versus November's reported closing value of \$1.279 bil.
- The LGIP maintains a AAAM rating by Standard & Poor's.

### Portfolio Mix

- At the end of December, the portfolio was invested as follows: 50% in collateralized demand deposit accounts with qualified banking institutions, 39% in US Treasuries, 8% in supranational securities, and 3% in US government agency securities.
- At month-end, the LGIP held positions in 25 securities.

### Investment Earnings

- During December, the fund earned \$133,262.
- For FY2022, the fund earned \$681,923.
- LGIP earnings are retained by participants after a management fee of 0.05% is paid to the General Fund.

### Performance

- Gross yield on the LGIP was 0.12% at the end of December.
- Net yield to participants was 0.07%.

### CONTACT

#### New Mexico State Treasurer's Office

2055 South Pacheco Street, Suites 100 and 200  
Santa Fe, NM 87505

**Phone:** (505) 955-1120 **Website:** <https://nmsto.gov>

**Email:** [nmsto.lgip@state.nm.us](mailto:nmsto.lgip@state.nm.us)

**Participant Coordinator:** Felicia Roybal

**Investment Transaction Supervisor:** Hannah Chavez

**Portfolio Managers:** Anna Murphy, CFA,  
and Vikki Hanges, Chief Investment Officer

The LGIP Internet Participant Access System (IPAS) gives you paperless transactions and statements and easy, no hassle, multi-level approvals. You can transfer cash, purchase shares, and redeem shares within authorized accounts at the push of a button. To enroll, contact Felicia Roybal.

### Investment Highlights

- For the LGIP, the WAM(R) of 53 days and WAM (F) of 67 days were within their maximums of 60 and 120 days respectively.
- During the month, the LGIP purchased \$465.2 mil U.S. Treasury securities.
- The Pool sold \$30.0 mil U.S. Treasury securities for rebalancing.

### Investment Strategy

- LGIP WAMs are currently 41 and 65 days for WAM(R) and WAM(F), respectively.
- LGIP will continue to focus on maximizing safety of principal and providing adequate liquidity through the use of prudent investments.

### Net Asset Value/Share

- At month-end, the Net Asset Value per Share of the Local Government Investment Pool was \$0.99993.

### The LGIP Fund Invests in:

- U.S. Government and Government-related securities **only** (i.e., U.S. Agencies and U.S.-Domiciled Supranationals rated AAA) with final maturities of 13 months and shorter for fixed-rate securities and 25 months and shorter for floating-rate securities.
- Fully collateralized overnight bank deposits and repurchase agreements with highly rated counterparties, monitored by a dedicated collateral manager.
- Collateral limited to US Government and Agency securities/Letters of Credit.

### The LGIP does NOT Invest In:

- Corporate credit (i.e., commercial paper, corporate notes, uncollateralized bank deposits).
- Mortgage and asset backed securities.
- Externally managed funds (i.e., money market funds, prime or government).

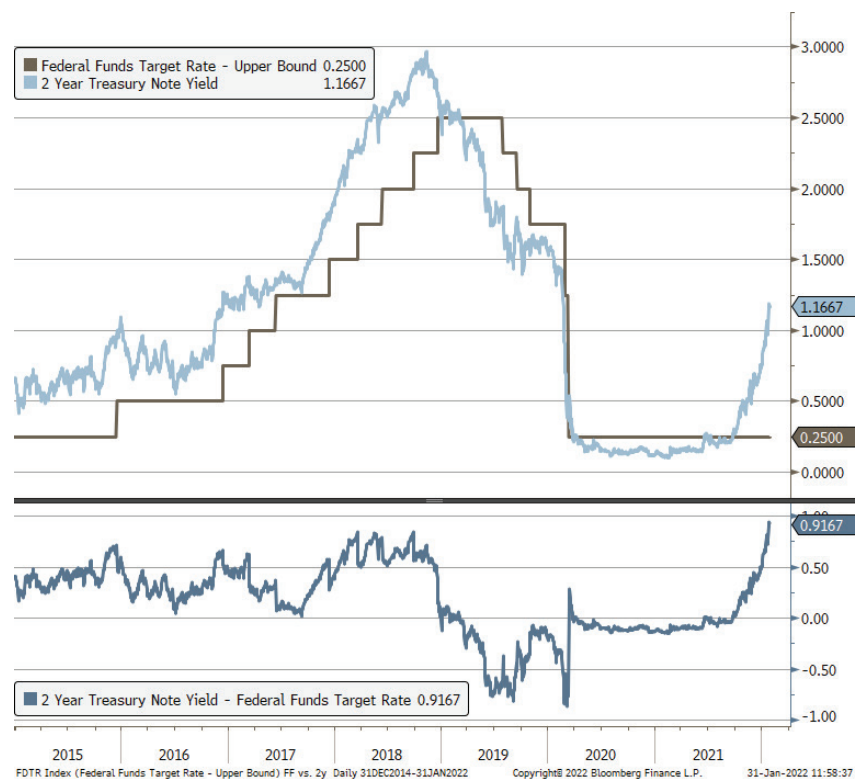
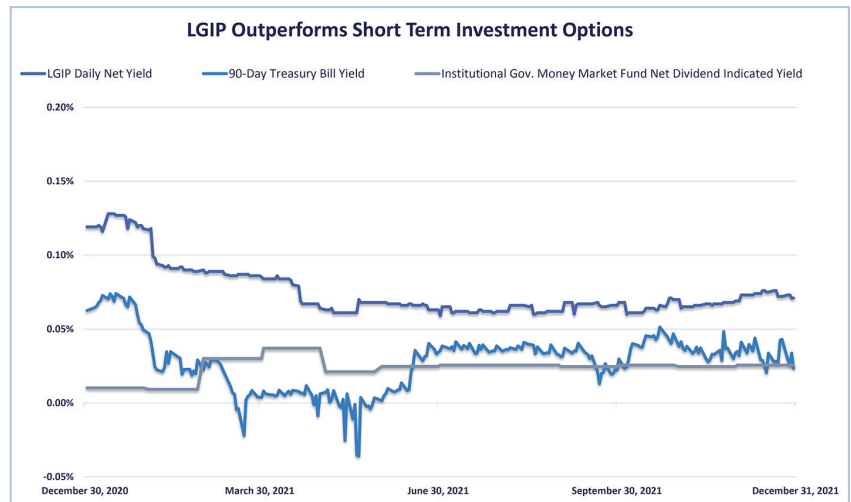
## The Fed Speaks...

The fourth quarter brought some interesting developments, including the Federal Reserve's realization that higher-than-anticipated inflationary growth may not be transitory. The Fed's preferred indicator, the PCE Core Deflator, is approaching a 5% annual growth rate. This, accompanied by an unemployment rate falling below 4%, suggests that the Fed will raise short-term interest rates imminently. The market is increasing its wager for higher interest rates, indicated by the difference between the 2-year Treasury note yield and the Federal Funds rate, shown in the graph below.

The Fed began to unwind its easy monetary policy stance with the taper of securities purchases, targeting the end of this phase by early March 2022. With the Federal Funds rate still near zero, "normalization" of short-term interest rates should begin at the Fed's next mid-March Open Market Committee meeting, as plainly advertised by Chairman Powell during his last press conference. This phase of monetary policy tightening could bring a 25- to 50-basis-point increase in the Federal Funds rate in March, followed by the potential for 3 to 6 more hikes in 2022. With 4 rate increases of 25 basis points already priced in, any surprises could push longer-term bond yields higher, eroding the preservation of principal for fixed-rate securities.

## ...The LGIP Benefits

The LGIP will benefit as short-term interest rates rise. The LGIP's yield will increase in lockstep with the Federal Funds rate, albeit at a slightly lagged pace, as maturities and new cash are invested at higher yields. The very high quality and short-term average maturity of the LGIP will drive its performance higher, with limited risk to principal stability. As always, the LGIP will prioritize safety, liquidity, and yield—in that order.



Data unaudited. Information is obtained from third party sources that may or may not be verified. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. All comments and discussions presented are purely based on opinion and assumptions, not fact. These assumptions may or may not be correct based on foreseen and unforeseen events. The information presented should not be used in making any investment decisions. This material is not a recommendation to buy, sell, implement, or change any securities or investment strategy, function, or process. Any financial and/or investment decision should be made only after considerable research, consideration, and involvement with an experienced professional engaged for the specific purpose. Past performance is not an indication of future performance. Any financial and/or investment decision may incur loss.

## Upcoming Data to Watch

| Data                       | Period    | Value       | Next Period | Expected Value | Release Date |
|----------------------------|-----------|-------------|-------------|----------------|--------------|
| ISM Manufacturing Index    | Dec-21    | 58.8        | Jan-22      | 57.5           | 2/1/2022     |
| ISM Services Index         | Dec-21    | 62.3        | Jan-22      | 59.1           | 2/3/2022     |
| U.S. Unemployment          | Dec-21    | 3.90%       | Jan-22      | 3.90%          | 2/4/2022     |
| Change in Nonfarm Payrolls | Dec-21    | 199,000     | Jan-22      | 168,000        | 2/4/2022     |
| CPI YoY                    | Dec-21    | 7.00%       | Jan-22      | 7.30%          | 2/10/2022    |
| PPI YoY                    | Dec-21    | 9.70%       | Jan-22      | n/a            | 2/15/2022    |
| PCE Core Deflator YoY      | Dec-21    | 4.90%       | Jan-22      | n/a            | 2/25/2022    |
| Fed Funds Target           | 26-Jan-22 | 0.00%-0.25% | 16-Mar-22   | 0.25%-0.50%    | 3/16/2022    |
| GDP QoQ                    | Q3 2021   | 6.90%       | Q1 2022     | n/a            | 4/28/2022    |

Data from Bloomberg as of 1/28/2022.