New Mexico Local Government Investment Pool

Newsletter

Safety, Liquidity, Yield...In That Order!

August 2022

Portfolio Summary of the Local Government Investment Pool

Summary

- Ending June market value for the LGIP was $1.376 bil versus May's reported closing value of $1.301bil.
- The LGIP maintains a AAAm rating by Standard & Poor's.

Portfolio Mix

- At the end of June, the portfolio was invested as follows: 40% in US government agency securities, 25% in US Treasury securities , 18% in repurchase agreements, 9% in supranational securities, and 8% in collateralized demand deposit accounts with qualified banking institutions.
- At month-end, the LGIP held positions in 49 securities.

Investment Earnings

- During June, the fund earned $1,048,169.
- For FY2022, the fund earned $3,223,681.
- 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 0.95% at the end of June.
- Net yield to participants was 0.90%.

Investment Highlights

- For the LGIP, the WAM(R) of 49 days and WAM (F) of 89 days were within their maximums of 60 and 120 days respectively.
- During the month, the LGIP purchased $495.5 mil US government agency securities and $170.0 mil US Treasury securities.

Investment Strategy

- LGIP WAMs are currently 43 and 88 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 $ 0.9995.

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
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.

Upcoming Data to Watch

Data	Period	Value	Next Period	Expected Value	Release Date
ISM Services Index	Jun-22	55.3	Jul-22	53.7	8/3/2022
U.S. Unemployment	Jun-22	3.60%	Jul-22	3.60%	8/5/2022
Change in Nonfarm Payrolls	Jun-22	372,000	Jul-22	250,000	8/5/2022
CPI YoY	Jun-22	9.10%	Jul-22	8.80%	8/10/2022
CPI MoM	Jun-22	1.30%	Jul-22	0.20%	8/10/2022
PPI YoY	Jun-22	11.30%	Jul-22	n/a	8/11/2022
PPI MoM	Jun-22	1.10%	Jul-22	0.30%	8/11/2022
PCE Core Deflator YoY	Jun-22	4.80%	Jul-22	n/a	8/26/2022
PCE Core Deflator MoM	Jun-22	0.60%	Jul-22	n/a	8/26/2022
ISM Manufacturing Index	Jul-22	52.8	Aug-22	n/a	9/1/2022
Fed Funds Target	27-Jul-22	2.25%-2.50%	21-Sep-22	2.75%-3.00%	9/21/2022
GDP QoQ	Q2 2022	-0.90%	Q3 2022	n/a	10/27/2022

Data from Bloomberg as of 8/1/2022.

Market Watch

During the second quarter, the Fed increased the Funds rate range from 0.25-0.50% to 1.50-1.75% across two FOMC meetings. The 0.50% increase in May was followed with an abnormally large 0.75% increase at the June 15 meeting, one that rapidly and dramatically pushed the front end of the yield curve higher. The Fed sent a clear message about its commitment to rein in uncomfortably high inflation through monetary tightening. Chair Powell dispelled the idea that it was the committee's goal to induce a recession, noting that the Fed viewed underlying economic conditions as sufficiently strong to withstand higher interest rates, pointing to strength in the labor market and low levels of unemployment.

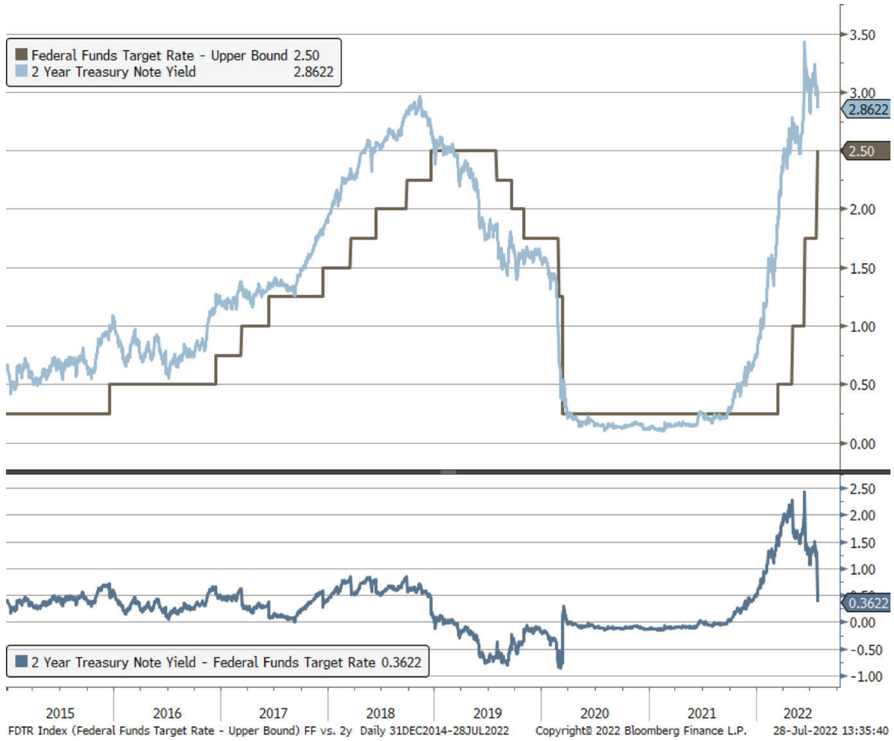

Figure 1. Data from Bloomberg as of 7/28/22.

The Fed also provided updated economic and interest rate projections at the June meeting. The median expectation for the Fed Funds rate range by the end of 2022 increased from 1.75%-2.00% to 3.25%-3.50%. Fed members continued to upwardly adjust their expectations for 2022 inflation, as measured by the Core Personal Consumption Expenditure Index, now forecast at 4.30%, which is 0.5% higher than what was projected in March and well above the 2% target inflation rate. The committee members also lowered their expectations for real GDP in 2022 by 1%, to a modest 1.7% growth rate.

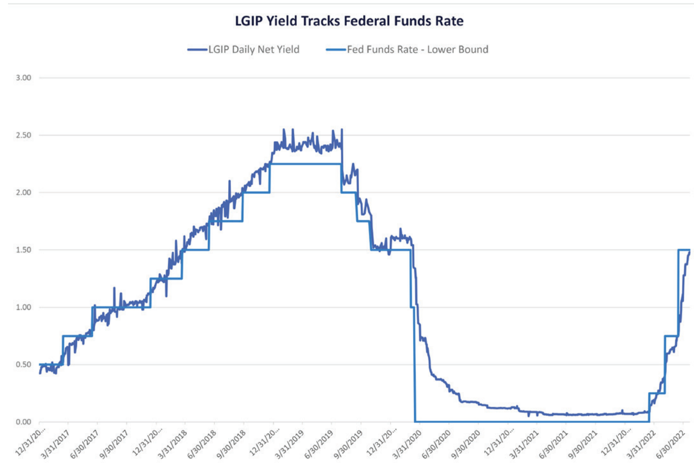

Figure 2. Data from Bloomberg and Broadridge.

Other measures of inflation remain stubbornly high. The Producer Price Index, which tracks prices paid by businesses for goods and services, has been above 10% for several of the latest prints, with June data coming in above expectations at 11.3%. The headline Consumer Price Index also remains elevated, with the latest data also coming in above expectations at 9.1%.

At the June meeting, the Fed doubled down on its commitment to control inflation, and the market adjusted for yet another large increase in the Fed Funds range at the July 27 meeting. This adjustment was validated by the 0.75% increase that was unanimously supported by FOMC members. The Fed Funds range is now 2.25%-2.50%, a target range viewed by the Fed chair as "neutral." Chair Powell affirmed the current Fed projection for a Funds range of 3.25%-3.50% at year end, and he indicated that another "unusually large" rate increase could be appropriate at the September Fed meeting to move toward a more restrictive monetary policy.

At the press conference following the July meeting, Chair Powell fielded questions about the health of the economy. Powell reaffirmed that he did not view current economic conditions as recessionary, again pointing to strength in the labor market. He did concede that the path for taming inflation while avoiding recession was narrowing. This concern was underscored by surprisingly weak second quarter GDP data released the day following the Fed meeting, coming in at -0.90%. The weaker-than-expected data further inverted the yield curve, with the 10-year maturity yielding 0.23% less that the 2-year at the end of July. The market is now priced for a peak Fed Funds range of 3.25%-3.50% at the end of 2022 and rate cuts beginning in 2023. Following the July rate increase, the spread between the Fed Funds rate and the 2-year Treasury note narrowed significantly, only 0.36% at the end of July, indicating that the market does not believe a soft landing is achievable and that a recession could be coming in 2023.

The LGIP will benefit as short-term interest rates rise, with the LGIP yield increasing in lockstep with the Federal Funds rate. This is illustrated in Figure 2. Over market cycles, the yield on the pool will track the level of Federal Funds closely, 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.