

## Portfolio Summary of the Local Government Investment Pool

### Summary

- Ending September market value for the LGIP was \$1.385 bil versus August's reported closing value of \$1.408 bil.
- The LGIP maintains a AAAM rating by Standard & Poor's.

### Portfolio Mix

- At the end of September, the portfolio was invested as follows: 36% in US government agency securities, 30% in US Treasury securities, 22% in collateralized demand deposit accounts with qualified banking institutions, 6% in supranational securities, and 6% in repurchase agreements.
- At month-end, the LGIP held positions in 43 securities.

### Investment Earnings

- During September, the fund earned \$2,692,025.
- For FY2023, the fund earned \$6,824,148.
- 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 2.35% at the end of September.
- Net yield to participants was 2.30%.

### Investment Highlights

- For the LGIP, the WAM(R) of 32 days and WAM (F) of 98 days were within their maximums of 60 and 120 days respectively.

### Upcoming STO Holidays

- Veteran's Day—Friday, November 11
- Thanksgiving—Thursday, November 24, and Friday, November 25
- Christmas Day Observed—Monday, December 26

- During the month, the LGIP purchased \$329.0 mil US government agency securities, \$40.0 mil US Treasury securities, and \$30.0 mil supranational securities.
- The Pool sold \$30.0 mil US Treasury securities for rebalancing.

### Investment Strategy

- LGIP WAMs are currently 25 and 98 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 \$ 0.99942.

### 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@sto.nm.gov](mailto:nmsto.lgip@sto.nm.gov)

Participant Coordinator: Felicia Roybal

Investment Transaction Supervisor: Hannah Chavez

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

Is your approved signer list up-to-date? Please contact our LGIP Coordinator, Felicia Roybal, to make sure all account documentation is current! Call 505-955-1142 or email [nmsto.lgip@sto.nm.gov](mailto:nmsto.lgip@sto.nm.gov). Please Note: All STO emails have been updated to [sto.nm.gov](mailto:sto.nm.gov). Emails sent to [state.nm.us](mailto:state.nm.us) will continue to be forwarded; however, we recommend that you update your contact lists. Thank you!

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.

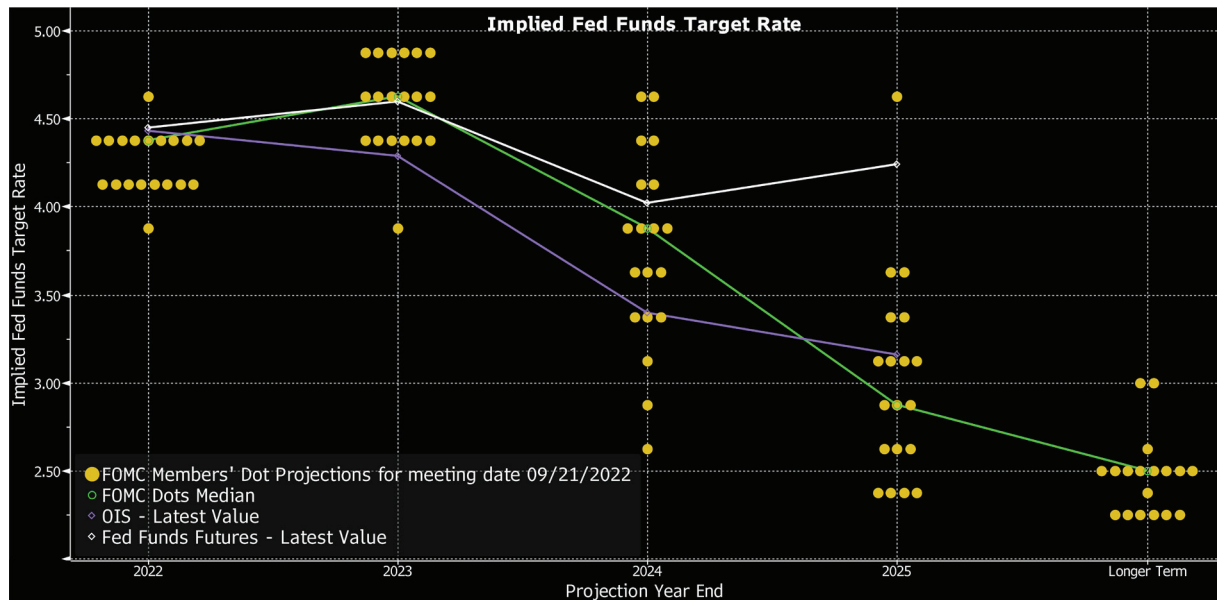
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## Market Watch

During the third quarter, the Fed increased the Funds rate range from 1.50%-1.75% to 3.00%-3.25% across two FOMC meetings, lifting short-term rates by 0.75% at both the July 27 and September 21 meetings. The Fed is clearly committed to aggressive monetary policy tightening in its attempt to contain

high levels of inflation. Chair Powell did not mince words at the press conference following the September meeting, stating that the Fed will “keep at it until the job is done.” The Fed also doubled the pace of reducing its nearly \$9 trillion balance sheet from \$47.5 billion per month to \$95 billion per month. There are growing concerns about market liquidity as the Fed simultaneously raises interest rates and lets securities roll off its balance sheet, which may lead the Fed, or even the US Treasury, to implement additional measures. In July 2021, the Fed established the standing repo facility (SRF), which serves as a backstop to minimize upward pressure on overnight lending rates. Currently, the Fed’s overnight reverse repo operation has seen participation of over \$2 trillion daily, with very little participation at the SRF, but the SRF could see an increase in uptake if liquidity deteriorates. Treasury Secretary Yellen has indicated the potential for a Treasury buyback program to improve liquidity conditions—although the program would most likely not begin until 2023, if it is ultimately implemented.

The Fed also provided updated economic and interest rate projections at the September meeting. The median expectation for the Fed Funds rate range by the end of 2022 increased from 3.25%-3.50% to 4.25%-4.50%, with a terminal rate of 4.50%-4.75% reached in 2023. Fed members continued to upwardly adjust their expectations for 2022 inflation, as measured by the Core Personal Consumption Expenditure Index (Core PCE), now forecast at 4.50%. This is 0.2% higher than what was projected in June and still well above the 2% target inflation rate. The latest Core PCE data came in slightly below expectations at 5.1% YoY, but still higher than the prior data at 4.9%, signaling that there is little



Data from Bloomberg as of 10/31/22.

evidence for deceleration in price growth at this point. The committee members also lowered their expectations for real GDP in 2022 by 1.5%, to an almost negligible 0.2% growth rate.

Both the market and the Fed are anticipating a rate hike of 0.75% at the November 2 meeting and 0.50% at the December 14 meeting, to get to a range of 4.25%-4.50% by year end. However, the market is growing pessimistic about the Fed’s ability to continue raising rates without triggering a recession, signaling that a turning point in the tightening cycle could be coming in the first half of next year.

The LGIP will benefit as short-term interest rates rise, with the LGIP yield increasing in lockstep with the Federal Funds rate. 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.

## Upcoming Data to Watch

Data	Period	Value	Next Period	Expected Value	Release Date
Fed Funds Target	21-Sep-22	3.00%-3.25%	2-Nov-22	3.75%-4.00%	11/2/2022
ISM Services Index	Sep-22	56.7	Oct-22	55.4	11/3/2022
U.S. Unemployment	Sep-22	3.50%	Oct-22	3.60%	11/4/2022
Change in Nonfarm Payrolls	Sep-22	263,000	Oct-22	191,000	11/4/2022
CPI YoY	Sep-22	8.20%	Oct-22	8.00%	11/10/2022
CPI MoM	Sep-22	0.40%	Oct-22	0.70%	11/10/2022
CPI Ex Food and Energy YoY	Sep-22	6.60%	Oct-22	6.50%	11/10/2022
CPI Ex Food and Energy MoM	Sep-22	0.60%	Oct-22	0.50%	11/10/2022
PPI YoY	Sep-22	8.50%	Oct-22	n/a	11/15/2022
PPI MoM	Sep-22	0.40%	Oct-22	0.50%	11/15/2022
ISM Manufacturing Index	Oct-22	50.2	Nov-22	n/a	12/1/2022
PCE Core Deflator YoY	Sep-22	5.10%	Oct-22	n/a	12/1/2022
PCE Core Deflator MoM	Sep-22	0.50%	Oct-22	n/a	12/1/2022
GDP QoQ—Advance	Q3 2022	2.60%	Q4 2022	n/a	1/26/2023

Data from Bloomberg as of 11/1/2022