New Mexico Local Government Investment Pool
Newsletter
Safety, Liquidity, Yield...In That Order!
February 2023

Portfolio Summary of the Local Government Investment Pool

Summary

- Ending December market value for the LGIP was $1.308 bil versus November's reported closing value of $1.310 bil.
- The LGIP maintains a AAAm rating by Standard & Poor's.

Portfolio Mix

- At the end of December, the portfolio was invested as follows: 41% in US government agency securities (25% fixed rate and 16% floating rate), 23% in collateralized demand deposit accounts with qualified banking institutions,17% in US Treasury securities, 14% in repurchase agreements, and 5% in supranational securities.
- At month-end, the LGIP held positions in 43 securities.

Investment Earnings

- During December, the fund earned $4,465,476.
- For FY2023, the fund earned $18,463,502.
- 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 3.98% at the end of December.
- Net yield to participants was 3.93%.

Investment Highlights

- For the LGIP, the WAM(R) of 29 days and WAM (F) of 109 days were within their maximums of 60 and 120 days respectively.
- During the month, the LGIP purchased $255.0 mil US government agency securities, $50.0 mil US Treasury securities, and $30.0 mil supranational securities.

Investment Strategy

- LGIP WAMs are currently 26 and 97 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.

Contact

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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 or Joseph Vasquez.

Is your approved signer list up-to-date? Please contact STO to confirm all account documentation is current!
Felicia Roybal: 505-955-1142 or Joseph Vasquez: 505-955-1161, or by email at NMSTO.LGIP@sto.nm.gov

PLEASE NOTE: All STO emails have been updated to sto.nm.gov. EMAILS SENT TO state.nm.us will NO LONGER BE RECEIVED. Please update all STO contact lists. Thank you!

Market Watch

During the fourth quarter, the Fed Funds rate range rose from 3.00%-3.25% to 4.25%-4.50%, increasing by 0.75% and 0.50%, at the November and December meetings, respectively. The Fed continued reducing the pace of rate hikes with a 0.25% increase at the February 1 meeting, the first of two FOMC meetings slated for the first quarter of 2023, bringing the current range to 4.50%-4.75%.

Recent data shows a deceleration in price pressures, with the Fed's preferred Core Personal Consumption Index falling from 4.7% to 4.4% in December. However, inflation by any measure is still well above the 2% target and underscores the Fed's statement that "ongoing increases" in the Funds range will be appropriate. While acknowledging that disinflation is underway, Chair Powell pushed back on the idea that the Fed was considering rate cuts this year, or even a pause in rate increases, and cautioned against loosening policy too soon. From the viewpoint of the Chairman, it is easier for the Fed to manage the risk of over-tightening than to manage the risk of not moving to a restrictive enough stance in its attempt to get inflation back to the 2% target. Continued strength in the labor market supports the Fed's commitment to keep at it "until the job is done."

The Fed's message is at odds with a market that is currently anticipating a 0.25% increase at the March 22 meeting and rate cuts beginning in the second half of the year. The market implied terminal Fed Funds rate is priced in for June, below the current 5.00%-5.25% Fed projection, with an expectation that the Funds range will retreat to 4.25%-4.50% by year end. Effectively the market is signaling that any further hikes this year will be walked back. Incoming data will determine whether the Fed or the market is correct, with particular focus on the ultimate terminal rate.

S&P Reaffirms LGIP "AAAm"

For the 16th year in a row, the NM LGIP has received the highest attainable rating that can be awarded to a principal stability fund, "AAAm," by Standard & Poor's Global Ratings.

Please access the most recent S&P profile here:
https://nmsto.gov/wp-content/uploads/2022/11/NMLGIP-Fund-Profile-2022-09-26.pdf
And the reaffirmation letter here:
https://nmsto.gov/wp-content/uploads/2023/01/New-Mexico-State-Treasury_RL_2022NOV23.pdf

U.S. Treasury Hits the Debt Ceiling

At the start of the year, the Treasury hit the statutory limit for borrowing, known as the "debt ceiling," currently capped at $31.4 trillion. This required Treasury to implement "extraordinary measures" to continue funding the government without breaching the limit. The use of these measures has become more ordinary in recent years, including the last time the limit was reached in 2021. Treasury Secretary Yellen has indicated that these measures would be exhausted potentially as soon as June 2023. The debt ceiling standoff is not new, and ultimately the expectation is that Congress will reach a resolution without triggering default. However, the consensus is that the risk of a more protracted debate is higher than in the past, casting a warning for heightening volatility in the Treasury market this summer.

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
ISM Services Index	Dec-22	49.6	Jan-23	50.5	2/3/2023
U.S. Unemployment	Dec-22	3.50%	Jan-23	3.60%	2/3/2023
Change in Nonfarm Payrolls	Dec-22	223,000	Jan-22	190,000	2/3/2023
CPI YoY	Dec-22	6.50%	Jan-23		2/14/2023
CPI MoM	Dec-22	-0.10%	Jan-23		2/14/2023
CPI Ex Food and Energy YoY	Dec-22	5.70%	Jan-23		2/14/2023
CPI Ex Food and Energy MoM	Dec-22	0.30%	Jan-23		2/14/2023
PPI YoY	Dec-22	6.20%	Jan-23		2/16/2023
PPI MoM	Dec-22	-0.50%	Jan-23	0.40%	2/16/2023
PCE Core Deflator YoY	Dec-22	4.40%	Jan-23		2/24/2023
PCE Core Deflator MoM	Dec-22	0.30%	Jan-23		2/24/2023
ISM Manufacturing Index	Jan-23	47.4	Feb-23		3/1/2023
Fed Funds Target	1-Feb-23	4.50-4.75%	22-Mar-23	4.75%-5.00%	3/22/2023
GDP QoQ - Advance	Q4 2022	2.90%	Q1 2023		4/27/2023

Data from Bloomberg as of 2/1/2023