THE HONORABLE LAURA M. MONTOYA

THE NEW MEXICO STATE TREASURER'S OFFICE

LOCAL GOVERNMENT INVESTMENT POOL (LGIP)

NEWSLETTER

PORTFOLIO SUMMARY

SUMMARY

- Ending June market value for the LGIP was $1.610 bil. versus May's reported closing value of $1.475 bil.
- The LGIP maintains a AAAm rating by Standard & Poor's.

PORTFOLIO MIX

- At the end of June, the portfolio was invested as follows: 34% in US government agency securities (10% fixed rated and 24% floating rate), 34% in collateralized demand deposit accounts with qualified banking institutions, 21% in repurchase agreements, 10% in US Treasury securities, and 1% in supranational securities.
- At month-end, the LGIP held positions in 39 securities.

INVESTMENT EARNINGS

- During June, the fund earned $6,340,891.
- For FY2023, the fund earned $52,311,786.
- 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 5.12% at the end of June.
- Net yield to participants was 5.07%.

INVESTMENT HIGHLIGHTS

- For the LGIP, the WAM(R) of 22 days and WAM (F) of 86 days were within their maximums of 60 and 120 days respectively.
- During the month, the LGIP purchased $85.0 mil. US government agency securities and $73.5 mil. US Treasury securities.

INVESTMENT STRATEGY

- LGIP WAMs are currently 21 and 78 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 $1.000108.

MARKET WATCH

During the second quarter, the Fed increased the Funds rate range from 5.00% to 5.25%, an increase of 0.25% at the May 3 Federal Open Market Committee (FOMC) meeting. A "hawkish pause" followed in June, while the Fed assessed early disinflationary signals and the health of the banking system. Chair Powell emphasized that the July 26 FOMC meeting would be a "live meeting", and subsequently followed through with an additional increase of 0.25%, bringing the range to 5.25%-5.50%. The 23 banks subject to the Fed's annual stress test had all passed, indicating a reprieve from the banking crisis experienced in March/April. This, coupled with stronger than expected economic data, and inflation still well above the 2% target, validated the July increase. June also marked the end of the protracted debt ceiling debate, with a resolution reached just as the Treasury exhausted its extraordinary measures, removing a substantial source of uncertainty and volatility from the markets.

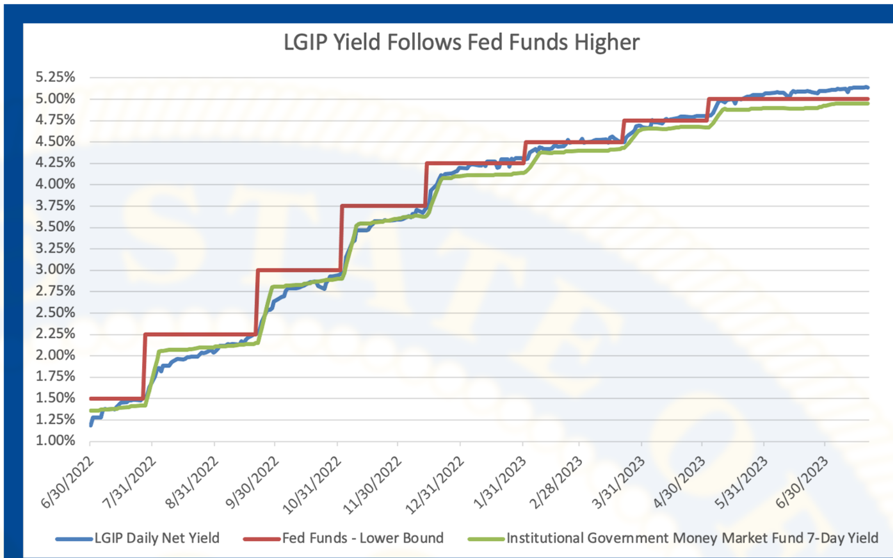
The Fed provided updated economic and interest rate projections at the June meeting. The expectation for real (inflation-adjusted) growth increased in 2023 to 1.00% from 0.40%, and the forecast for 2023 Core PCE, the Fed's preferred inflation measure, increased to 3.90% from 3.60%. The Fed also continued to lower its unemployment forecast for 2023, to 4.10% from 4.50%, citing labor market resiliency in the face of tighter monetary policy, as the demand for labor still substantially exceeds supply.

Looking ahead, Chair Powell reaffirmed that the Fed is "squarely focused" on its price stability mandate, indicating that "some additional policy firming may be appropriate". As we get closer to perhaps the end of the tightening cycle, the Fed will be "data dependent" going forward – a familiar statement that now appears to be heightened in importance. In addition, the median FOMC member forecast for the terminal interest rate increased 0.50%, to 5.50%-5.75% at the end of 2023, pushing the market expectation for rate cuts out into 2024. Despite the Fed's terminal rate forecast implying one more 0.25% rate increase this year, the market is currently split on whether the incoming data will allow the Fed to continue to increase short term interest rates.

MARKET WATCH CONT.

The Fed has indicated that their current monetary policy is restrictive, but is it enough to bring inflation within the Fed's 2% target growth rate? As economic data continues to surprise to the upside, the long-anticipated recession appears to be more elusive, casting doubt on near-term rate cuts.

June marked the one-year anniversary of the surprisingly hawkish 0.75% increase in the Fed Funds rate. Since March of 2022, the Fed has raised short term interest rates a total of 5.25%. The pace and magnitude of this move is hard to exaggerate. The chart below illustrates how rapidly the Fed has raised rates over the past 12 months – to the benefit of the yield on the LGIP. The LGIP is providing a meaningful source of income for participants, without compromising the more important objectives of safety and liquidity. Moreover, the LGIP yield, net of fees, is attractive versus comparable alternatives such as government money market funds. At the end of June, the Pool's net assets were just above $1.6 bil., marking a historic high.



As shown in the graph above, the LGIP benefits 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.

Data	Period	Value	Next Period	Expected Value	Release Date
ISM Manufacturing Index	Jun-23	46.0	Jul-23	46.9	8/1/2023
ISM Services Index	Jun-23	53.9	Jul-23	53.0	8/3/2023
U.S. Unemployment	Jun-23	3.60%	Jul-23	3.60%	8/4/2023
Change in Nonfarm Payrolls	Jun-23	209,000	Jul-23	200,000	8/4/2023
CPI YoY	Jun-23	3.00%	Jul-23	3.20%	8/10/2023
CPI MoM	Jun-23	0.20%	Jul-23	0.20%	8/10/2023
CPI Ex Food and Energy YoY	Jun-23	4.80%	Jul-23	4.70%	8/10/2023
CPI Ex Food and Energy MoM	Jun-23	0.20%	Jul-23	0.20%	8/10/2023
PPI YoY	Jun-23	0.10%	Jul-23		8/11/2023
PPI MoM	Jun-23	0.10%	Jul-23	0.20%	8/11/2023
PCE Core Deflator YoY	Jun-23	4.10%	Jul-23		8/31/2023
PCE Core Deflator MoM	Jun-23	0.20%	Jul-23		8/31/2023
Fed Funds Target	26-Jul-23	5.25%-5.50%	20-Sep-23	5.25%-5.50%	9/20/2023
GDP QoQ - Advance	Q2 2023	2.40%	Q3 2023		10/26/2023
Data from Bloomberg as of 7/31/2023					

LGIP STAFF

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and Vikki Hanges, Chief Investment Officer

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!

Is your approved signer list up-to-date? Please contact STO to confirm all account documentation is current!
Contact Joseph Vasquez: 505-955-1142, or email NMSTO.LGIP@STO.NM.GOV.

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 Joseph Vasquez.