



THE HONORABLE LAURA M. MONTOYA  
THE NEW MEXICO STATE TREASURER'S OFFICE  
LOCAL GOVERNMENT INVESTMENT POOL (LGIP)

# NEWSLETTER



## PORTFOLIO SUMMARY

### SUMMARY

- Ending September market value for the LGIP was \$1.603 bil versus August's reported closing value of \$1.557 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 collateralized demand deposit accounts with qualified banking institutions, 30% in US government agency securities (5% fixed rate and 24% floating rate), 22% in US Treasury securities (12% fixed rate and 10% floating rate), and 12% in repurchase agreements.
- At month-end, the LGIP held positions in 33 securities.

### INVESTMENT EARNINGS

- During September, the fund earned \$7,072,923.
- For FY2024, the fund earned \$21,121,003.
- 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 5.38% at the end of September.
- Net yield to participants was 5.33%.

### INVESTMENT HIGHLIGHTS

- For the LGIP, the WAM(R) of 24 days and WAM (F) of 72 days were within their maximums of 60 and 120 days respectively.
- During the month, the LGIP purchased \$350.0 mil US Treasury securities (\$250.0 mil fixed rate, \$100.0 mil floating rate) and \$75.0 mil US agency floating rate securities.

### INVESTMENT STRATEGY

- LGIP WAMs are currently 21 and 60 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 \$ 1.000063.

## MARKET WATCH

During the third quarter, the Fed increased the Funds rate range to 5.25%-5.50%, an increase of 0.25% at the July 26 Federal Open Market Committee (FOMC) meeting, followed by a pause at the September 20 meeting. Stronger than expected economic data, and inflation still well above the 2% target, enabled the Fed to follow through on the promise of a "live meeting" in July, while Chair Powell emphasized that the committee would "proceed carefully" in determining the extent of policy tightening that is appropriate going forward. The Fed followed through with a pause at the November 1 meeting, the second pause in a row and third for the year, leaving the Funds range at 5.25%-5.50%. At the November meeting, Chair Powell reaffirmed that the Fed would continue to proceed carefully at subsequent meetings and acknowledged that financial conditions have tightened significantly since the summer. It appears that we are closer to the end of the tightening cycle, from both the tone set by the Chairman and the deceleration in rate hikes.

The Fed also provided updated economic and interest rate projections at the September 20 meeting. The expectation for real (inflation-adjusted) growth increased in 2023 to 2.1% from 1.0%, while the forecast for 2023 Core personal consumption expenditures (PCE) index, the Fed's preferred inflation measure, decreased slightly to 3.8% from 3.9%. The Fed also continued to lower its unemployment forecast for 2023, to 3.8% from 4.1%, citing labor market resiliency in the face of tighter monetary policy, as the demand for labor still substantially exceeds supply.

At the press conference following the September meeting, Chair Powell remarked that "it may be that the neutral rate of inflation has risen," implying that the Fed's current 2% inflation target could evade for some time. The committee also removed 0.50% of rate cuts from their 2024 forecast, now projecting a target range of 5.00%-5.25% at the end of next year, which still includes one more 0.25% rate increase in 2023. The market heard "higher for longer", and subsequently the yield curve steepened quite dramatically. From the time of the September meeting until the end of October, the yield on the 30-year maturity Treasury rose more than 0.60%, the 10-year maturity 0.50%, and the 5-year maturity 0.25%. At the same time, shorter maturities moved lower in yield, with the 2-year maturity hovering just above 5.00% at the end of October. Recent data generally affirmed that a "soft landing" may still be alive, with the most recent third quarter GDP data coming in above expectations at a robust 4.9%, and the payroll numbers continuing to surprise to the upside, with 336,000 new jobs added in September.

The November 1 FOMC meeting changed the direction in bond yields substantially, with all maturities decreasing in yield, particularly further out the curve, erasing much of the steepening seen in the third quarter. At the press conference

## MARKET WATCH (CONTINUED)

following the policy announcement, Chair Powell acknowledged that higher long-term bond yields, due to the curve steepening that occurred in the third quarter, had tightened financial conditions, specifically in interest rate sensitive sectors of the economy, like housing. The Chairman emphasized that the committee members were not confident that they had achieved a restrictive enough policy stance to bring inflation down to the 2% target. However, he also recognized more “two-sided” risks, moderating inflation, a rebalancing of the labor market, and that the risk of overshooting in terms of raising rates was coming into balance with the risk of undershooting.

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. Participants who elect to automatically reinvest interest earned can further maximize returns. As always, the LGIP will prioritize safety, liquidity, and yield—in that order.

## CALLING ALL CITIES, COUNTIES, & TRIBAL ENTITIES!

As local government entities begin to receive opioid settlement dollars, please consider depositing the funds into the State Treasurer’s Local Government Investment Pool (LGIP). By depositing into the LGIP, you are providing ample liquidity to your portfolio, diversifying your funds, complying with State statute in investing those monies that are not needed for immediate use, and getting great yield. All at the low fee of only 0.05%.

The State Treasurer’s Investment team consists of qualified and experienced management professionals. In addition, participants receive monthly bank statements.

For more information regarding participation in the LGIP or to establish an LGIP account visit [NMSTO.gov](http://NMSTO.gov) or call Hannah Chavez at 505-955-1154, or email [hannah.chavez@sto.nm.gov](mailto:hannah.chavez@sto.nm.gov).

## UPCOMING HOLIDAYS

Veteran's Day	Friday, November 10, 2023
Thanksgiving Day	Thursday, November 23, 2023
President's Day (Observed)	Friday, November 24, 2023
Christmas Day	Monday, December 25, 2023
New Years Day	Monday, January 1, 2024

Data	Period	Value	Next Period	Expected Value	Release Date
ISM Services Index	Sep-23	53.6	Oct-23	53.0	11/3/2023
U.S. Unemployment	Sep-23	3.80%	Oct-23	3.80%	11/3/2023
Change in Nonfarm Payrolls	Sep-23	336,000	Oct-23	180,000	11/3/2023
CPI YoY	Sep-23	3.70%	Oct-23		11/14/2023
CPI MoM	Sep-23	0.40%	Oct-23		11/14/2023
CPI Ex Food and Energy YoY	Sep-23	4.10%	Oct-23		11/14/2023
CPI Ex Food and Energy MoM	Sep-23	0.30%	Oct-23		11/14/2023
PPI YoY	Sep-23	2.20%	Oct-23		11/15/2023
PPI MoM	Sep-23	0.50%	Oct-23	0.20%	11/15/2023
PCE Core Deflator YoY	Sep-23	3.70%	Oct-23		11/30/2023
PCE Core Deflator MoM	Sep-23	0.30%	Oct-23		11/30/2023
ISM Manufacturing Index	Oct-23	46.7	Nov-23		11/1/2023
Fed Funds Target	1-Nov-23	5.25%-5.50%	13-Dec-23	5.50%-5.75%	12/13/2023
GDP QoQ - Advance	Q3 2023	4.90%	Q3 2023		1/25/2023

Data from Bloomberg as of 11/1/2023

### LGIP STAFF

Transaction Coordinator: Joseph Vasquez  
 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 STO to confirm all account documentation is current!

Contact Joseph Vasquez: 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 NO LONGER BE RECEIVED. Please update all STO contact lists. Thank you!

The LGIP Internet Participant Access System (IPAS) gives authorized participants paperless transactions and statements, and easy, no hassle, multi-level approvals with the most up-to-date internal controls. Authorized users can deposit/transfer funds and purchase and/or redeem shares within authorized accounts at the push of a button. To enroll, contact Joseph Vasquez.

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