



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

NEWSLETTER



PORTFOLIO SUMMARY

SUMMARY

- Ending December market value for the LGIP was \$1.691 bil versus November's reported closing value of \$1.620 bil.
- The LGIP maintains a AAAM rating by Standard & Poor's.

PORTFOLIO MIX

- At the end of December, the portfolio was invested as follows: 36% in collateralized demand deposit accounts with qualified banking institutions, 29% in US government agency securities (5% fixed rate and 24% floating rate), 18% in US Treasury securities (15% fixed rate and 3% floating rate), 11% in supranational securities, and 6% in repurchase agreements.
- At month-end, the LGIP held positions in 31 securities.

INVESTMENT EARNINGS

- During December, the fund earned \$7,578,207.
- For FY2024, the fund earned \$43,245,879.
- 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 5.40% at the end of December.
- Net yield to participants was 5.35%.

INVESTMENT HIGHLIGHTS

- For the LGIP, the WAM(R) of 20 days and WAM (F) of 48 days were within their maximums of 60 and 120 days respectively.
- During the month, the LGIP purchased \$100.0 mil US Treasury securities maturing in 1 to 2 months.

INVESTMENT STRATEGY

- LGIP WAMs are currently 14 and 39 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 \$ 1.0001.

MARKET WATCH

During the fourth quarter, the Fed left the Funds rate range unchanged at 5.25%-5.50%, closing out 2023 with a decidedly dovish FOMC meeting in December, where Chair Powell acknowledged that the Fed was at or near the peak for this tightening cycle. It is hard to exaggerate the magnitude and speed of the cycle in question, which began in March of 2022 and appears to have ended in July of 2023, resulting in a 5.25% cumulative rate increase across only 17 months. Powell underscored the importance of the "totality of the data" in determining the extent of "any" additional tightening. The Fed chair cited more balanced risks, sending bond markets rallying in anticipation of rate cuts in 2024.

The Fed also provided updated economic and interest rate projections at the December 13 meeting. The FOMC forecasts real (inflation-adjusted) GDP to grow at a modest 1.40% rate, Core PCE to decelerate to 2.40%, and the unemployment rate to increase to 4.1% in 2024. The December "Dot Plot" projects 0.75% in cumulative rate cuts across the year, with a median Fed Funds range of 4.50%-4.75% at the end of 2024. The market doubled down on the forecast for rate cuts, pricing in a reduction of 1.25%-1.50% in 2024, well ahead of the Fed in terms of the pace of policy easing. At the press conference following the December policy decision, Chair Powell was asked about the market easing for the Fed, evidenced by the inverted yield curve, and the Fed chair recognized that it was important for financial conditions to align with policy goals.

At the January 31 FOMC meeting, the FOMC left the Fed Funds range unchanged at 5.25%-5.50%. Data released since the December meeting has generally been robust, with Q4 GDP reported above expectations at 3.30%, and 2023 GDP at 3.10%, bolstered by consumer strength. Not surprisingly, the first line of the Fed statement released at the January meeting was revised from describing a slowing economy to an economy that was "expanding at a solid pace." The Fed did note that "the risks to achieving its employment and inflation goals are moving into better balance," but pushed back on the urgency for the Committee to cut rates "until it has gained greater confidence that inflation is moving sustainably toward 2 percent." At the press conference following the FOMC policy decision, Chair Powell noted that the policy rate was "likely" at its peak, and that it would "likely" be appropriate to dial back the policy rate this year, while also downplaying the potential for a rate cut in March, as the Fed continues to assess incoming inflation data.

MARKET WATCH (CONTINUED)

Over market cycles, the yield on the LGIP will track the level of Federal Funds closely, albeit at a slightly lagged pace. The very high quality and short-term average maturity of the LGIP provides 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.



2023 Earnings
\$77.1 Million

2022 Earnings
\$21.0 Million



Net Yield to Participants
As of 12/31/2023
5.37%



LGIP Net Asset Value
As of 12/31/2023
\$1.69 Billion

LGIP Net Asset Value
As of 12/31/2022
\$1.31 Billion



Change in Net Asset Value
YoY **29%**

S&P REAFFIRMS LGIP "AAAm"

For the 17th 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/2024/01/NMLGIP-Fund-Profile-2023-09-25.pdf>

See the reaffirmation letter here:

https://nmsto.gov/wp-content/uploads/2024/01/New-Mexico-State-Treasury_RL_2023NOV15.pdf

Data	Period	Value	Next Period	Expected Value	Release Date
ISM Services Index	Dec-23	50.6	Jan-24	52.3	2/5/2024
U.S. Unemployment	Dec-23	3.70%	Jan-24	3.80%	2/2/2024
Change in Nonfarm Payrolls	Sep-23	216,000	Jan-24	185,000	2/2/2024
CPI YoY	Dec-23	3.40%	Jan-24		2/13/2024
CPI MoM	Dec-23	0.30%	Jan-24	0.10%	2/13/2024
CPI Ex Food and Energy YoY	Dec-23	3.90%	Jan-24	3.70%	2/13/2024
CPI Ex Food and Energy MoM	Dec-23	0.30%	Jan-24	0.30%	2/13/2024
PPI YoY	Dec-23	1.00%	Jan-24		2/16/2024
PPI MoM	Dec-23	-0.10%	Jan-24	0.10%	2/16/2024
PCE Core Deflator YoY	Dec-23	2.90%	Jan-24		2/29/2024
PCE Core Deflator MoM	Dec-23	0.20%	Jan-24		2/29/2024
ISM Manufacturing Index	Dec-23	47.4	Jan-24	47.2	2/1/2024
Fed Funds Target	31-Jan-24	5.25%-5.50%	20-Mar-24	5.25%-5.50%	3/20/2024
GDP QoQ - Advance	Q4 2023	3.30%	Q1 2024		4/25/2024

Data from Bloomberg as of 1/31/2024

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.

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!

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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