



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

NEWSLETTER



PORTFOLIO SUMMARY

SUMMARY

- Ending March market value for the LGIP was \$1.914 bil versus February's reported closing value of \$1.850 bil.
- The LGIP maintains a AAAM rating by Standard & Poor's.

PORTFOLIO MIX

- At the end of March, the portfolio was invested as follows: 49% in US Treasury securities (46% fixed rate and 3% floating rate), 29% in collateralized demand deposit accounts with qualified banking institutions, 13% in repurchase agreements, and 9% in US government agency securities.
- At month-end, the LGIP held positions in 39 securities.

INVESTMENT EARNINGS

- During March, the fund earned \$8,533,309.
- For FY2024, the fund earned \$67,593,780.
- LGIP earnings are retained by participants after a management fee of 0.05% or 5 BP is paid to the General Fund.

PERFORMANCE

- Gross yield on the LGIP was 5.38% at the end of March.
- Net yield to participants was 5.33%.

INVESTMENT HIGHLIGHTS

- For the LGIP, the WAM(R) of 19 days and WAM (F) of 34 days were within their maximums of 60 and 120 days respectively.
- During the month, the LGIP purchased \$500 mil US Treasury securities maturing in 1 to 3 months, \$67 mil overnight US agency securities, and \$20 mil US agency securities maturing in 1 month.

INVESTMENT STRATEGY

- LGIP WAMs are currently 26 and 38 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 \$ 1.000189.

MARKET WATCH

During the first quarter, the Fed left the Funds rate range unchanged at 5.25%-5.50%, a widely anticipated hold in the policy rate as the Fed members continued to assess incoming data. At the press conference following the March 20 FOMC meeting, Chair Powell reiterated that the policy rate had likely peaked, and that it could be appropriate to begin dialing back policy restraint "sometime this year." Since the time of the December Fed meeting, interest rates have been on a wild ride, moving sharply lower in December only to retrace the move beginning in February, as early first quarter data indicated both strength in the economy as well as the persistence of inflation above the Fed's 2% target.

The Fed also provided updated economic and interest rate projections at the March 20 meeting. FOMC members adjusted their 2024 forecasts as follows: real (inflation-adjusted) GDP growth moved to 2.1% from 1.4%, a material upward adjustment, Core PCE to 2.6% from 2.4%, and the unemployment rate decreased slightly to 4.0%. These economic projections translated into a higher for longer forecast for the Fed Funds range, with only one member plotting a year-end Funds rate below the median 4.6%, versus the previous five members who were in that camp, and nine members seeing the year-end rate above the median, versus the previous eight. The Fed's updated "Dot Plot" was only one Fed member "dot" away from forecasting 0.50% in rate reductions this year, rather than 0.75%. Over the longer term, the expectation for the Fed Funds rate increased by 0.30% in 2025, to a median of 3.9%, and by 0.20% in 2026, to a median of 3.1%, and the longer run expectation moved from 2.5% to 2.6%. It appears that 2% is more elusive as the data continues to come in higher than anticipated.

At the May 1 FOMC meeting, the FOMC left the Fed Funds range unchanged at 5.25%-5.50%. Inflation data released since the March meeting has been higher than expected, with headline CPI coming in at 3.5% versus the expected 3.4%, and the Fed's preferred Core PCE measure coming in at 2.8% versus the expected 2.7%—all above the Fed's 2% target. Economic data since the March meeting, however, has been mixed: The 303,000 payroll additions in March were above the surveyed number, while Q1 GDP growth came in well below the expected 2.5% at a modest 1.6% growth rate. Notably, on the day of the May FOMC decision, the ISM index tracking manufacturing prices came in much higher than expected at 60.9, indicating that price pressures for businesses

MARKET WATCH (CONTINUED)

have not abated. Simultaneously, the ISM index tracking manufacturing activity came in lower than expected, dropping below 50, and job openings were lower than anticipated, indicating a potential softening in the labor market.

Given the backdrop of this recent data, the press conference following the release of the FOMC policy decision centered on the risk of “stagflation,” in which inflation remains elevated while economic growth is low, and whether the FOMC had shifted their policy discussion from the timing of rate cuts to the possibility of a rate hike. Chair Powell downplayed both notions during the conference. The Fed chair acknowledged that given recent data, the Fed may opt to hold rates longer than originally anticipated. When pushed on whether the policy rate was “sufficiently” restrictive, Chair Powell responded that he believed it

would be sufficient “over time.” He also noted that a weakening of the labor market could merit a reduction in rates, as the focus shifts more toward the employment side of the Fed’s dual mandate. The markets generally interpreted the Chair’s remarks as taking a slightly more dovish tone than anticipated, causing bonds to rally. The key take-away was that the FOMC would be making decisions meeting by meeting, depending on the incoming data.

Over market cycles, the yield on the LGIP will track the level of Federal Funds closely, albeit at a slightly lagged pace. The 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.

Data	Period	Value	Next Period	Expected Value	Release Date
ISM Services Index	Mar-24	51.4	Apr-24	52.0	5/3/2024
U.S. Unemployment	Mar-24	3.80%	Apr-24	3.80%	5/3/2024
Change in Nonfarm Payrolls	Mar-24	303,000	Apr-24	240,000	5/3/2024
PPI YoY	Mar-24	2.10%	Apr-24		5/14/2024
PPI MoM	Mar-24	0.20%	Apr-24	0.30%	5/14/2024
CPI YoY	Mar-24	3.50%	Apr-24		5/15/2024
CPI MoM	Mar-24	0.40%	Apr-24	0.30%	5/15/2024
CPI Ex Food and Energy YoY	Mar-24	3.80%	Apr-24		5/15/2024
CPI Ex Food and Energy MoM	Mar-24	0.40%	Apr-24	0.30%	5/15/2024
PCE Core Deflator YoY	Mar-24	2.70%	Apr-24		5/31/2024
PCE Core Deflator MoM	Mar-24	0.30%	Apr-24		5/31/2024
ISM Manufacturing Index	Apr-24	49.2	May-24		6/3/2024
Fed Funds Target	1-May-24	5.25%-5.50%	12-Jun-24	5.25%-5.50%	6/12/2024
GDP QoQ - Advance	Q1 2024	1.60%	Q2 2024		7/25/2024

Data from Bloomberg as of 5/1/24

LGIP STAFF

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PORTFOLIO MANAGERS

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Is your approved signer list up-to-date? Please contact STO to confirm all account documentation is current.

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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 Amanda Padilla.

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