



Local Government Investment Pool NEWSLETTER

June 2024



PORTFOLIO SUMMARY

- ▶ Ending June market value for the LGIP Short Term (ST) was \$1.945 bil versus May's reported closing value of \$1.934 bil.
- ▶ The LGIP ST maintains a AAAM rating by Standard & Poor's.

PORTFOLIO MIX

- ▶ At the end of June, the portfolio was invested as follows: 38% in US Treasury securities (35% fixed rate and 3% floating rate), 27% in US government agency securities (20% fixed rate and 7% floating rate), 19% in collateralized demand deposit accounts with qualified banking institutions, 8% in repurchase agreements, and 8% in supranational securities.
- ▶ At month-end, the LGIP ST held positions in 42 securities.

INVESTMENT EARNINGS

- ▶ During June, the fund earned \$8,485,460.
- ▶ For FY2024, the fund earned \$93,524,071.
- ▶ LGIP ST earnings are retained by participants after a management fee of 0.05% is paid to the General Fund.

PERFORMANCE

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

INVESTMENT HIGHLIGHTS

- ▶ For the LGIP ST, the WAM(R) of 30 days and WAM(F) of 39 days were within their maximums of 60 and 120 days respectively.
- ▶ During the month, the LGIP ST purchased \$200.0 mil US Treasury securities maturing in 2 to 3 months, \$50.0 mil US agency fixed rate securities maturing in 3 months, and \$35.0 mil supranational securities maturing in 2 months.

INVESTMENT STRATEGY

- ▶ LGIP ST WAMs are currently 18 and 65 days for WAM(R) and WAM(F), respectively.
- ▶ LGIP ST 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 \$ 1.00016.

MARKET WATCH

During the second quarter, the Fed left the Funds rate range unchanged at 5.25%-5.50%, as the Fed members continued to assess incoming data. At the June 12 meeting, the Fed provided updated economic and interest rate projections as follows: real (inflation-adjusted) GDP growth was unchanged at 2.1%, Core PCE increased to 2.8% from 2.6%, and the unemployment rate was unchanged at 4.0%. While economic projections were only slightly revised, the Fed's interest rate projections were adjusted more significantly to align with the FOMC members' expectation for inflation to remain above the 2% target, along with their unchanged outlook for modest economic growth and low unemployment. At the time of the March 20 forecast, only one committee member predicted a year-end Funds rate below the median 4.6%, versus the previous five members who were in that camp, and nine members saw year-end rate above the median, versus the previous eight. As of June 12, none of the FOMC members expected a year-end Funds rate of 4.6%, 8 members saw 0.50% in rate reductions, 7 members saw only one 0.25% rate reduction, and 4 members expected no change at all. While the median 2024 Fed Funds rate forecast increased 0.50%, to 5.1%, the 2025 forecast only increased 0.20%, and the 2026 forecast was unchanged, effectively pushing out one of the two rate cuts that were removed from the 2024 forecast. The Fed's longer run expectation for inflation moved up as it did in March, this time from 2.6% to 2.8%.

Since the May 1 FOMC meeting, bonds have rallied significantly, with yields falling approximately 0.70% for the 2- to 5-year maturities. This move in yields has been driven by inflation data that has generally trended lower, signaling to market participants that the Fed may begin cutting rates at the September meeting. At the June meeting, Fed Chair Powell acknowledged that recent data showed an easing in price pressures, but that the committee needs greater confidence that inflation

MARKET WATCH (CONT.)

is heading to 2% before moving to a less restrictive stance. The Core PCE index, the Fed's preferred inflation measure, dropped from 2.8% in April to 2.6% in May and June, below the FOMC members' most recent 2024 projection of 2.8%. Monthly headline CPI trended lower during the quarter, from 0.3% in April, to 0.0% in May, to (0.1) % in June, reducing annualized CPI as of June to 3.0% from 3.5% in March. Meanwhile, the economy appeared resilient, with an average of 177,000 jobs added per month during the second quarter, lower than the job gains in the first quarter, but still solid, and wage growth posted positive gains, after adjusting for inflation. While this data underscored continued strength in the labor market and consumer, some cracks may be forming, with the rise in the unemployment rate to 4.1% in June from 3.8% in March, and a more leveraged consumer with a higher debt burden.

At the July 31 FOMC meeting, the FOMC left the Fed Funds range unchanged at 5.25%-5.50%. Chair Powell stated that the committee has gained greater confidence since the June meeting that inflation is coming down to the 2% target, but that it needs "more good data" before lowering the policy rate to a less restrictive stance.

The Fed is now more focused on the balance of risks in the dual mandate as inflation pressures show signs of easing and the labor market, while still solid, is showing signs of "normalizing". The press conference following the release of the July policy decision centered on the likelihood of a rate cut at the September meeting. Chair Powell laid out a case for a rate reduction at the September meeting: inflation continuing to move toward 2%, either at the expected rate of decline or more rapidly, reasonably strong economic growth, and the labor market consistent with the current condition. The Fed Chair noted that the time was coming to dial back the level of policy restriction, sending a strong signal that rate cuts are in store for the second half of 2024.

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.

Data	Period	Value	Next Period	Expected Value	Release Date
ISM Manufacturing Index	Jun-24	48.5	Jul-24	48.8	8/1/2024
U.S. Unemployment	Jun-24	4.10%	Jul-24	4.10%	8/2/2024
Change in Nonfarm Payrolls	Jun-24	206,000	Jul-24	175,000	8/2/2024
ISM Services Index	Jun-24	48.8	Jul-24	51.3	8/5/2024
PPI YoY	Jun-24	2.60%	Jul-24		8/13/2024
PPI MoM	Jun-24	0.20%	Jul-24		8/13/2024
CPI YoY	Jun-24	3.00%	Jul-24		8/14/2024
CPI MoM	Jun-24	-0.10%	Jul-24		8/14/2024
CPI Ex Food and Energy YoY	Jun-24	3.30%	Jul-24		8/14/2024
CPI Ex Food and Energy MoM	Jun-24	0.10%	Jul-24		8/14/2024
PCE Core Deflator YoY	Jun-24	2.60%	Jul-24		8/30/2024
PCE Core Deflator MoM	Jun-24	0.20%	Jul-24		8/30/2024
Fed Funds Target	31-Jul-24	5.25%-5.50%	18-Sep-24	5.00%-5.25%	9/18/2024
GDP QoQ - Advance	Q2 2024	2.80%	Q3 2024		10/30/2024

Data from Bloomberg as of 7/31/2024

LGIP STAFF

Transaction Coordinator: Amanda Padilla

Investment Transaction Supervisor: Hannah Chavez

Portfolio Managers: Anna Murphy, CFA, and Vikki Hanges, Chief Investment Officer

Data unaudited. Information is obtained from third-party sources that may or may not be verified. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. All comments and discussions presented are purely based on opinion and assumptions, not fact. These assumptions may or may not be correct based on foreseen and unforeseen events. The information presented should not be used in making any investment decisions. This material is not a recommendation to buy, sell, implement, or change any securities or investment strategy, function, or process. Any financial and/or investment decision should be made only after considerable research, consideration, and involvement with an experienced professional engaged for the specific purpose. Past performance is not an indication of future performance. Any financial and/or investment decision may incur loss. New Mexico Local Government Investment Pool (LGIP) deposits are not guaranteed or insured by any bank, the State of New Mexico, the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency. New Mexico LGIP deposits involve certain investment risk. Yield and total return may fluctuate and are not guaranteed.