



# ECONOMIC UPDATE & INVESTMENT TRENDS

June 16, 2022

PRESENTED BY

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**MEEDER**  
PUBLIC FUNDS

# Today's Presenters



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# Economic Update

# A HISTORY OF THE FED FUNDS RATE SINCE 1979

B. RICHARD HEDGEYE

PAUL VOLCKER 6' 7"

ALAN GREENSPAN 5'11"

JEROME POWELL 6'

BEN BERNANKE 5'8"

JANET YELLEN 5'

AUGUST 6, 1979  
TO AUGUST 11, 1987

AUGUST 11, 1987  
TO JANUARY 31, 2006

FEBRUARY 1, 2007  
TO JANUARY 31, 2014

FEBRUARY 1, 2014  
TO FEBRUARY 3, 2018

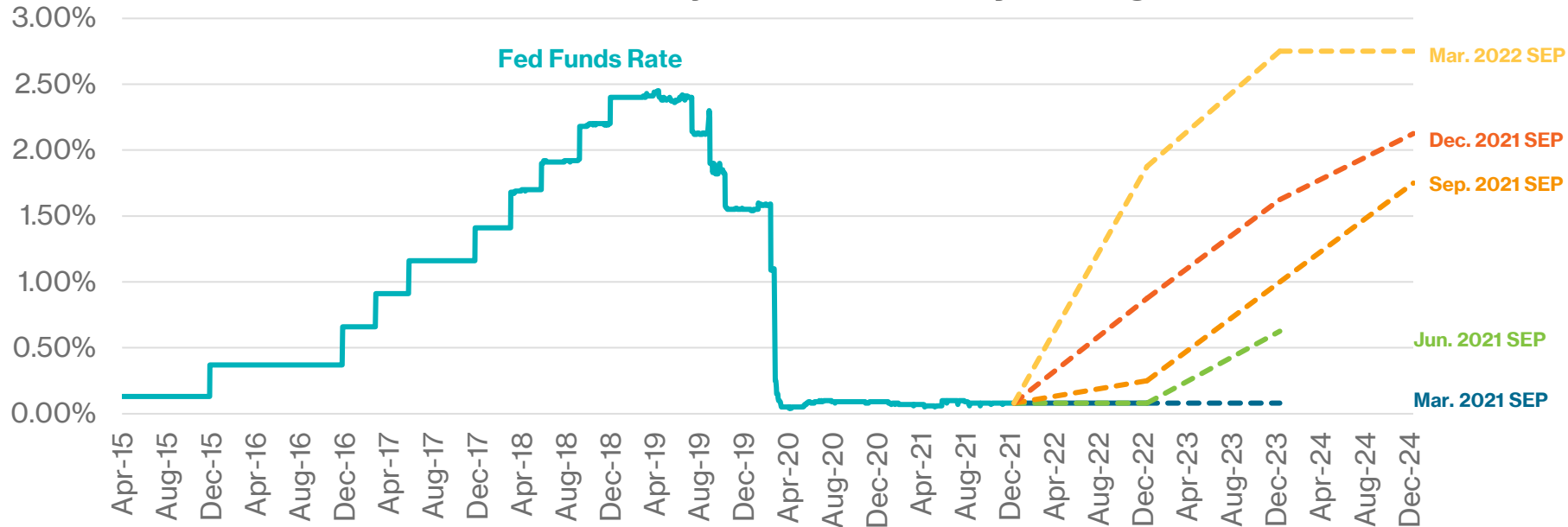
FEBRUARY 5, 2018  
TO PRESENT



## Fed's Evolving Rate Plans

Fed's Rate Outlook Evolved Amid Persistent Inflation Pressures And A Faster Decline In Unemployment

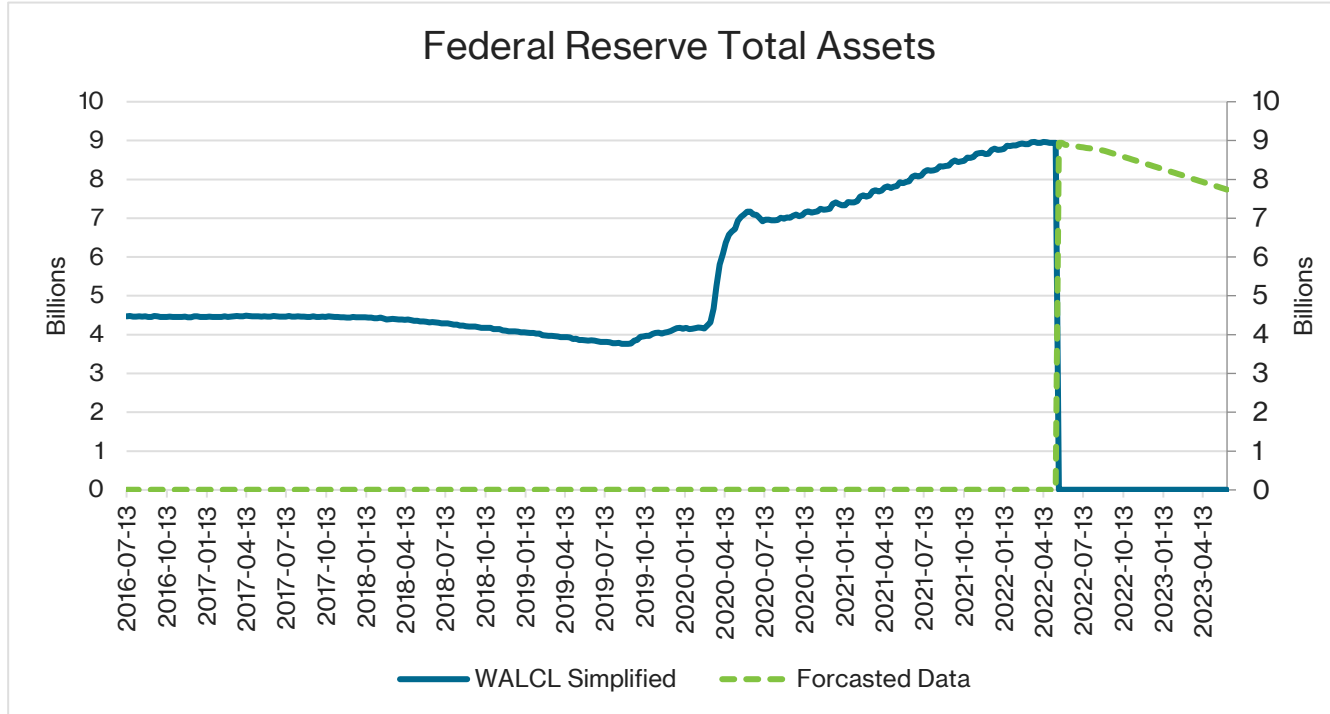
### Fed Rate Projections (Median) By Meeting



SOURCE: FEDERAL RESERVE

# QUANTITATIVE EASING (QE) SHIFTING TO QT

## Fed's Balance Sheet

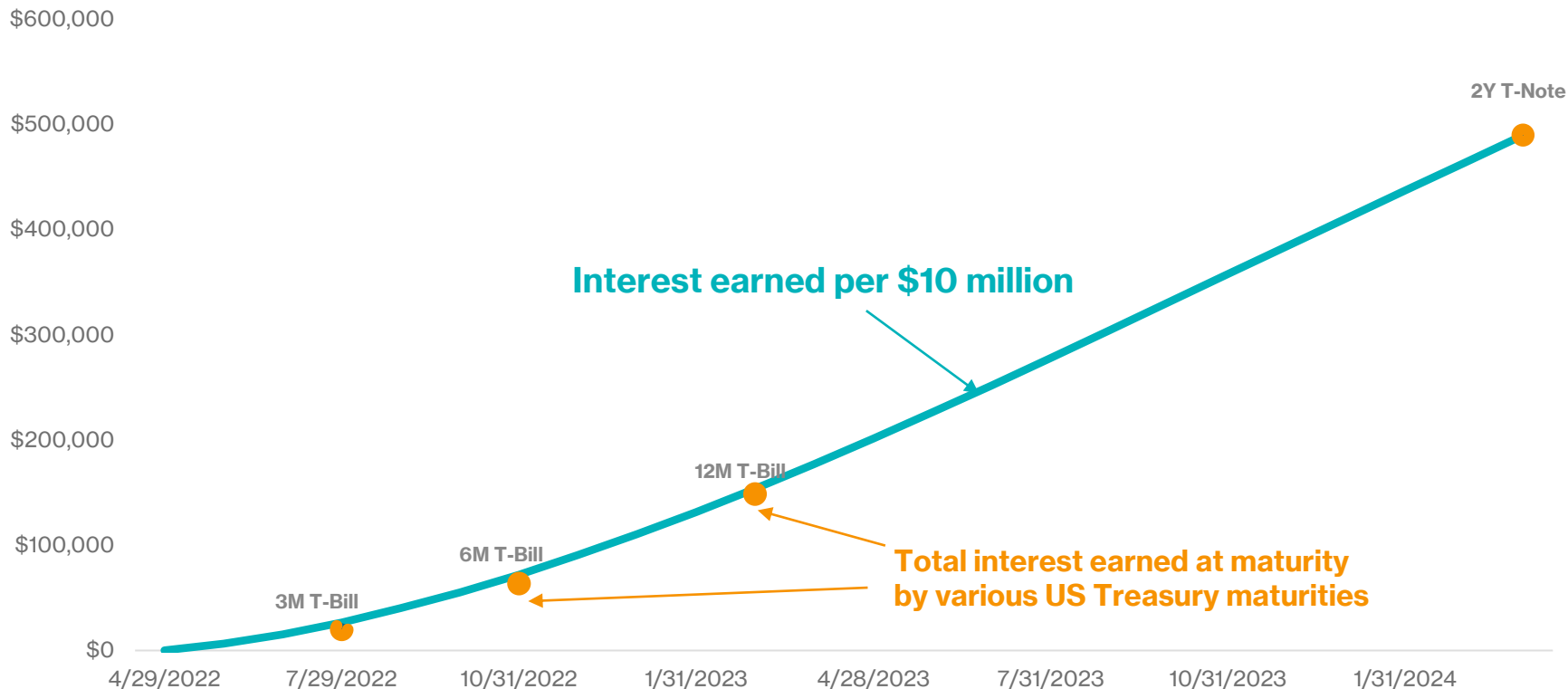


- Balance sheet expansion used during times of crisis to provide liquidity to the marketplace and to temper longer term interest rates
- Fed's balance sheet grew by over \$4.5 trillion since February 2020
- Fed to begin letting \$47.5B roll off per month in June – increase to \$95B in September

SOURCE: FRED, FEDERAL RESERVE BANK OF ST. LOUIS 5/31/2022

# What's Priced In Now

## Treasuries Fully Pricing In Interest Rate Hikes



# Federal Reserve Mandates

Federal Reserve Reform Act of 1977 and Full Employment and Balanced Growth Act of 1978

## MANDATES

FULL  
EMPLOYMENT

STABLE  
PRICES

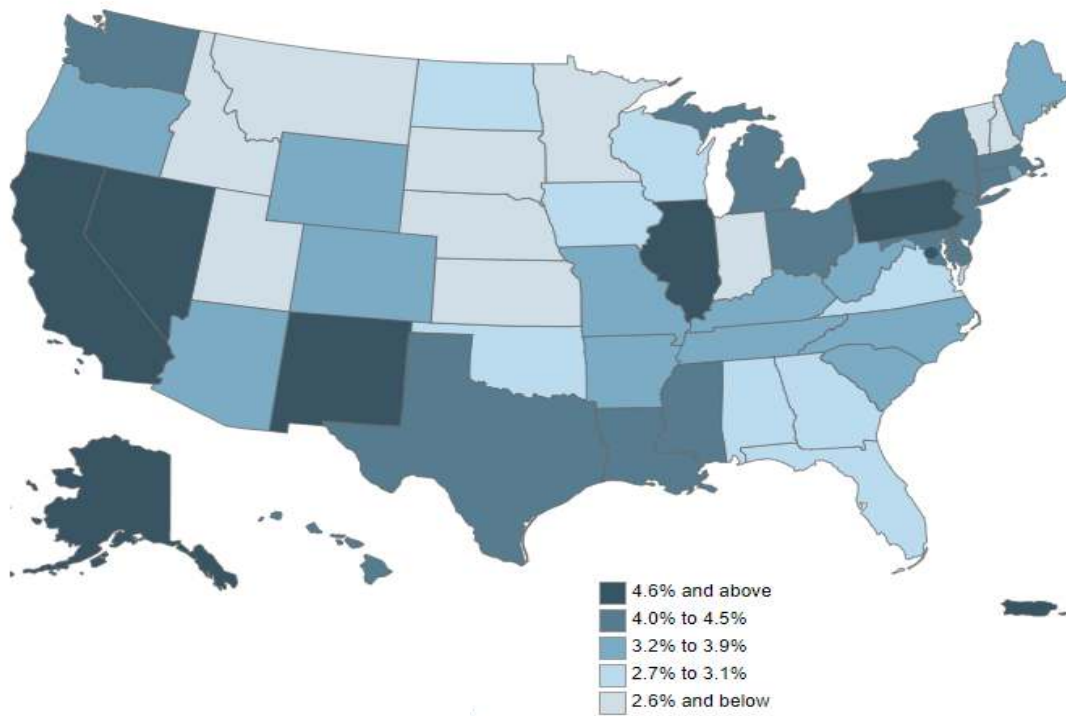
MODERATE  
LONG TERM  
INTEREST  
RATES



# MIXED EMPLOYMENT DATA PERSISTS

## Unemployment Rate vs. Total Payrolls

State unemployment rates, April 2022, seasonally adjusted

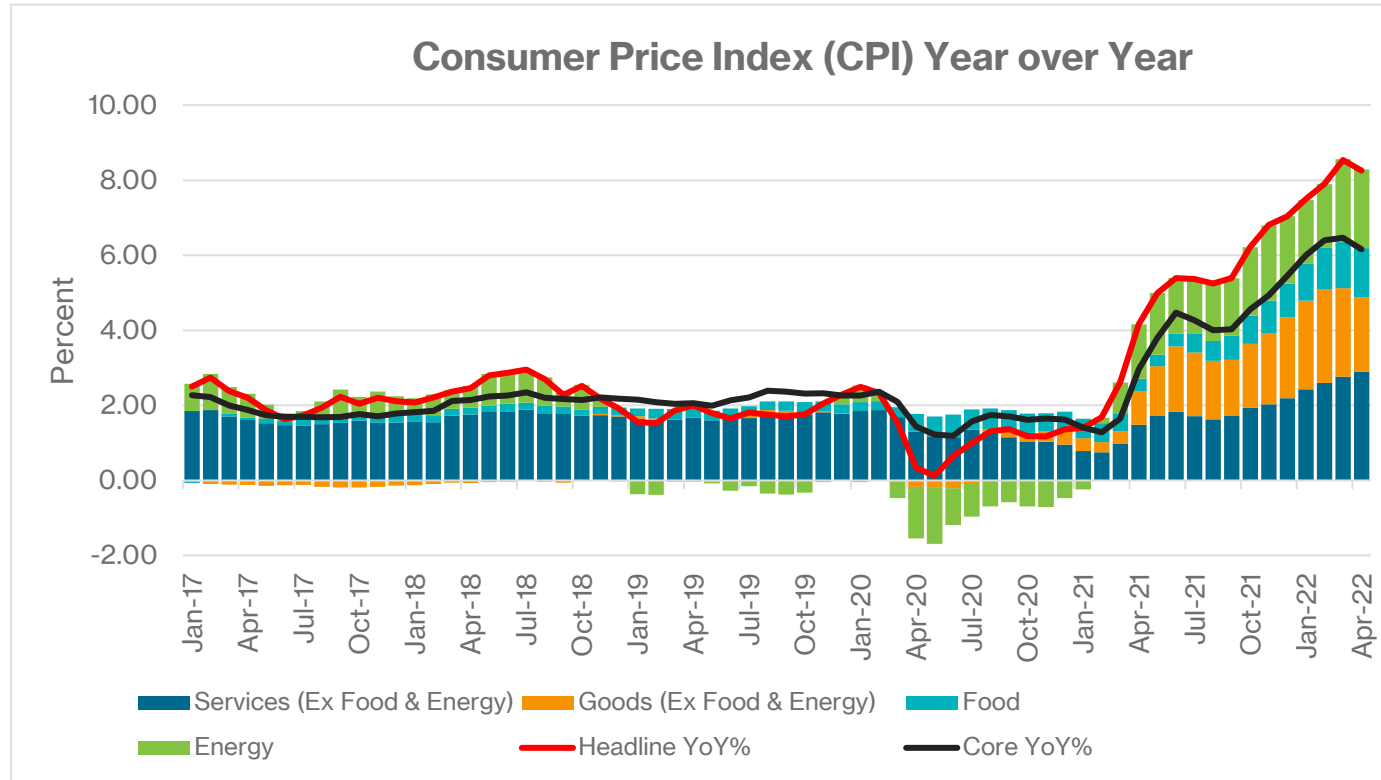


- May unemployment rate stands at 3.6%, in line with the Fed's target for "full employment."
- Total nonfarm payroll employment rose by 390,000 in May for a 3 month average rise of 408,000.
- Nonfarm employment still down over 822,000 from its pre-pandemic level in February 2020
- Labor participation rate increased slightly to 62.3%, while average hourly earnings are up 5.2% annually.

SOURCE: BUREAU OF LABOR STATISTICS 6/3/2022

# INFLATION NOT ABATING

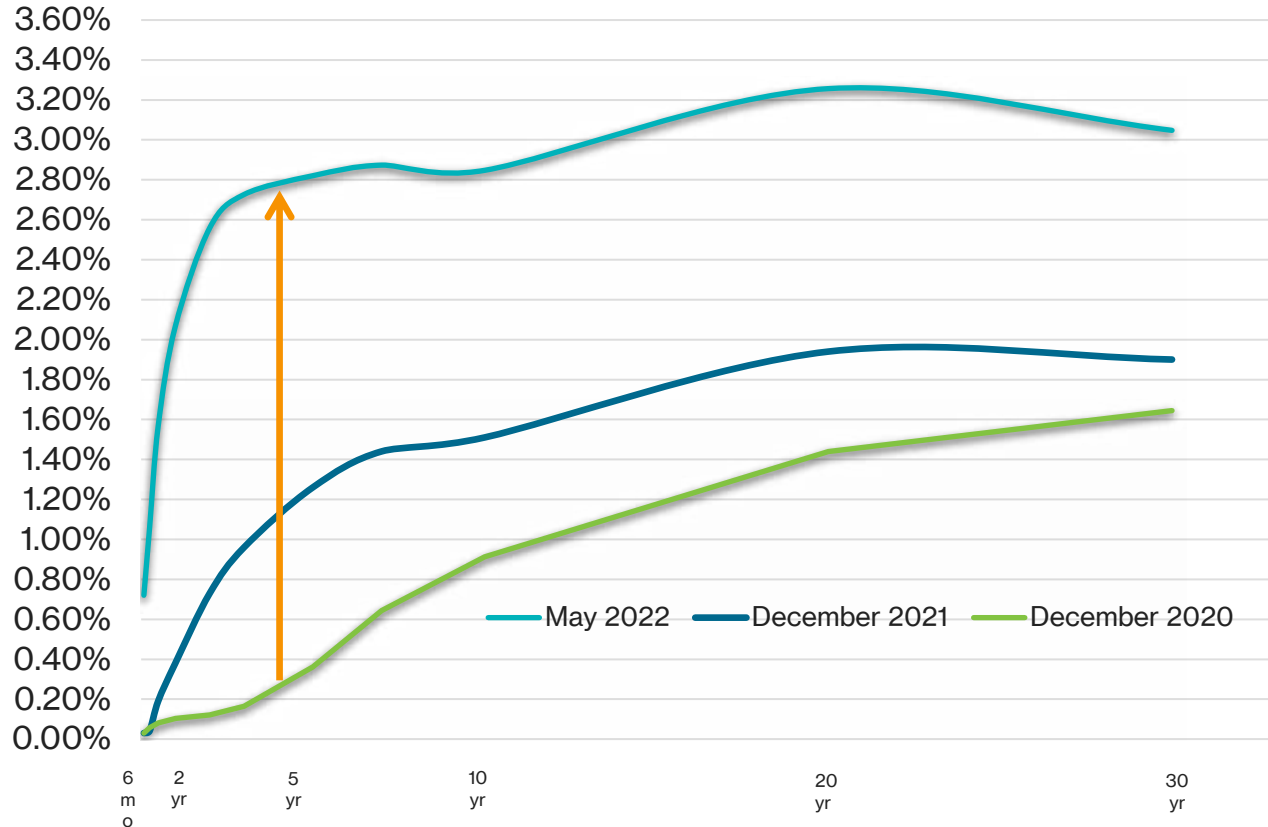
FED Chair Retires use of Transitory



- April PCE inflation measure registered 6.3% increase year over year, 4.9% excluding volatile food and energy
- Increased prices on durable goods have far exceeded increased prices on services
- Fed view shifts to persistent inflation from transitory

SOURCE: BLOOMBERG 4/30/2022

# US TREASURY YIELD CURVES



- Yield curve has steepened with improved economic conditions
- Probability for faster pace of Fed rate hikes has increased
- Discussions on yield curve inversion starting to set in as 2-year and 10-year spreads narrowing

SOURCE: BLOOMBERG AS OF 5/31/2022

- Further War Escalation
- Commodity Price Inflation
- European Recession
- Fiscal Cliff
- FED Slows Down Pace of Rate Increases
- China Zero Covid Strategy – Major Manufacturing Cities Under Lockdown Again
- New Covid Variants or Fall/Winter Seasonal Outbreaks



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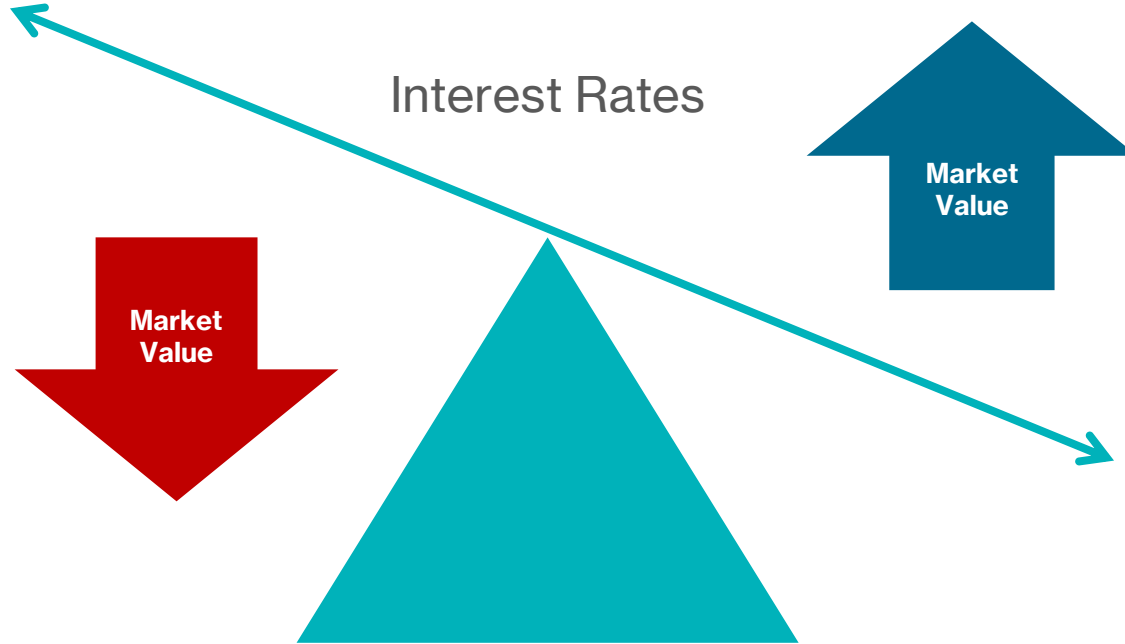
# Current Investment Trends

# Investment Objectives and Goals

LEGAL	Legal may not be suitable
SAFETY	Preservation of principal
LIQUIDITY	What are your liquidity needs?
YIELD	Does the investment have a competitive yield?

# Market Values

## Inverse Relationship



## Example – Single Security

5 YEAR MATURITY

PAR VALUE \$760,000

COST BASIS \$748,243

YIELD TO MATURITY 2.08%



For illustrative purposes only.



## Example – Single Security

5 YEAR MATURITY

PAR VALUE \$760,000

COST BASIS \$748,243

YIELD TO MATURITY 2.08%

	COST BASIS	MARKET VALUE	UNREALIZED GAIN/LOSS
YEAR END 1	\$748,243	\$749,406	\$1,163
YEAR END 2	\$748,243	\$744,678	(\$3,565)
YEAR END 3	\$748,243	\$762,348	\$14,105
YEAR END 4	\$748,243	\$771,225	\$22,982
YEAR END 5	\$748,243	\$760,000	\$11,757

For illustrative purposes only.

CASH

LIQUIDITY RESERVE

CORE INVESTMENT PORTFOLIO

# Cash Flow Analysis

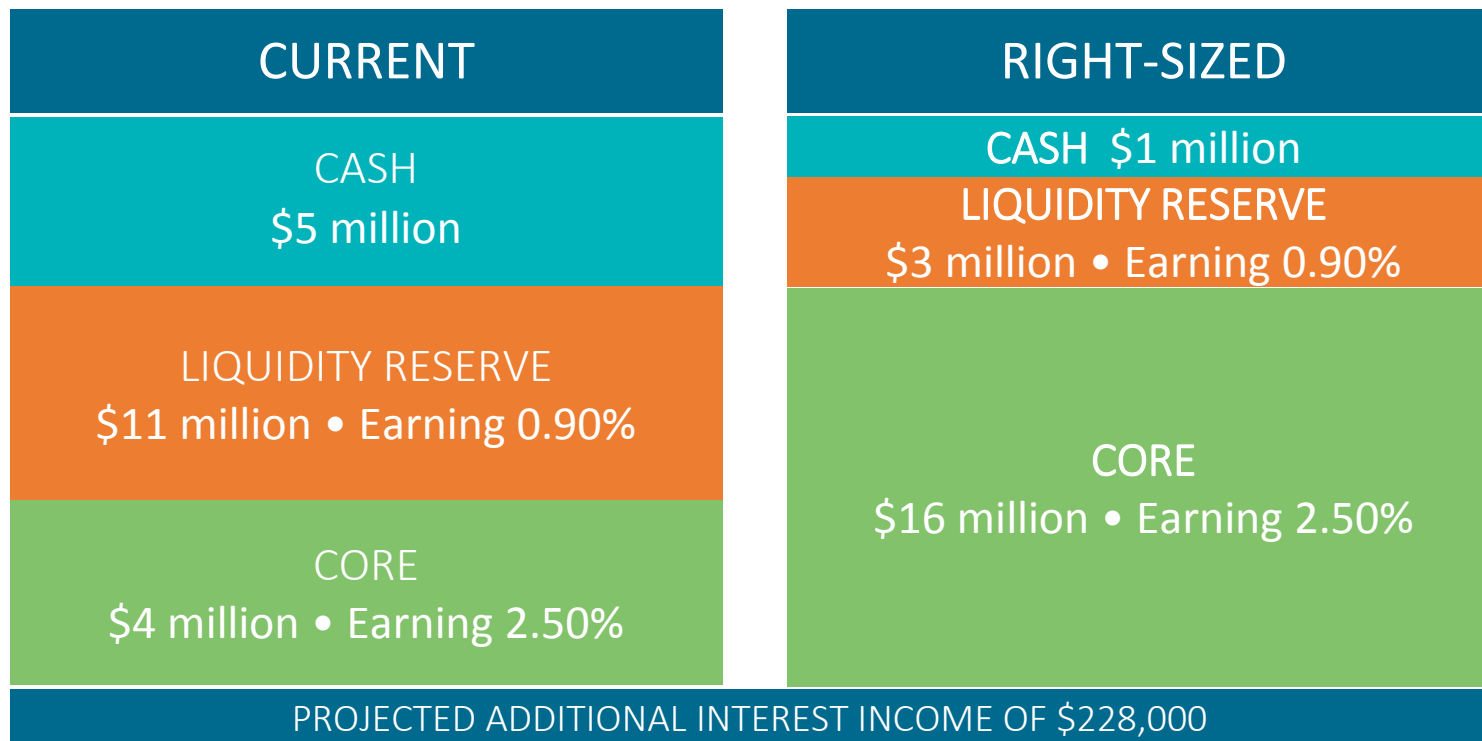
## CURRENT EXPENSES



## EXCESS CASH



# Cash Allocation



### **Asset-Liability Method**

- Short-Term Cash Flow Management

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“Laddered” or “barbell” portfolio

### **Liquidity Percentage Method**

- To provide liquidity for daily operations

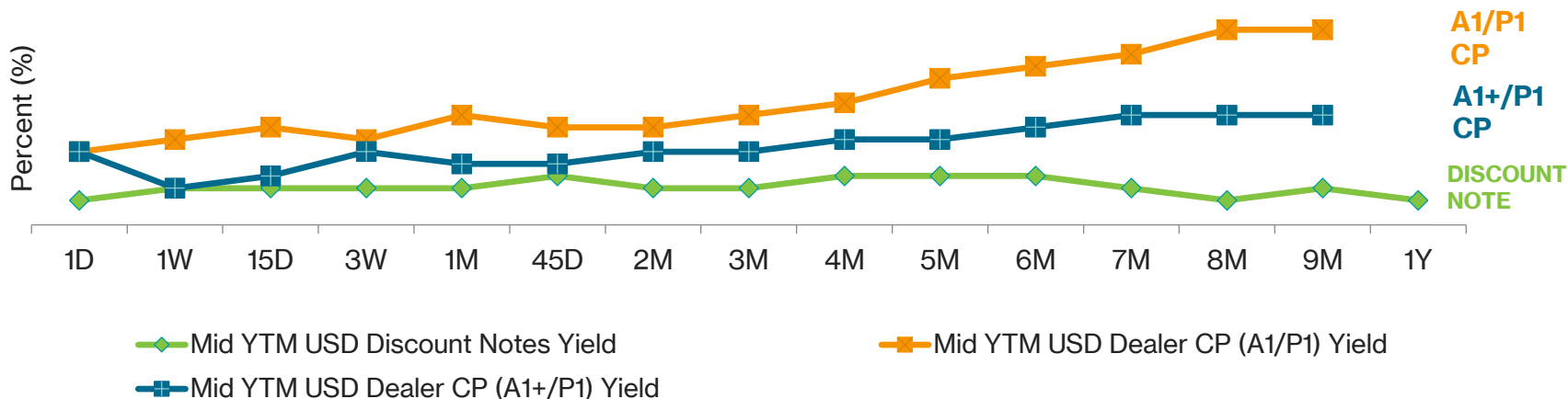
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May be used for diversification in your “core” investment portfolio to balance longer maturities

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## Yield Spreads

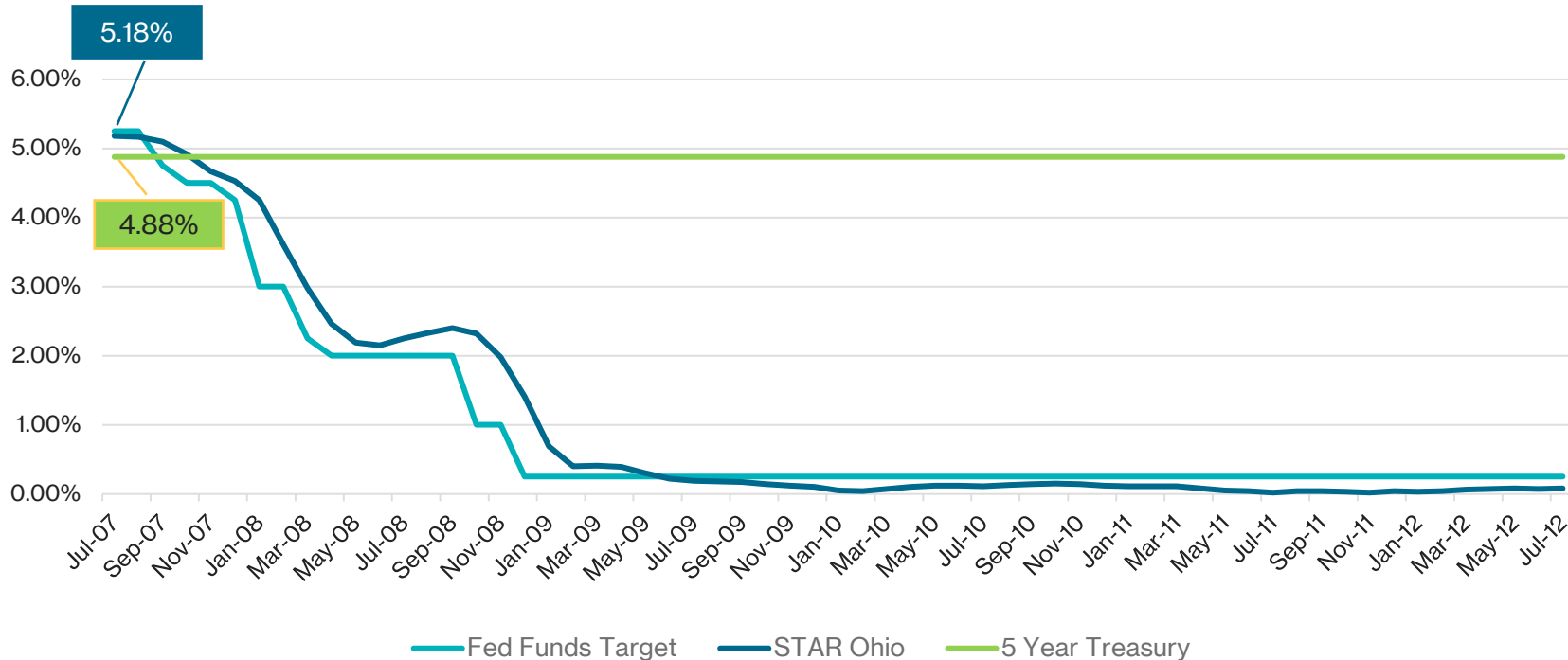
- Always evaluate Yields to determine quality of asset type versus risk premium being placed
- Liquidity can play a role in certain assets offering higher yields across different environments and scenarios



SOURCE: BLOOMBERG. YIELD SPREADS SHOWN ARE FOR ILLUSTRATIVE PURPOSES ONLY.

IF INTEREST RATES ARE RISING,  
WHY WOULD I WANT TO INVEST IN LONG  
MATURITIES NOW?

July 2007



5 year Treasury: 4.88% vs STAR Ohio 5 year average: 1.08%

SOURCE: BLOOMBERG AND TOS.OHIO.GOV/STAR-OHIO

For illustrative purposes only.



Par	Discount	Premium
Price = \$100	Price < \$100	Price > \$100
Coupon at Market	Coupon Below Market	Coupon Above Market
SAME YIELD TO MATURITY		
DIFFERENT TIMING OF CASH FLOWS		

# Impact on Interest Received

2 YEAR MATURITY  
PAR VALUE \$500,000

COUPON RATE	2.00%		1.50%		2.50%	
PURCHASE PRICE	Par Price = \$100		Discount Price < \$100		Premium Price > \$100	
Cash Flows	Amount	Cumulative	Amount	Cumulative	Amount	Cumulative
Coupon 1	\$5,000	\$5,000	\$3,750	\$3,750	\$6,250	\$6,250
Coupon 2	\$5,000	\$10,000	\$3,750	\$7,500	\$6,250	\$12,500
Coupon 3	\$5,000	\$15,000	\$3,750	\$11,250	\$6,250	\$18,750
Coupon 4	\$5,000	<b>\$20,000</b>	\$3,750	\$15,000	\$6,250	\$25,000
Discount/Premium	n/a		\$5,000	<b>\$20,000</b>	(\$5,000)	<b>\$20,000</b>

For illustrative purposes only.

## UNCERTAIN

- Maintain average maturity
- Diversification across security types

## RISING RATES

- Reduce average maturity
- Frequent short-term maturities

## FALLING RATES

- Lengthen average maturity
- Lock-in current rates with longer maturities

**THE MARKETS CHANGE AND YOUR INVESTMENT STRATEGY SHOULD TOO**

For illustrative purposes only.

### Third-Party Custodian

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- Securities held in public entity's account at bank trust department
- Public entity controls account
- Securities held in public entity's name
- Written custodial agreement
- **GFOA best practice**

### Broker or Bank acting as Broker

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- Securities held in brokerage account
- Broker controls account
- Securities not held in public entity's name
- Safekeeping cost bundled with other services

- “The time is always right to do what is right.”

- – Dr. Martin Luther King, Jr.

- “Experience is the best teacher.”

- – Latin Proverb



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