Great Lakes Water Authority

Investment Performance Report – June 2024

GLWA
Great Lakes Water Authority

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Executive Summary

PORTFOLIO RECAP

- Safety – The aggregate portfolio is diversified amongst cash, bank deposits, U.S. Treasuries, Federal Agencies, commercial paper, SEC-registered money market funds, and a local government investment pool. The total credit profile of the portfolio is strong with over 98% of the assets invested in bank deposits or securities that are rated within the two highest short and long-term rating classifications as established by S&P.

- Liquidity – Great Lakes Water Authority ("GLWA") has continued to monitor its portfolio with the goal of limiting the allocation to cash and bank deposit accounts and maximizing the use of short-term investments to meet cash requirements. As of June 30, 2024, approximately 79% of the funds were held in cash and money market accounts maturing overnight. The percentage is somewhat higher due to July 1st debt obligations.

- Return – The overall yield at market decreased to 5.23% as of June 30, 2024, versus 5.27% as of March 31, 2024. The lower yield is reflective of the lower rates for the commercial paper investments contained in the Authority's portfolio. GLWA earned over $59.5 million (unaudited) in investment income for the entirety of fiscal year 2024 on a book value basis. Investment income includes earnings on all fund types, including restricted and unrestricted funds combined as well as construction and bond proceeds. It should be noted that the budgeted investment income for GLWA for FY 2024 was projected to be at $58.8 million for all fund types.

AVAILABLE FUNDS (Unaudited)

Type	Book Value	Market Value	Yield @ Cost *(as of 6/30/24)*	Yield @ Market *(as of 6/30/24)*
Deposit Accounts	$34,298,376	$34,298,376	2.14%	2.14%
Trust Money Market Fund	$564,463,240	$564,463,240	5.18%	5.18%
Money Market Fund	$10,612,851	$10,612,851	5.19%	5.19%
Local Government Investment Pool	$426,572,151	$426,572,151	5.37%	5.37%
Managed Funds	$284,809,817	$283,147,069	4.70%	7.68%
JUNE 2024 TOTALS:	***$1,320,756,435***	***$1,319,093,686***	***5.06%***	***5.23%***
PREVIOUS QUARTER TOTALS:	*$1,352,258,181*	*$1,350,214,544*	*5.14%*	*5.27%*

Accounts like the Flint Security Deposit and Retainage accounts which are not owned by GLWA are not included in this report.

Investment Strategy

OVERALL STRATEGY

- All investment activity is conducted subject to GLWA's investment policy and state statutes while meeting the primary objectives of safety and liquidity. The portfolio is managed to a disciplined investment plan to provide improved safety and diversification while putting every dollar to work.
- GLWA, working with its investment advisor PFM Asset Management ("PFMAM"), has continued to invest its funds in a mixture of short and intermediate-term individual investment securities to ensure adequate liquidity to cover upcoming debt, pension payments, and operational requirements.
- PFMAM will continue to actively manage long-term portfolios with full discretion and align short-term balances with expected liabilities and identify strategies to maximize future investment income in the current interest rate environment, subject to GLWA's investment policy and state statutes.

PORTFOLIO PERFORMANCE – CURRENT PERIOD*

- The overall portfolio's original yield at cost went from 5.14% as of 3/31/2024 to 5.06% as of 6/30/2024.
- The total portfolio had a market yield of 5.23% at the end of June, compared to 5.27% as of March 31, 2023. Yield at market represents what the market would provide in return if the portfolio was purchased on June 30, 2024 (versus purchased in prior months / years); the lower yield is a result of the lower commercial paper yields in the Authority's portfolio.
  - We utilize a variety of investment sectors, and because of that, this 5.23% yield at market as of 6/30/2024 is slightly lower than in the prior quarter due to tightening credit spreads and the relatively slight decrease in overnight and short-term yields

PORTFOLIO PERFORMANCE – PROJECTIONS

- GLWA earned over $59.4 million (unaudited) in investment interest income for fiscal year 2024 (as of June 30, 2024) on a book value basis. It should be noted that the FY 2024 total interest earnings projection forecast was at $58.8 million.
- The fiscal year 2024 period earnings were slightly higher than budgeted expectations, mainly due to the Federal Reserve's "higher for longer" mantra during the time-period.

** Yield at cost is based on the original cost of the individual investments from the purchase date to maturity. On the other hand, yield at market is calculated on a specific day (in this case, June 30, 2024) and assumes that all the securities in the portfolio are purchased given the market price/yield on that particular day. If one is to generally hold their investments to the stated maturity date, then the yield at cost would be the better number to use to gauge how the portfolio is performing.*

Summary Market Overview and Outlook

ECONOMIC HIGHLIGHTS UPDATE

- As expected, the Federal Reserve (the “Fed”) left the target range for the Federal Funds rate unchanged at 5.25% to 5.50% at the June Federal Open Market Committee (“FOMC”) meeting. The Fed’s much-anticipated update to its Summary of Economic Projections showed just one quarter-point rate cut through the balance of 2024, two fewer than previously forecast. Chair Jerome Powell noted the revision reflected the slow progress on moving inflation towards the Fed’s 2.0% target. The labor market was also a focus, as recent economic releases showed it softening as it comes into better balance.
- May’s inflation readings improved after several months of disappointingly high readings earlier in the year. The year-over-year change in the Consumer Price Index (“CPI”) came in at 3.3%. Core CPI (which removes volatile food and energy components) came in at 3.4%, which is the smallest increase in over three years. The Personal Consumption Expenditures index (“PCE”), the Fed’s preferred inflation gauge, showed a similar downward trends as core CPE hit a three-year low of 2.6%.
- The final reading of first quarter calendar year 2024 gross domestic product (“GDP”) came in at 1.4%, down notably from the last two quarters of calendar year 2023. Personal spending declined to an annualized rate of 1.5%, below its 20-year average of 2.4%. Meanwhile, net exports and private inventories detracted from the headline figure by more than 1%.
- Retail sales and personal spending both came in below expectations in June, a continuation of the softening trend in consumer activity.
- The jobs report came in slightly above expectations as the non-farm payrolls report showed 206,000 net new jobs created in June; however, this was accompanied by significant downward revisions to the April and May figures. The unemployment rate also ticked up to 4.1% from 4.0% while the year-over-year change in average hourly earnings fell to a three-year low of 3.9%. This points to a moderating labor market, which should support the Fed’s soft-landing goal.

ECONOMIC IMPACT ON PORTFOLIO

- The yield curve remains inverted, though short-term U.S. Treasury Bills inched lower given expectations that we are nearing the start of a Fed rate-cutting cycle.
- Yields on benchmark 2, 5, and 10-year U.S. Treasuries ended the quarter at 4.76%, 4.38%, and 4.40%, respectively, as yields on maturities between 2 and 10 years rose 13 – 20 basis points during the quarter.
- Fixed income total returns were broadly positive for the quarter.
- Portfolio Impact: While expectations around the timing and pace of future Fed rate cuts remain fluid, investors view that the risk of yields falling far outweighs the risk of a rapid increase over the intermediate term. As a result, portfolio durations will remain neutral and will be maintained in-line with benchmarks. Spreads on Federal Agencies and supranational securities remained anchored over the quarter and offered limited value. Issuance is expected to remain quiet going in the summer, and one should expect to see further reductions of Agencies in favor of allocations to other sectors. Short-term money market yields finished the quarter relatively unchanged. Commercial paper and negotiable CD spreads continue to tighten closer to similar-maturity Treasuries.

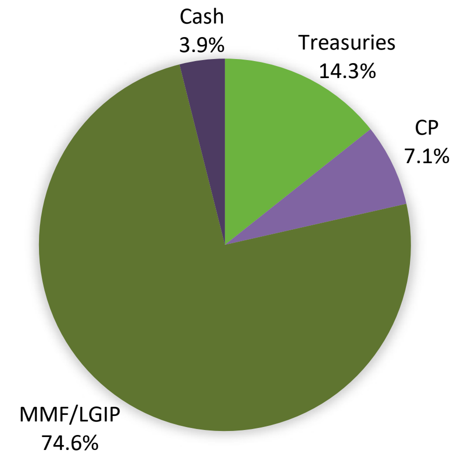
Portfolio Snapshot

Overall Portfolio Composition Summary

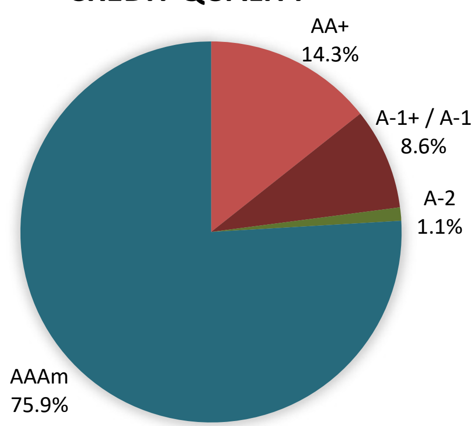
PORTFOLIO STATISTICS

Invested Amount	$1.319 Billion
Duration	0.13 Years
Yield at Cost	5.06%
Yield at Market	5.23%

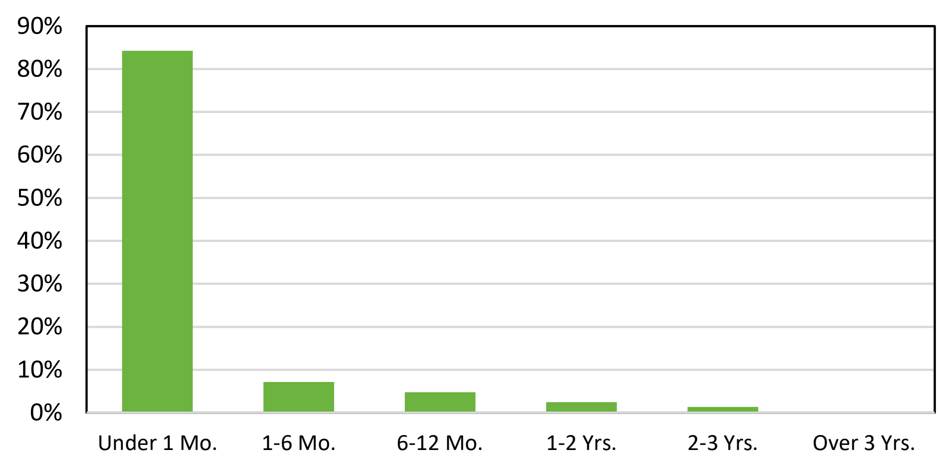
SECTOR ALLOCATION



CREDIT QUALITY



MATURITY DISTRIBUTION



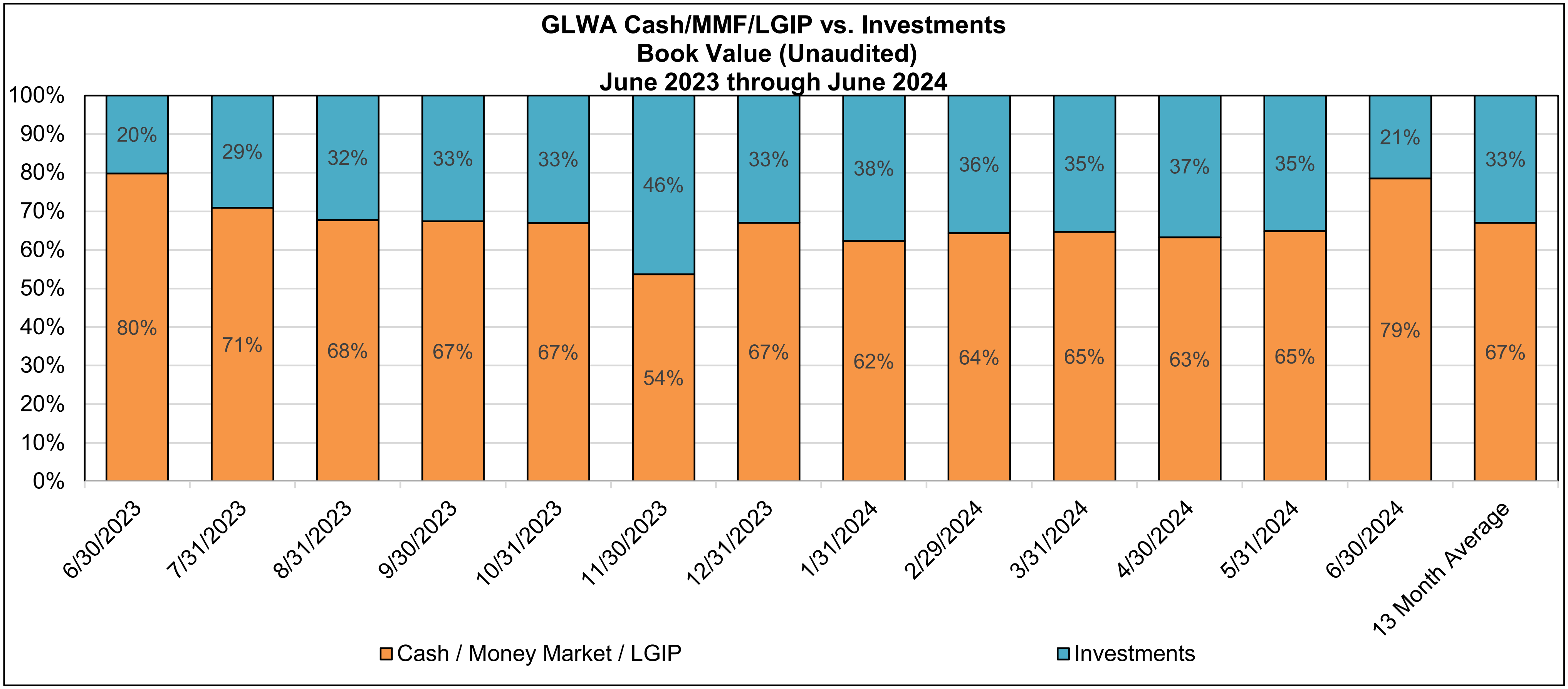
Accounts like the Flint Security Deposit and Retainage accounts which are not owned by GLWA are not included in this report.

Portfolio Snapshot

Portfolio Mix – Cash / Money Market vs. Investments

- GLWA's liquidity requirements fluctuate each month based on operational requirements, capital funding, and debt payments. Based on a review of historical activity and refinement of cash flow projections, GLWA has continually tried to balance the allocation of the portfolio's holdings to cash & money market accounts versus the allocation to investments for the portfolio holdings.

- The chart below compares the monthly allocation of the portfolio holdings to the 13-month average. The allocation between cash and investments will vary each month based on liquidity requirements. For June of 2024, about 79% of the overall portfolio was invested in cash, LGIP, and/or overnight money market fund accounts. This is level is normal for the June time-period due to upcoming debt obligations and is also reflective of the inverted yield curve.



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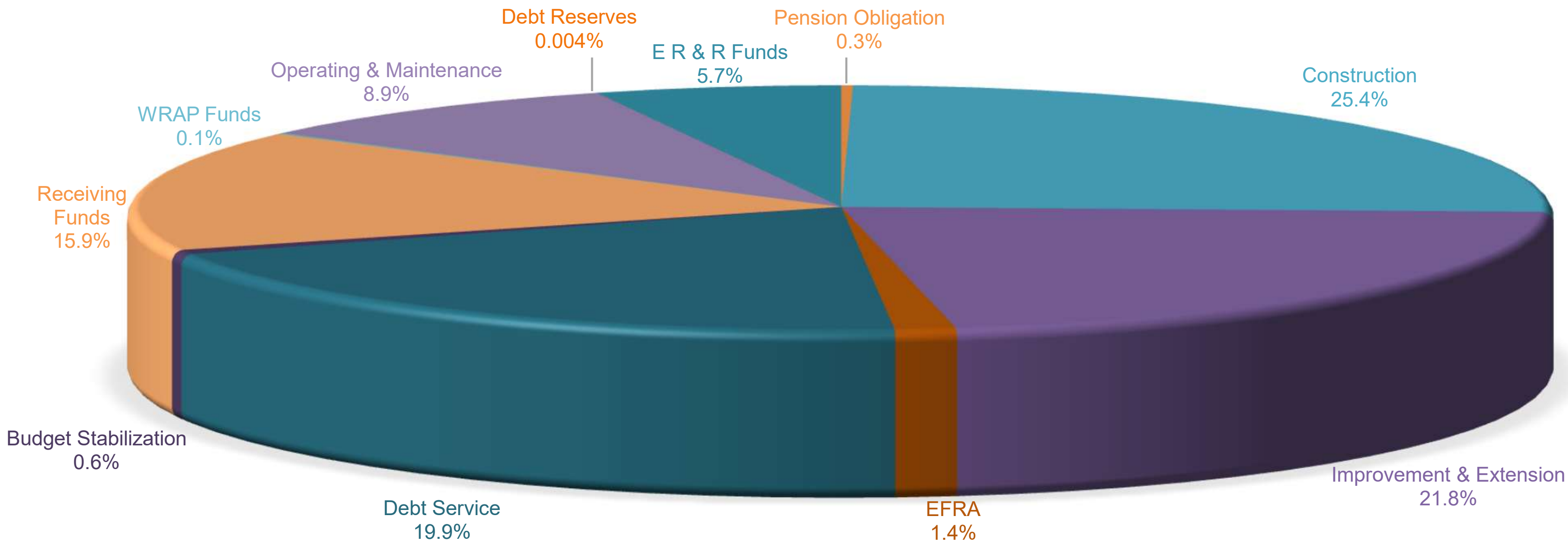
Portfolio Snapshot

Investments – By Account Purpose

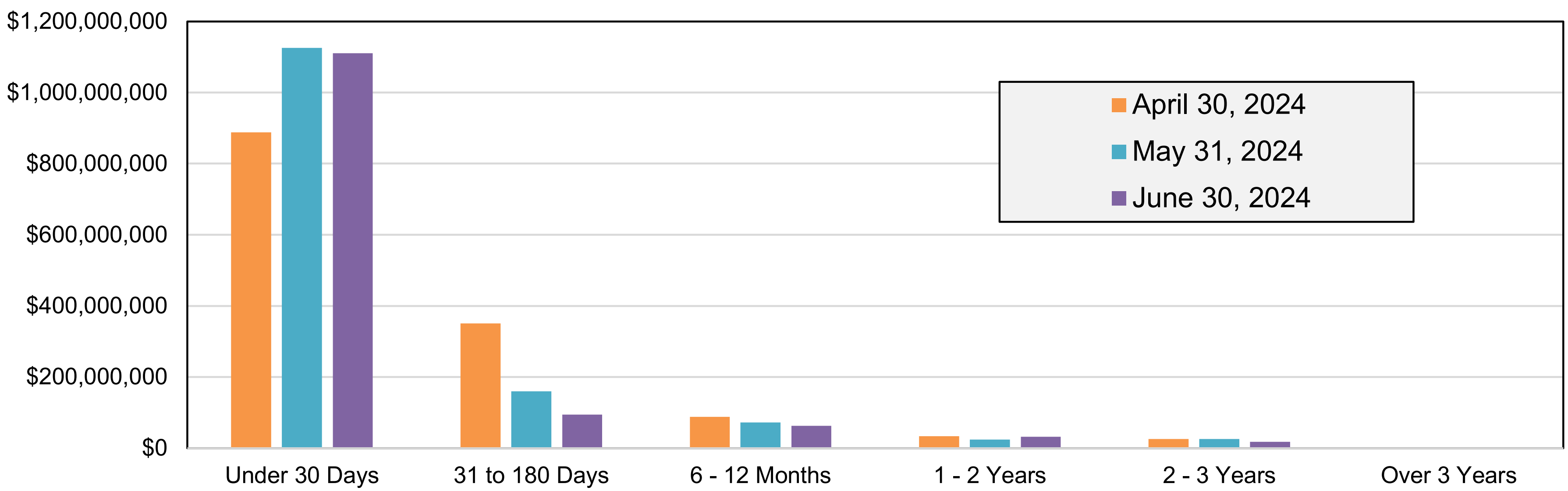


Account Purpose		Value Market	Allocation %	Cost Yield at	Market Yield at	Duration	Strategy
Construction Bond Funds	$	334,691,306	25.4%	5.37%	5.37%	0.003 Years	Cash Flow Driven
Improvement & Extension	$	287,153,112	21.8%	5.25%	5.25%	0.169 Years	Cash Flow Driven
Debt Service	$	262,656,089	19.9%	5.35%	5.50%	0.038 Years	Short-Term
Receiving Funds (includes lockbox account)	$	210,371,808	15.9%	5.17%	5.17%	0.003 Years	Short-Term
Operating & Maintenance	$	118,028,543	8.9%	4.66%	4.66%	0.003 Years	Short-Term
Extraordinary Repair & Replacement Funds	$	74,819,672	5.7%	2.73%	5.00%	1.275 Years	Long-Term
Evergreen Farmington Regional Account	$	18,310,630	1.4%	3.94%	3.94%	0.003 Years	Short-Term
Budget Stabilization Funds	$	7,540,031	0.6%	2.96%	4.94%	1.470 Years	Long-Term
Pension Obligation Funds	$	3,517,517	0.3%	5.18%	5.18%	0.003 Years	Short-Term
WRAP Funds	$	1,947,340	0.1%	5.18%	5.18%	0.003 Years	Short-Term
Debt Reserves	$	57,638	0.0%	5.18%	5.18%	0.003 Years	Long-Term
Total	**$**	**1,319,093,686**	**100.0%**	**5.06%**	**5.23%**	**0.126 Years**	

Accounts like the Flint Security Deposit and Retainage accounts which are not owned by GLWA are not included in this report.

Portfolio Snapshot
Investments – By Maturity

Maturity Distribution		April 30, 2024	%		May 31, 2024	%		June 30, 2024	%
Under 30 Days	$	887,723,787	64.1%	$	1,126,144,439	80.0%	$	1,111,055,051	84.2%
31 to 180 Days		351,102,764	25.3%		159,833,663	11.3%		94,784,072	7.2%
6 - 12 Months		87,811,644	6.3%		72,125,695	5.1%		62,895,103	4.8%
1 - 2 Years		33,439,703	2.4%		24,523,464	1.7%		32,198,190	2.4%
2 - 3 Years		25,563,017	1.8%		25,677,183	1.8%		18,161,271	1.4%
Over 3 Years		-	0.0%		-	0.0%		-	0.0%
Totals	**$**	**1,385,640,915**	**100.0%**	**$**	**1,408,304,445**	**100.0%**	**$**	**1,319,093,686**	**100.0%**



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Portfolio Snapshot

Investment Accounts – Yield at Cost & Market

	As of June 30, 2024		As of March 31, 2024	
	YTM @ Cost	YTM @ Market	YTM @ Cost	YTM @ Market
Bank Deposits				
Bank A	0.01%	0.01%	0.01%	0.01%
Bank C	3.76%	3.76%	3.85%	3.85%
Sub-Total Bank Deposits	**2.14%**	**2.14%**	**2.40%**	**2.40%**
Money Market Funds / LGIPs				
Local Government Investment Pool	5.37%	5.37%	5.40%	5.40%
Trust Money Market Fund	5.18%	5.18%	5.18%	5.18%
Money Market Fund	5.19%	5.19%	5.19%	5.19%
Sub-Total MMF / LGIPs	**5.26%**	**5.26%**	**5.30%**	**5.30%**
Investment Portfolios				
Sewage SR Debt Serv 5403	5.82%	6.22%	5.47%	5.46%
Sewage SR Res 5400	0.00%	0.00%	3.32%	5.24%
Sew 2nd Debt Serv 5403	5.83%	6.22%	5.45%	5.48%
Sewage 2nd Res 5481	0.00%	0.00%	4.82%	5.24%
Sew SRF Debt Serv 5410	5.35%	5.52%	5.32%	5.45%
Sewage ER & R	2.64%	5.00%	2.65%	4.84%
Sewer Improvement & Extension	5.37%	5.37%	5.46%	5.35%
Sewer Pension Obligation	0.00%	0.00%	5.42%	5.32%
Sewer Budget Stabilization Fund	2.88%	4.94%	2.89%	4.77%
Sewer O&M Pension Sub Account	0.00%	0.00%	5.31%	5.16%
Water SR Debt Ser 5503	5.82%	6.21%	5.48%	5.47%
Water SR Reserve 5500	0.00%	0.00%	4.70%	5.27%
Water 2nd Debt Serv 5503	5.65%	6.47%	5.49%	5.50%
Water 2nd Res 5581	0.00%	0.00%	5.16%	5.27%
Water SRF Debt Serv 5575	5.36%	5.53%	5.33%	5.46%
Water ER & R	2.63%	4.98%	2.64%	4.82%
Water Improvement & Extension	5.37%	5.37%	5.46%	5.35%
Water Pension Obligation	0.00%	0.00%	5.43%	5.32%
Water Budget Stabilization Fund	2.93%	4.93%	2.93%	4.76%
Water O&M Pension Sub Account	0.00%	0.00%	5.31%	5.16%
Sub-Total Investment Portfolios	**4.70%**	**5.48%**	**4.93%**	**5.32%**
Grand Total	***5.06%***	***5.23%***	***5.14%***	***5.27%***

YTM @ Cost is the expected return, based on the original cost, the annual interest receipts, maturity value and the time period from purchase date to maturity, stated as a percentage, on an annualized basis. YTM @ Market is the rate of return, based on the current market value, the annual interest receipts, maturity value and time period remaining until maturity, stated as a percentage, on an annualized basis.

Portfolio Snapshot

Peer Analysis Comparison

- The comparison agencies included in the list below were selected based on type and/or other non-performance-based criteria to show a broad range of water entities/utilities; this peer group list does not represent an endorsement of any of the public agencies or their services.
- The overall yield of GLWA's aggregate portfolio compares somewhat similarly to those of other short-term market indices (i.e., the S&P LGIP index and the 3-month U.S. Treasury index), despite the volatility of short-term interest rates and the limited ability in managing assets to a longer-term strategy.
- GLWA does have some limitations and unique constraints related to its ordinance and covenants that restricts the potential for a longer duration portfolio when compared to other similar water agencies.

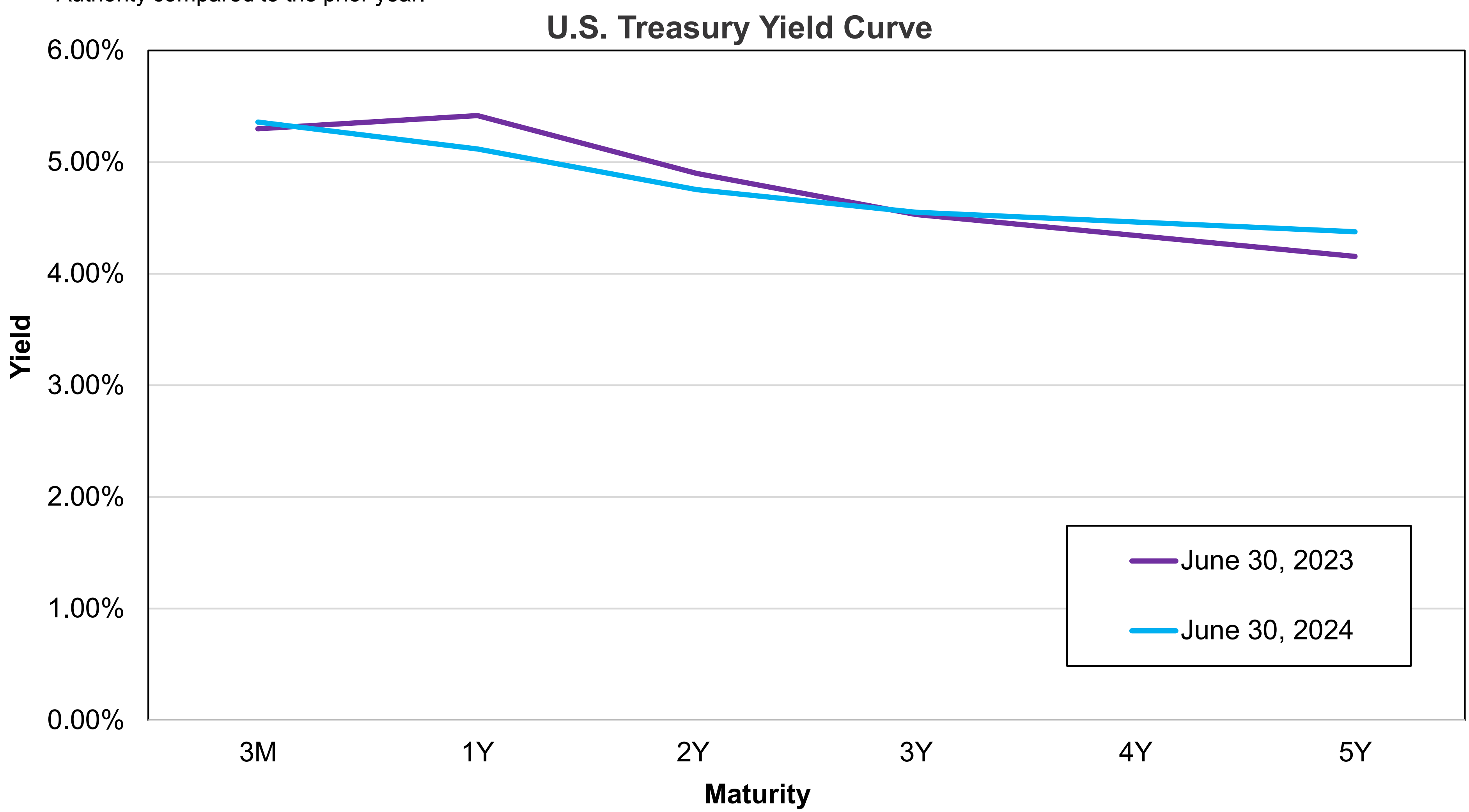
	As of June 30, 2024			
	Market Value	*YTM @ Market*	*Effective Duration*	*Weighted Average Maturity*
GLWA				
Great Lakes Water Authority	$1,319,093,686	5.23%	0.13 Years	47 Days
Short/Intermediate-Term Indices				
S&P Rated Government Investment Pool Index		5.36%	0.08 Years	30 Days
BoA / ML 3-Month Treasury Index		5.37%	0.16 Years	59 Days
BoA / ML 6-Month Treasury Index		5.24%	0.41 Years	150 Days
BoA / ML 1-Year Treasury Index		5.19%	0.88 Years	322 Days
BoA / ML 1-3 Year Treasury Index		4.80%	1.75 Years	641 Days
BoA / ML 1-5 Year Treasury Index		4.65%	2.52 Years	922 Days
Peer Analysis (Water Entities / Utilities)				
District of Columbia Water & Sewer Authority, DC	$169,311,547	4.81%	1.66 Years	673 Days
DuPage Water Commission, IL	$123,811,867	4.72%	2.40 Years	1,221 Days
Fairfax County Water Authority, VA	$182,986,705	4.97%	1.56 Years	598 Days
Metro Wastewater Reclamation District, CO	$211,535,902	4.75%	2.49 Years	1,000 Days
Metropolitan Water District of Southern California, CA	$859,336,667	5.09%	1.55 Years	677 Days
Philadelphia Water Department, PA	$241,902,786	5.26%	0.91 Years	345 Days
San Bernardino Valley Municipal Water District, CA	$351,244,107	4.94%	1.72 Years	675 Days
Tohopekaliga Water Authority, FL	$206,257,187	4.79%	1.81 Years	865 Days
Truckee Meadows Water Authority, NV	$65,576,656	5.14%	1.00 Years	373 Days

The BoA / ML indexes are unmanaged indexes tracking on-the-run Treasuries. These indexes are produced and maintained by Bank of America / Merrill Lynch & Co. Yield to maturity is the rate of return, based on the current market value, the annual interest receipts, maturity value and time period remaining until maturity, stated as a percentage, on an annualized basis.

Portfolio Snapshot - Market Overview and Outlook

US Treasury Yield Curve Presently Inverted

- Treasury yields slightly increased in response to economic data over the quarter. The yield curve has now been inverted for 24 months, the longest in history and spreads across most sectors remain near multi-year tights and represent market expectations for a soft landing. This inversion is expected to normalize if and when the Fed begins to cut rates, which could lead to a decrease in interest earnings for the Authority compared to the prior year.



Portfolio Snapshot

Monthly Investment Income

(Book Value in 000's)

FY 2024 INVESTMENT INCOME BY MONTH (Unaudited)

Month	Interest Earned During Period *(in thousands)*	Realized Gain / Loss *(in thousands)*	Investment Income *(in thousands)*
July 2023	$3,920.9	$0.0	$3,920.9
August 2023	$4,068.8	$0.0	$4,068.8
September 2023	$4,060.2	$0.0	$4,060.3
October 2023	$4,313.0	$0.0	$4,313.0
November 2023	$5,068.5	$0.0	$5,068.5
December 2023	$5,491.7	($0.1)	$5,491.6
January 2024	$5,544.6	$0.7	$5,545.3
February 2024	$5,287.8	$0.0	$5,287.8
March 2024	$5,571.1	$0.0	$5,571.1
April 2024	$5,449.4	$0.0	$5,449.4
May 2024	$5,710.0	($191.8)	$5,518.3
June 2024	$5,204.0	$0.0	$5,204.0
FY 2024 Y-T-D	***$59,690.0***	***($191.1)***	***$59,498.9***

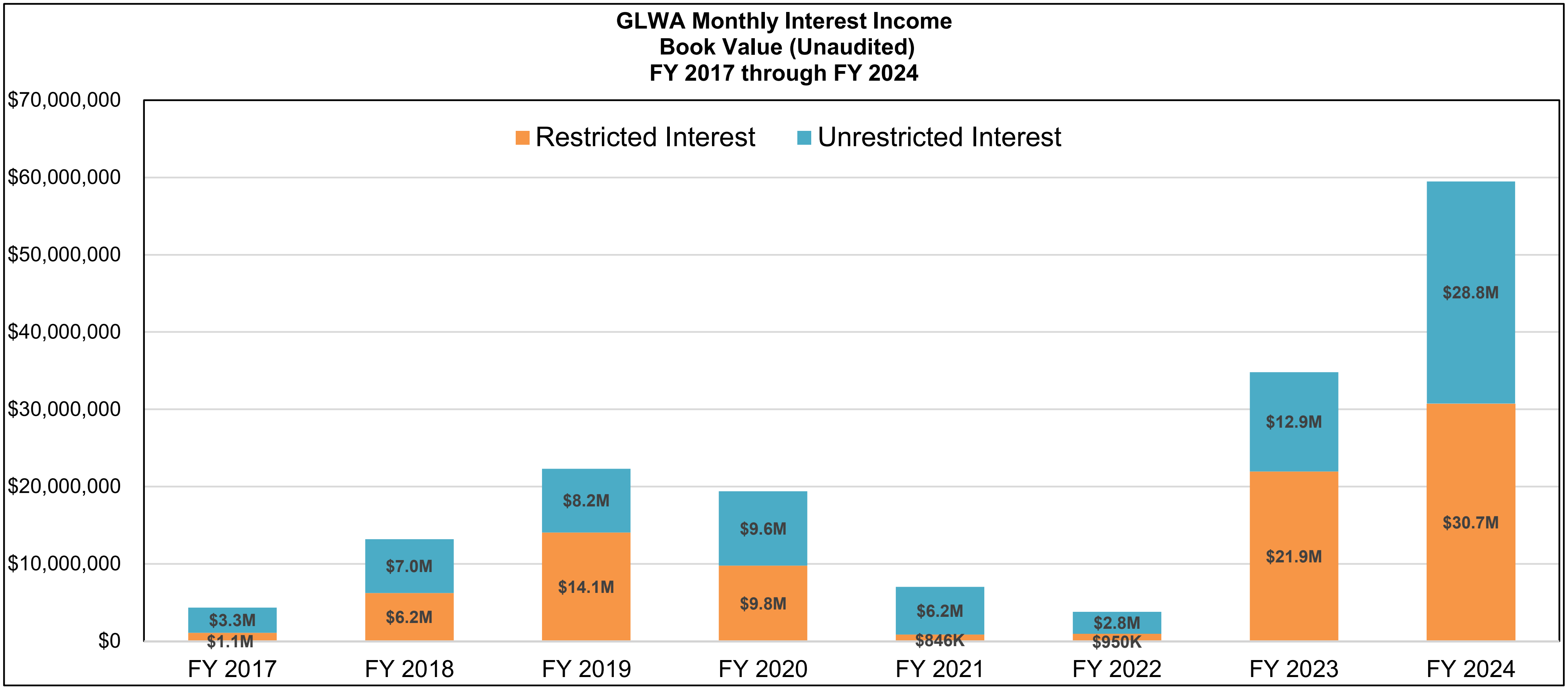
** The realized loss in December of 2023 was due to the sale of investments in the Sewer Second Reserve account in anticipation of liquidity requirements and liquidity needed in the Reserve Fund. The trade settled on December 1st and was available ahead of the bond closing on December 5th. The realized loss in May of 2024 was in conjunction with the June 2024 refunding in which securities that matured after June 6th in the bond reserve accounts that related to the Sewer Senior, Sewer Second, Water Senior, and Water Second liens had to be liquidated.*

These figures are based upon actual interest earned and posted to the Authority's various accounts via book value and does not include any earnings credit rate tied to the Authority's bank deposits.

Portfolio Snapshot

Year-Over-Year Investment Income

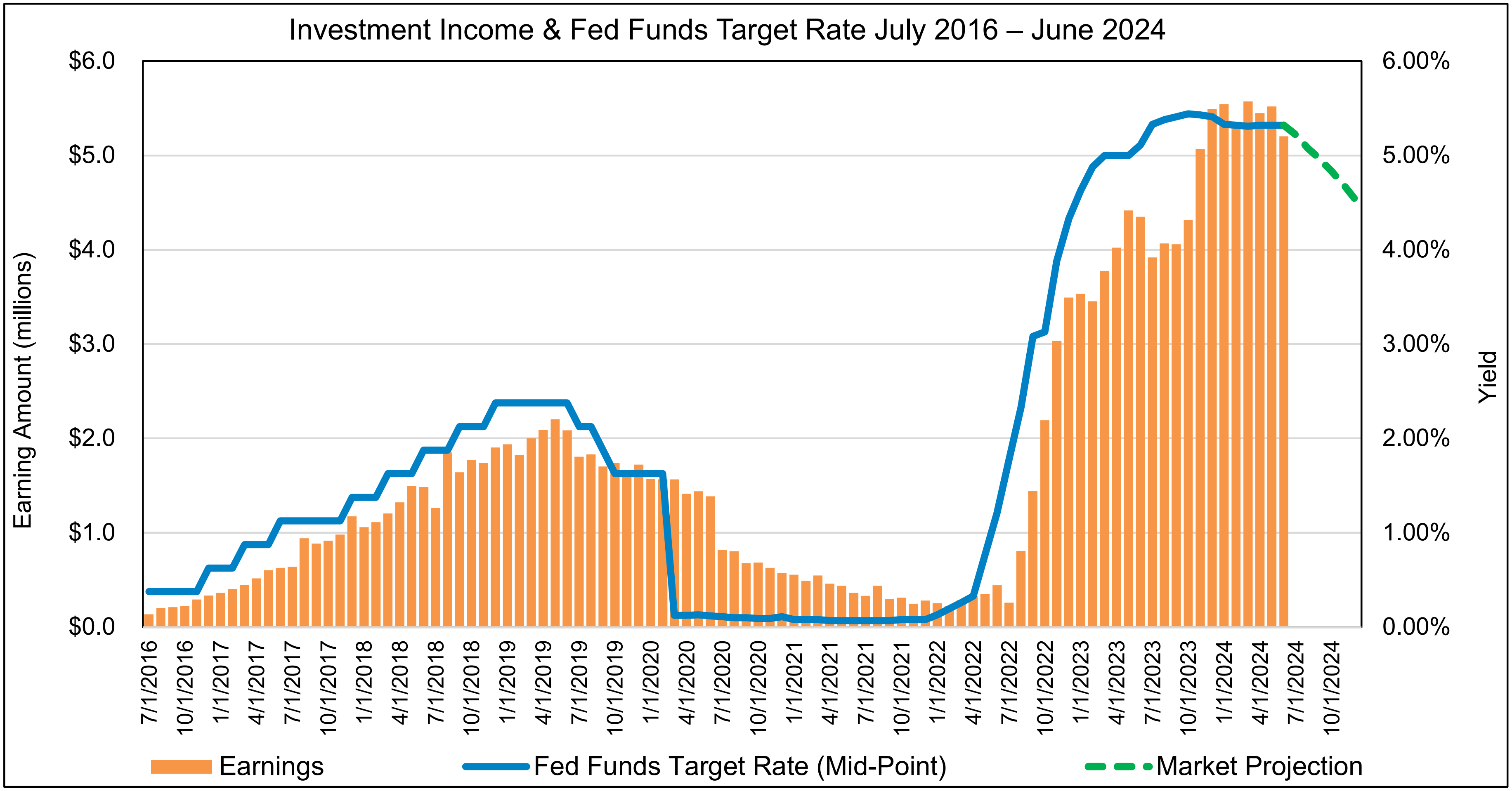
- GLWA earned $59,498,929 in investment income for the entirety of fiscal year 2024 on a book value basis compared to $34,803,167 for all of fiscal year 2023.
- Projected investment income for fiscal year 2024 was forecasted to be around $58.8 million for all fund types (both restricted and unrestricted funds combined). Based on current market assumptions, even with the addition of assets and proceeds from GLWA's recent bond fund issue, projected total investment income for fiscal year 2025 is expected to be less than what was seen in FY 2024 as the Federal Reserve has hinted that a rate cuts could be on the table at the next several meetings. It should also be noted that further rate cuts are already priced in for calendar year 2025 with a terminal Fed Funds rate at around 3%.



Portfolio Snapshot

Monthly Investment Income Compared to Fed Funds Rate

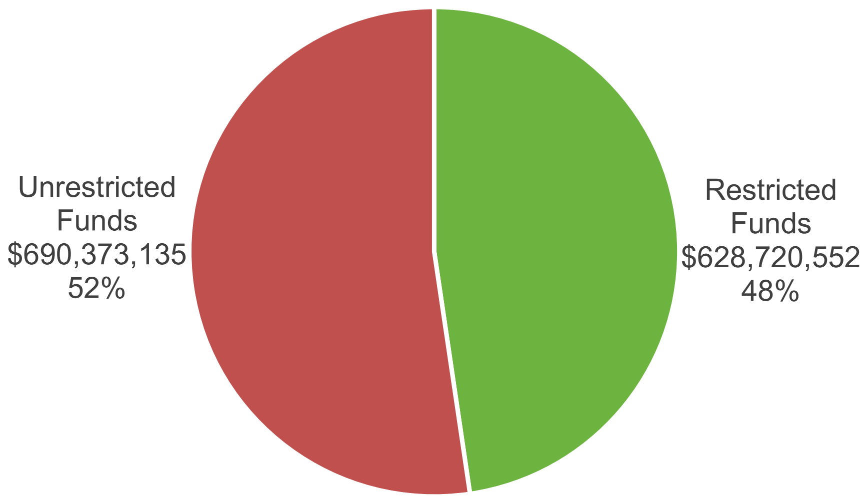
- At least 50% or more of the GLWA portfolio is designated for obligations that are 12 months or less. As a result of the short-term duration of GLWA's portfolio, it is heavily impacted by changes in the Federal Funds target rate; the chart below illustrates that GLWA's income has consistently followed the trend of the Fed Funds rate.
- The pace and magnitude of future Fed rate cuts is even more uncertain following the most recent labor market report, and most investors have held the view for some time that rates have peaked and that Fed rate cuts are coming before the end of the calendar year. The futures market continues to expect the Fed to begin its cutting cycle in September.



Portfolio Snapshot

Allocation and Income by Fund Type

Bank Balance as of June 30, 2024



July 2023 – June 2024 Interest Earnings

Restricted Principal and Restricted Interest
Construction Bond Funds
Debt Reserves
Debt Service
Evergreen Farmington Regional Account

Unrestricted Principal Unrestricted Interest
Extraordinary Repair & Replacement Funds
Improvement & Extension
Operating & Maintenance
Receiving Funds (includes lockbox account)

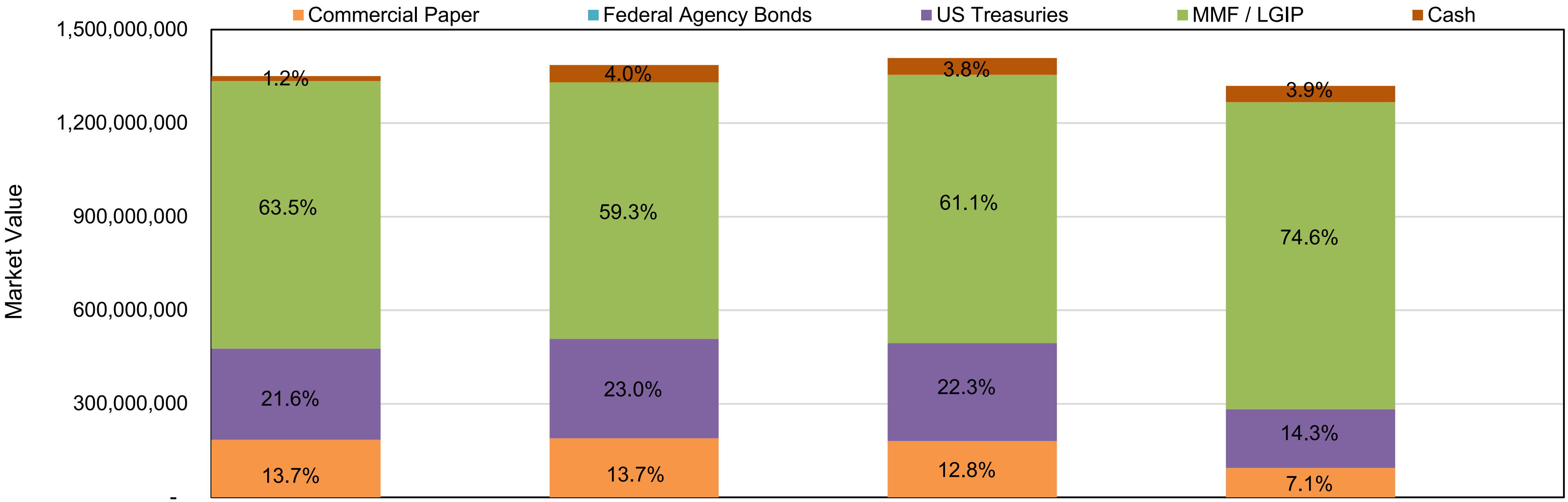
Note: Interest in I&E accounts is sent to the Receiving Funds and can be used for operations; DWSD's portion of the Receiving Funds is restricted and held in trust.

Restricted Principal Unrestricted Interest
Budget Stabilization Funds
Pension Obligation Funds
WRAP Funds

Note: Interest is sent to the Receiving Funds and can be used for operations

Portfolio Snapshot

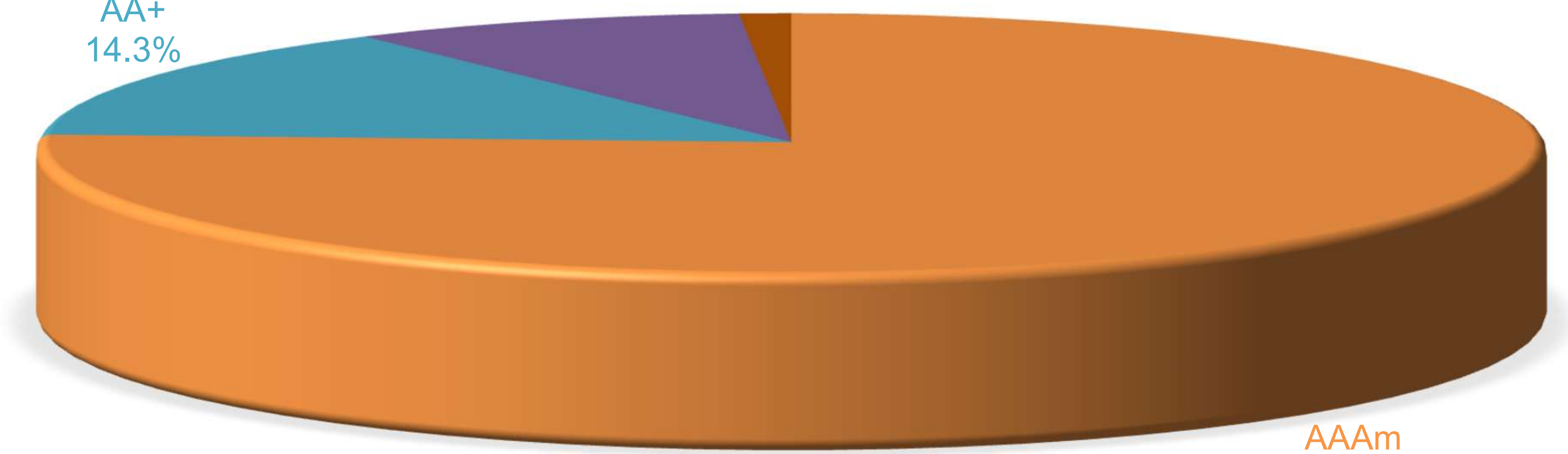
Investments – By Security Type



Security Type	March Market Value	March Asset Allocation	April Market Value	April Asset Allocation	May Market Value	May Asset Allocation	June Market Value	June Asset Allocation
Commercial Paper	184,327,347	13.7%	189,595,226	13.7%	180,689,774	12.8%	94,121,783	7.1%
Federal Agencies	-	0.0%	-	0.0%	-	0.0%	-	0.0%
U.S. Treasuries	292,199,371	21.6%	318,880,891	23.0%	314,241,565	22.3%	188,988,215	14.3%
MMF / LGIP	857,689,687	63.5%	821,977,751	59.3%	859,984,923	61.1%	984,040,135	74.6%
Cash	15,998,140	1.2%	55,187,048	4.0%	53,388,183	3.8%	51,943,554	3.9%
Total	**1,350,214,544**	**100.0%**	**1,385,640,915**	**100.0%**	**1,408,304,445**	**100.0%**	**1,319,093,686**	**100.0%**

Portfolio Snapshot

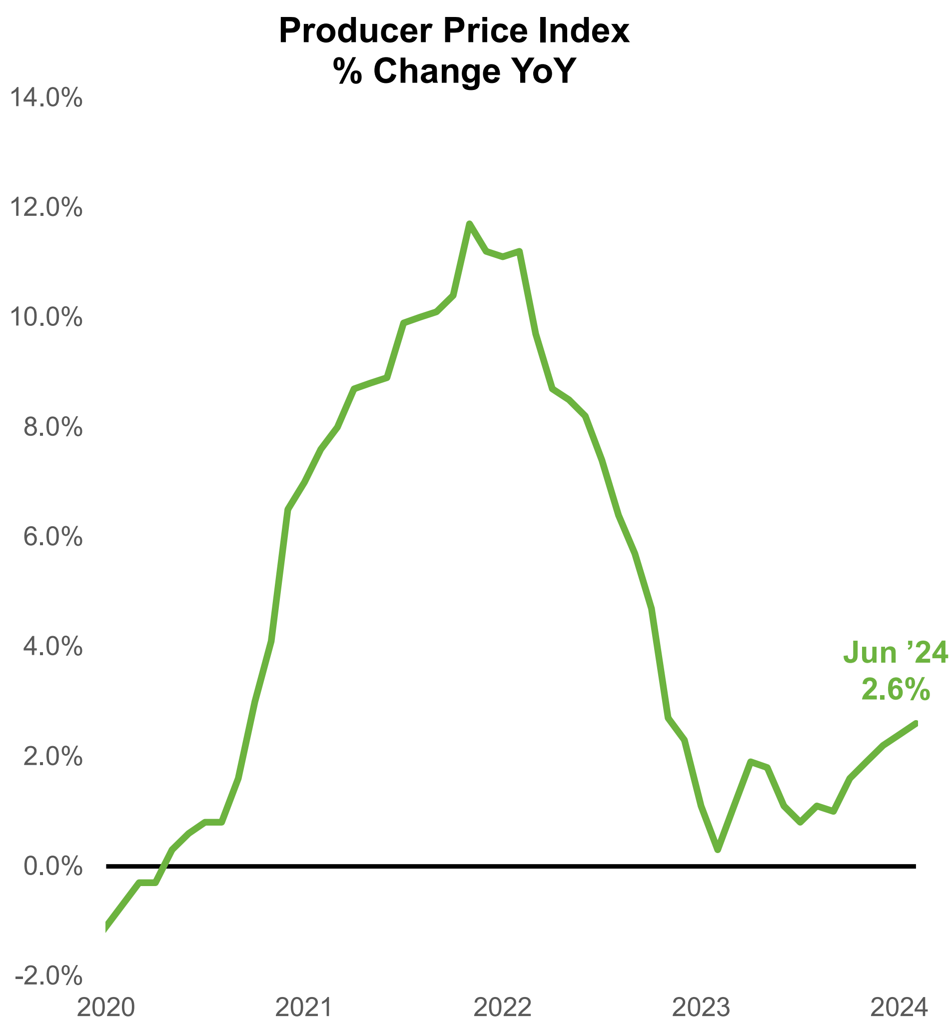
Investments – By Credit Quality

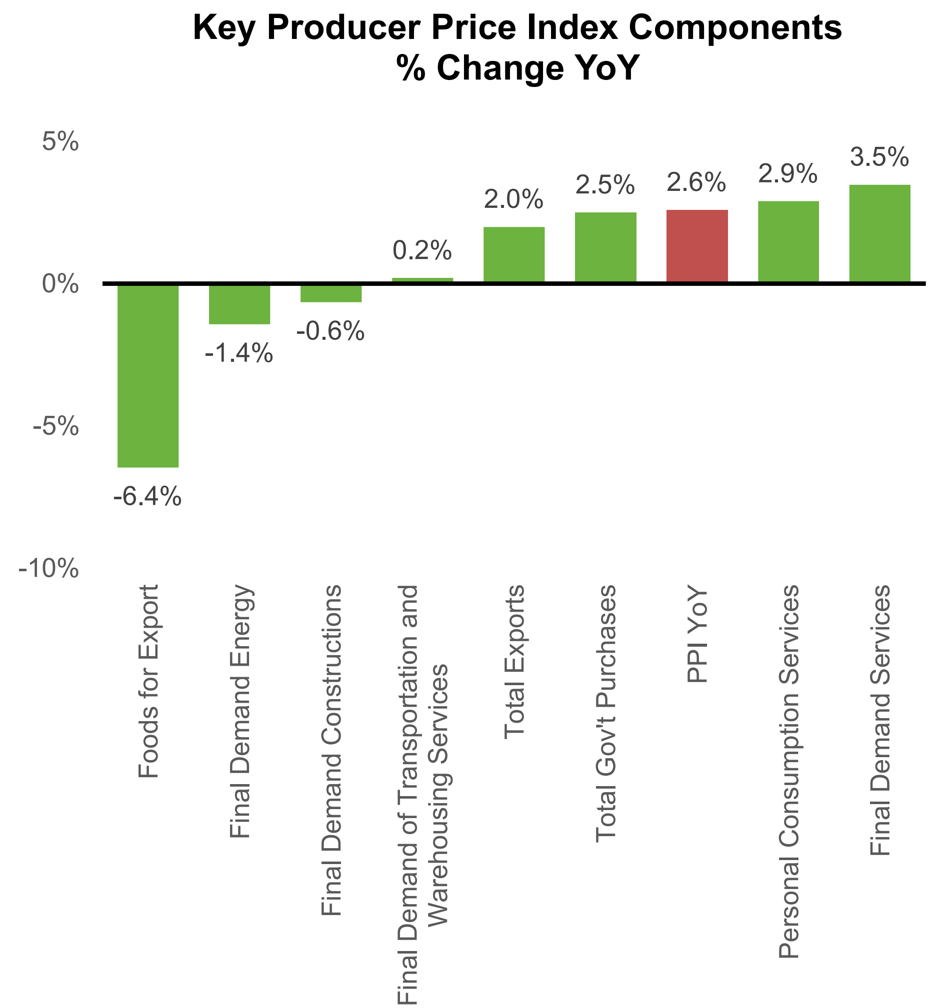


Credit Quality	Market Value	Asset Allocation
Ratings		
AAAm	1,001,648,242	75.9%
AA+	188,993,819	14.3%
A-1 + / A-1	113,653,668	8.6%
A-2	14,797,958	1.1%
NR	-	0.0%
Totals	**1,319,093,686**	**100.0%**

Appendix I:
Economic Update

Producer Prices Rose



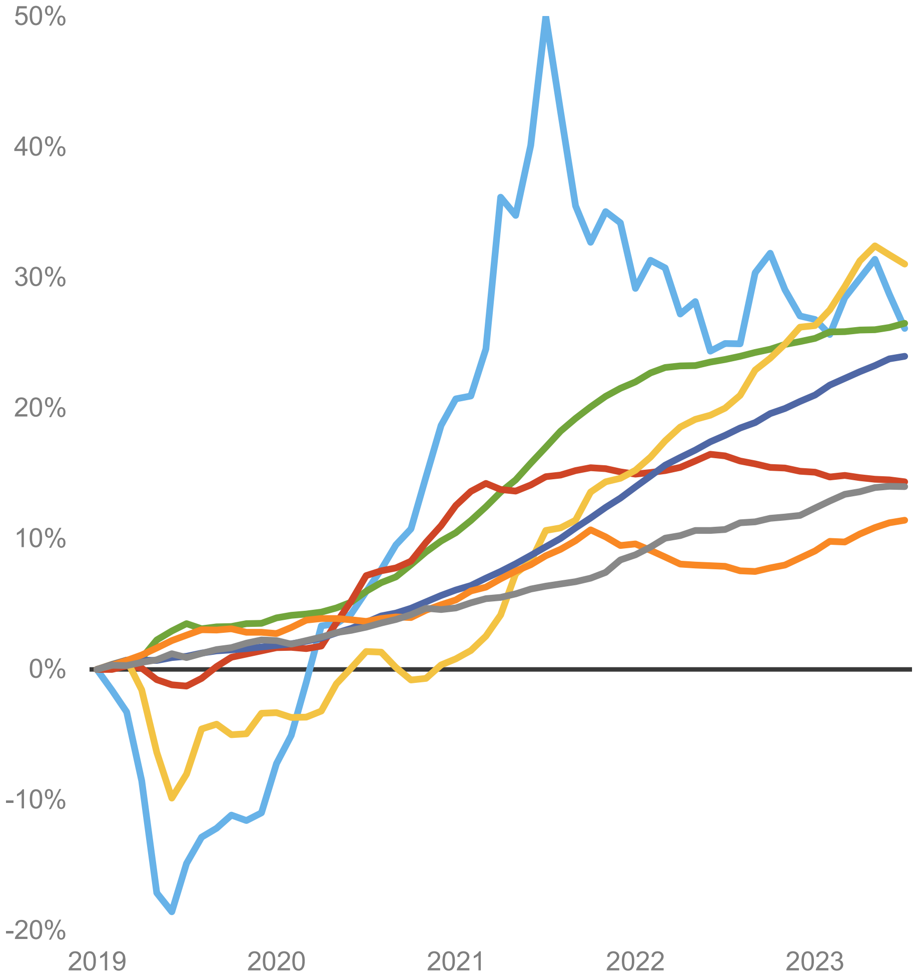


Source: Bloomberg, as of June 2024.

Inflation Continues to Moderate

Price Change of Major CPI Components

Since December 2019



CPI Component	12-mo. Change	Weight[1]	Contribution to YoY CPI
Energy	0.9%	7.0%	0.1%
Food	2.2%	13.4%	0.3%
Transportation	9.2%	6.5%	0.6%
Shelter	5.1%	36.1%	1.9%
Goods	-1.7%	18.6%	-0.3%
Other Services[2]	2.9%	11.8%	0.3%
Medical Services	3.3%	6.5%	0.2%
Overall	**3.0%**		

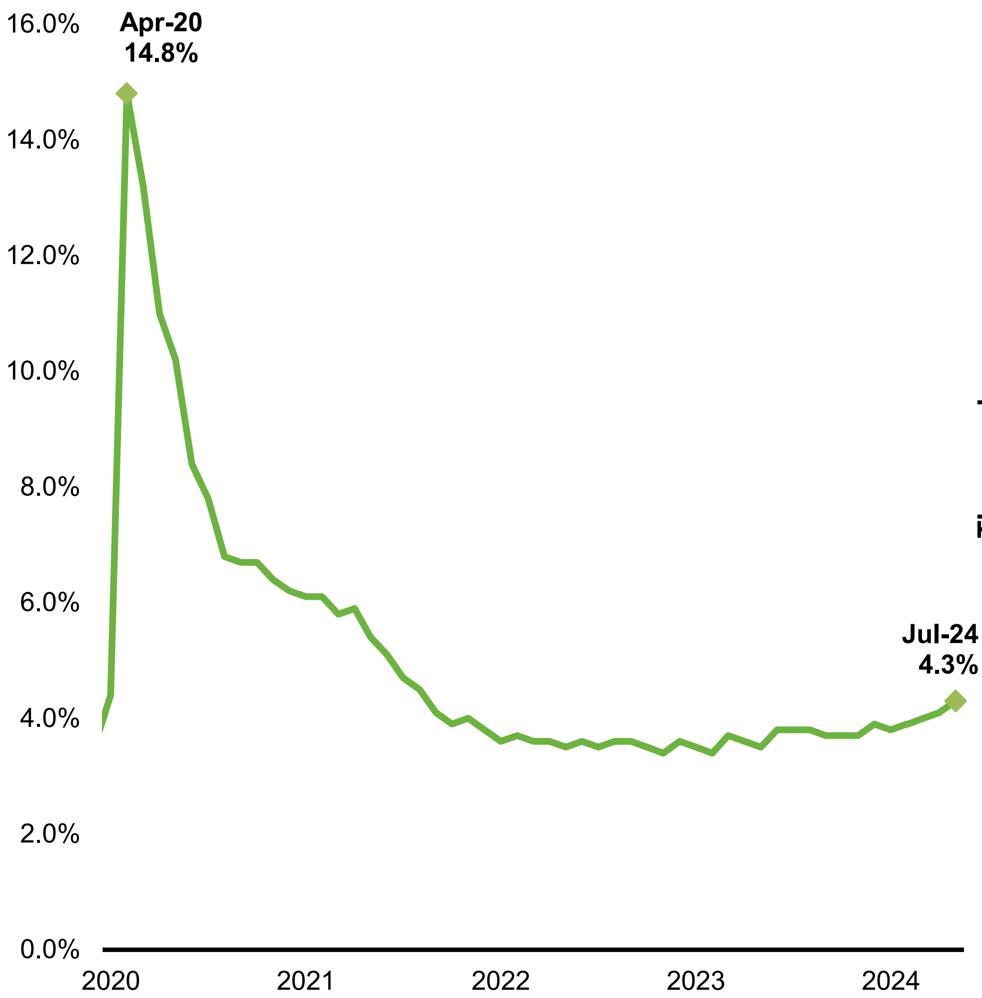
Source: Bloomberg, Bureau of Labor Statistics as of June 2024.

1 Index weights are as of May 2024 as they are published on a one-month lag.

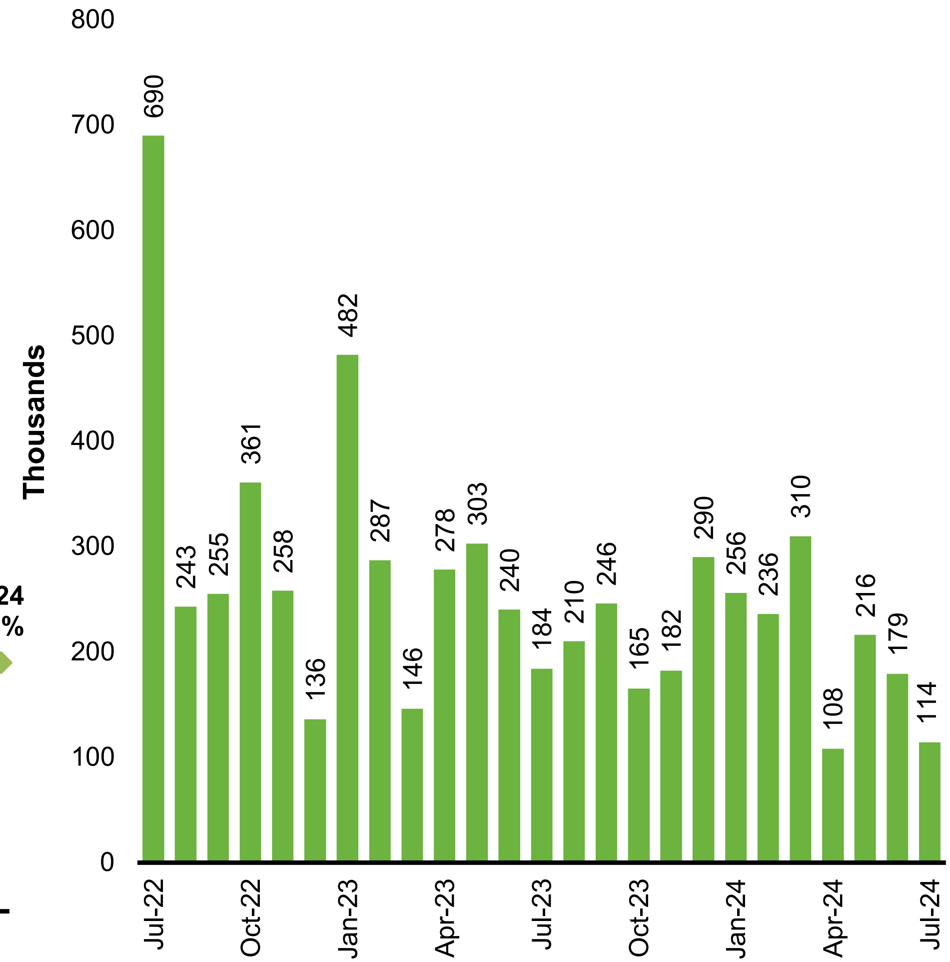
2 Other services is a weighted blend of Water/Sewer/Trash, Household Operations, Recreation, and Education and Communication services.

Unemployment Rate Ticks Up

Unemployment Rate



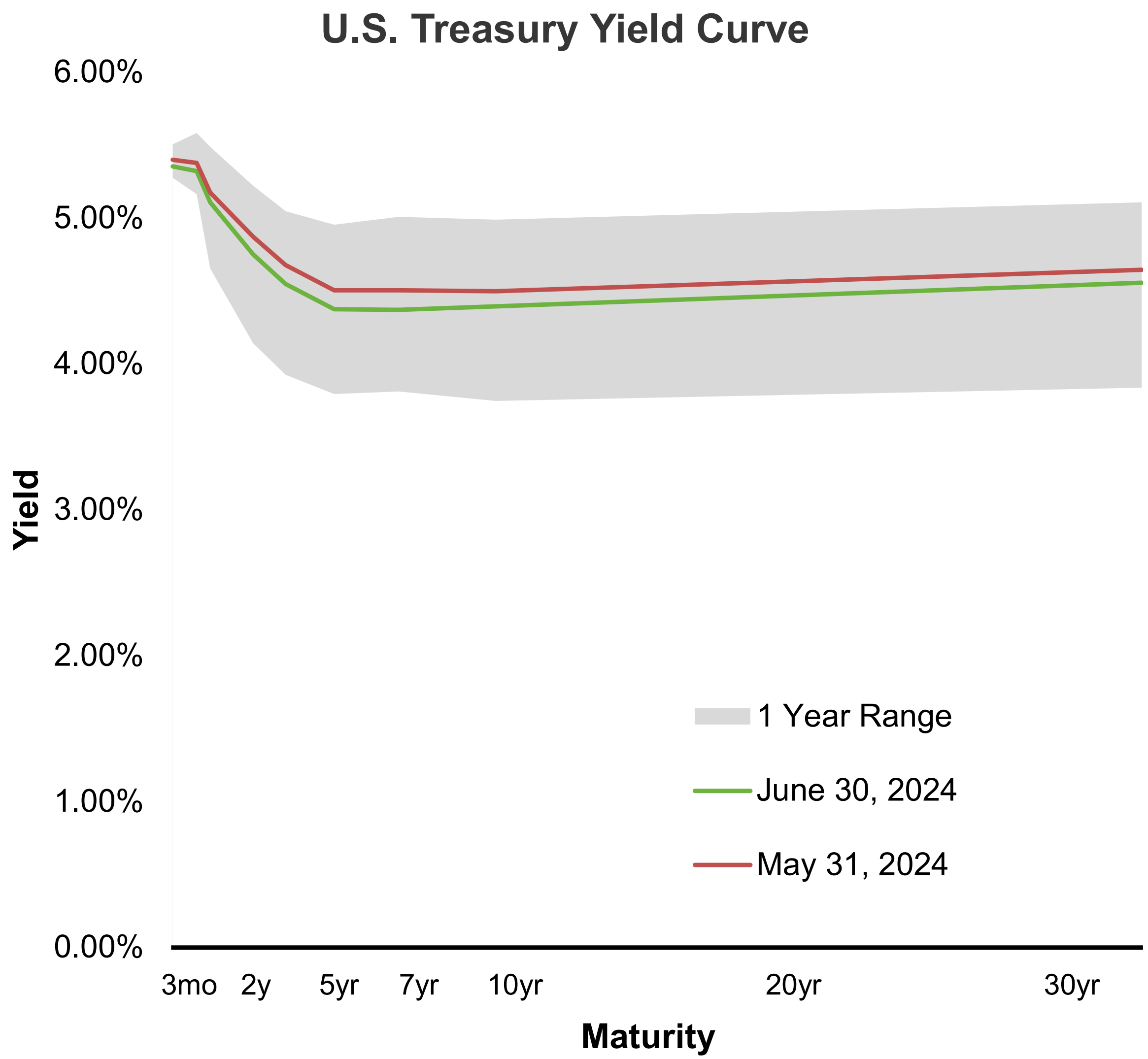
Monthly Change In Nonfarm Payrolls



Source: Bloomberg, as of July 2024. Data is seasonally adjusted.

Treasury Yield Curve

	5/29/2024	6/30/2024	Change
3 month	5.40%	5.35%	0.05%
6 month	5.38%	5.32%	-0.06%
1 year	5.18%	5.11%	-0.07%
2 year	4.87%	4.75%	-0.12%
3 year	4.68%	4.55%	-0.13%
5 year	4.51%	4.38%	-0.13%
10 year	4.50%	4.40%	-0.10%
30 year	4.65%	4.56%	-0.09%



Source: Bloomberg, as of 05/31/2024 and 6/30/2024, as indicated.

Fixed Income
Market Overview and Outlook

FIXED INCOME MARKET – ECONOMIC HIGHLIGHTS

- The second quarter of calendar year 2024 was characterized by:
  - Moderating economic growth following two quarters of exceptional growth
  - Recent inflation prints resuming its slowing trend and path as it inches closer towards the Fed's 2.0% target
  - Signs of consumer activity beginning to taper, though resilient consumer spending has still been supported by wage growth that is outpacing inflation
  - A labor market that continues to come into better balance as it shows strength while the unemployment rate has ticked up modestly

- As expected, the Federal Reserve kept the overnight rate at its current range of 5.25% to 5.50% at its June 12th meeting
  - This marked the seventh consecutive meeting since July of 2023 of the Fed keeping rates at this level
  - Furthermore, the Fed's updated "dot plot" showed just one rate cut in 2024, a notable drop from the March projections of three cuts
  - This more closely aligned with market expectations, which generally assumed one or two cuts in the back half of this calendar year
  - Fed officials have noted that the risks to its "dual mandate" of stable inflation and maximum employment are becoming more balanced

- Investment markets generally remained priced for a "soft landing"
  - Investor confidence and a strong investor sentiment continued to buoy risk asset valuations
  - Equity markets, led notably by the technology sector, surged ahead and closed the quarter just shy of all-time highs
  - The S&P 500 index returned 4.3% in the quarter while the Nasdaq index generated an 8.5% return
  - U.S. Treasury yields of maturities from one to 30 years rose by 13 to 22 basis points during the quarter, with longer tenors leading the ascent

Fixed Income
Market Overview and Outlook

FIXED INCOME MARKET – ECONOMIC HIGHLIGHTS

- The market spent most of the quarter recalibrating expectations around the number of Fed rate cuts in 2024
  - Investors settled at one or two rate cuts following the most recent CPI reading
  - Fed Funds futures ended the quarter pricing in the first cut in September, which represents an eight-month delay from expectations at the beginning of the calendar year

- U.S. Treasury yields rose modestly during the quarter as the yield on the 2, 5, and 10-year U.S. Treasuries rose 13, 16, and 20 basis points, respectively
  - Despite the relatively modest increase in yields, Treasuries traded over a 40 to 50 basis point range over the quarter

- U.S. Treasury indices less than 10 years posted positive performance as higher income more than offset the negative price effects from modestly higher yields
  - The ICE BofA 2 and 5-year U.S. Treasury indices returned +0.85% and +0.42%, respectively, while higher yields and the much longer duration of the 10-year U.S. Treasury index produced negative performance, resulting in an investment return of -0.30% for the quarter
  - Shorter-duration indices continued to benefit from elevated Fed rate policy as the ICE BofA 3-month and 1-year U.S. Treasury indices returned +1.32% and +1.11%, respectively

- Sustained investor appetite continued to pressure yield spreads near multi-year lows across investment grade sectors throughout the quarter
  - This resulted in firmly positive excess returns on most other non-government fixed income sectors
  - Shorter maturities less than one year remined firmly above 5.25% as the Fed's rate policy remained unchanged
  - Short-term credit, including commercial paper and negotiable CDs, generally experienced spread tightening over the course of the quarter

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