

Great Lakes Water Authority

Investment Performance Report – March 2024



Table of Contents

I. Executive Summary

II. Investment Strategy

III. Summary Market Overview and Outlook

IV. Portfolio Snapshot

Overall Portfolio Composition Summary

Portfolio Mix

Account Purpose

Maturity Distribution

Yield at Cost and Market

Peer Analysis

Investment Income by Month

Investment Income Year over Year

Monthly Investment Income Compared to Fed Funds Rate

Investments by Security Type

Investments by Credit Quality

VI. Appendix

Economic Update

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 97% 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 Standard & Poor’s.
- **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 March 31, 2024, approximately 65% of the funds were held in cash and money market accounts maturing overnight. The percentage is somewhat like what was seen in the prior quarter.
- **Return** – The overall yield at market increased to 5.27% as of March 31, 2024, versus 5.12% as of December 31, 2023. The higher yield is reflective of the “higher-for-longer” stance and mantra reiterated by the Federal Reserve. GLWA earned over \$43.3 million (unaudited) in investment income for the first nine months 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.

AVAILABLE FUNDS (Unaudited)

Type	Book Value	Market Value	Yield @ Cost (as of 3/31/24)	Yield @ Market (as of 3/31/24)
Deposit Accounts	\$15,998,140	\$15,998,140	3.85%	3.85%
Trust Money Market Fund	\$362,138,693	\$362,138,693	5.18%	5.18%
Money Market Fund	\$9,458,126	\$9,458,126	5.19%	5.19%
Local Government Investment Pool	\$486,060,188	\$486,060,188	5.40%	5.40%
Managed Funds	\$478,603,033	\$476,559,397	4.93%	5.32%
<u>MARCH 2024 TOTALS:</u>	<u>\$1,352,258,181</u>	<u>\$1,350,214,544</u>	<u>5.14%</u>	<u>5.27%</u>
<u>PREVIOUS QUARTER TOTALS:</u>	<u>\$1,393,242,230</u>	<u>\$1,391,922,053</u>	<u>5.03%</u>	<u>5.12%</u>

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 5.03% as of 12/31/2023 to 5.14% as of 3/31/2024.
- The total portfolio had a market yield of 5.27% at the end of March, compared to 5.12% as of December 13, 2023. Yield at market represents what the market would provide in return if the portfolio was purchased on March 31, 2024 (versus purchased in prior months / years); the higher yield is a result of the Federal Reserve's "higher for longer" mantra.
 - We utilize a variety of investment sectors, and because of that, this 5.27% yield at market as of 3/31/2024 is slightly higher than in the prior quarter as the increase in longer-term yields during the quarter outweighed the shift in short-term yields.

PORTFOLIO PERFORMANCE – PROJECTIONS

- GLWA earned over \$43.3 million (unaudited) in investment interest income for fiscal year-to-date 2024 (as of 3/31/2024) on a book value basis.
- The fiscal year-to-date 2024 period earnings were higher than 2023 year-to-date earnings, mainly due to the Federal Reserve keeping short-term interest rates higher for longer.

** 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, March 31, 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 the March FOMC meeting (5.25% to 5.50%). The Fed also released the quarterly update to its Summary of Economic Projections, which continued to show three rate cuts in calendar year 2024, but one less cut in 2025. During the press conference, Fed Chair Jerome Powell reiterated that the Fed needs greater confidence that inflation is moving sustainably down toward its 2.0% target before reducing rates. It would also like to see the labor market move into better balance. Stubborn inflation and stronger fundamental economic data will likely delay any rate cuts until later in the year.
- Inflation readings released in March were mixed: the year-over-year change in the consumer price index (“CPI”) fell by 0.1% to 3.8%, while the personal consumption expenditures price index (“PCE”) rose slightly to 2.5% in February. In a reversal of recent trends, PCE goods prices rose faster than prices in the services sector largely due to rising energy prices. Housing and utilities inflation remained elevated. The year-over-year change in core PCE (which excludes volatile food and energy components) fell slightly to 2.8%, marking the fourteenth consecutive month of declines.
- Job growth in March came in at 303,000, well above expectations. The unemployment rate ticked back down to 3.8% from 3.9%, while wage growth continued to outpace inflation.
- The final reading for fourth quarter calendar year 2023 real gross domestic product (“GDP”) came in at 3.4%, which was slightly higher than previous estimates. Consumer spending rose at a 3.4% pace in the quarter, even better than the third quarter’s robust 3.1% growth rate.
- The ISM manufacturing index showed the sector expanded for the first time since October of 2022. This was welcome news for the struggling sector as demand appears to still be in the early stages of recovery.

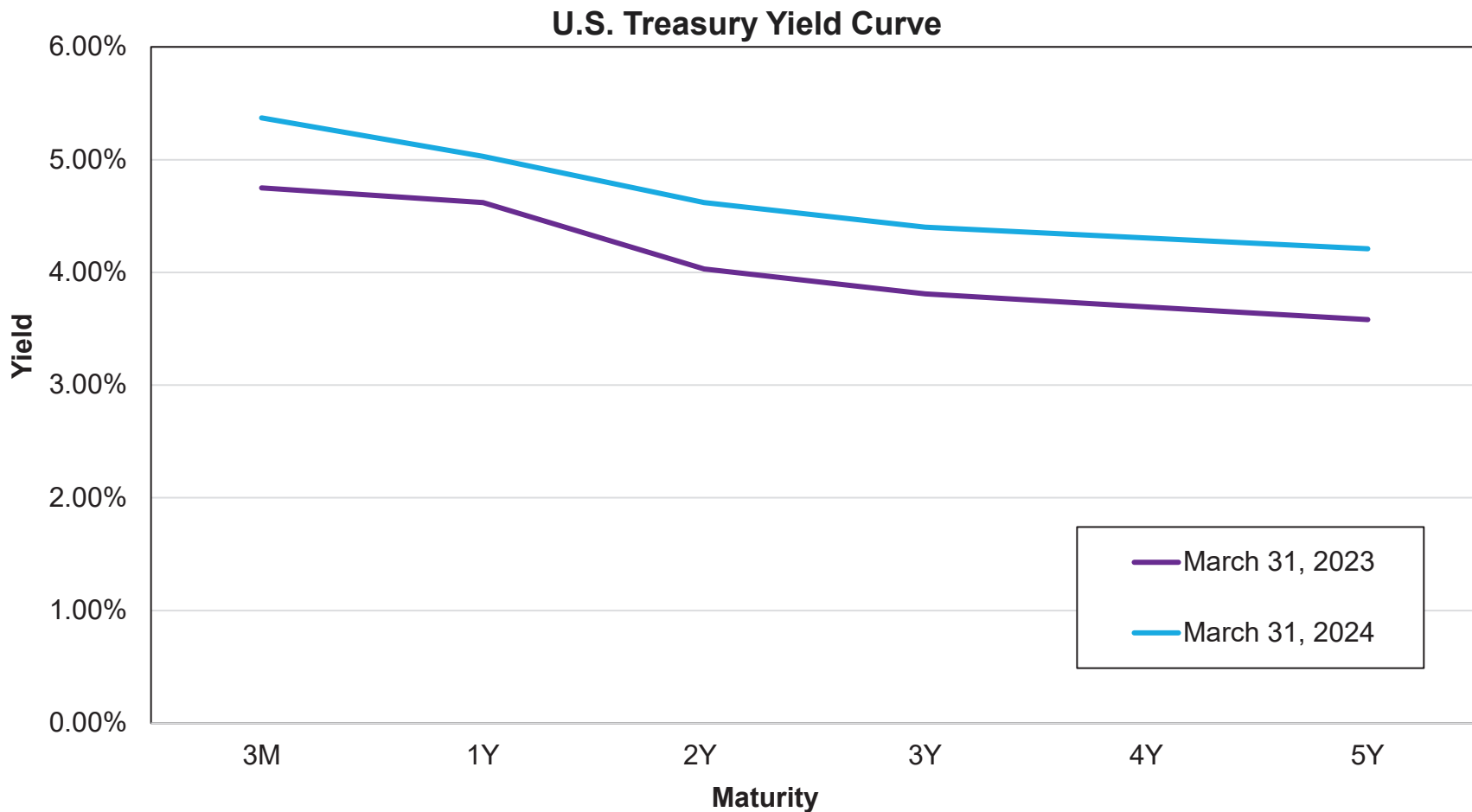
ECONOMIC IMPACT ON PORTFOLIO

- Despite trading over a 20 – 40 basis point range during the quarter, U.S. Treasury yields finished the quarter relatively higher.
- Short-term yields (less than three months) remained above 5.00%, while the yield curve remained deeply inverted with shorter maturities continuing to outyield longer ones.
- The yields on benchmark 2, 5, and 10-year U.S. Treasuries ended the quarter at 4.62%, 4.21%, and 4.20%, respectively, representing an increase for the quarter.
- The dollar index (“DXY”) inched higher by 0.3% in March, as the markets digested the impact of strong economic data and a comeback of “higher-for-longer” Fed rate rhetoric.
- Portfolio Impact: Fed guidance continues to suggest lower short-term rates over the course of the year, if inflation continues to ease as expected, although perhaps at a slower pace. As a result, we seek to maintain neutral portfolio durations relative to benchmarks. Spreads on Federal Agencies have remained tight and appear to offer limited value. Short-term money markets continue to benefit from decade-high yields and a patient Federal Reserve. Although short-term credit spreads have tightened compared to historical levels, absolute yield levels on commercial paper investments remain enticing for short-term investors.

Summary Market Overview and Outlook

Treasury Yield Curve Presently Inverted

- During the last quarter, the FOMC maintained interest rate levels and continued to signal fewer cuts for 2024 than the market anticipated on the back of some stickier inflation data; all rates beyond one year rose with the largest increases in intermediate maturities and the curve remains inverted as the Fed Funds rate remains elevated.

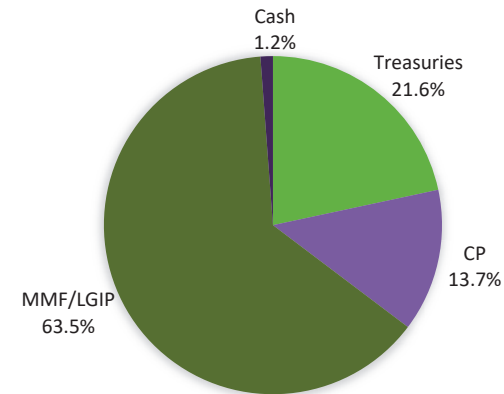
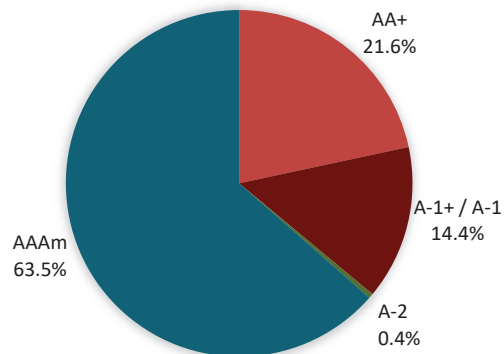
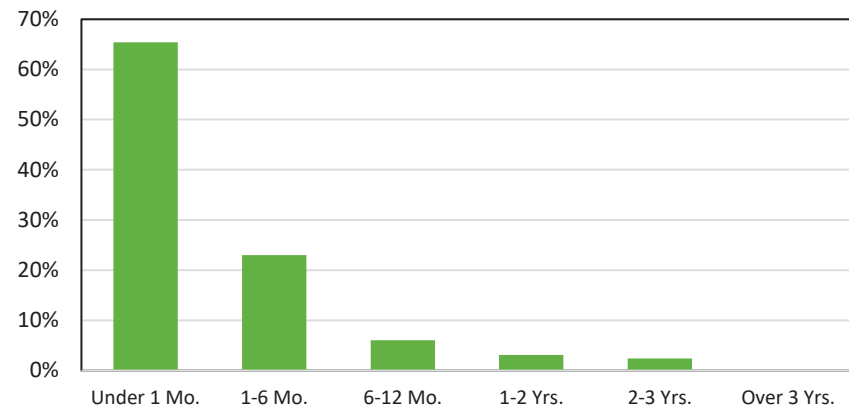


Portfolio Snapshot

Overall Portfolio Composition Summary

PORTFOLIO STATISTICS

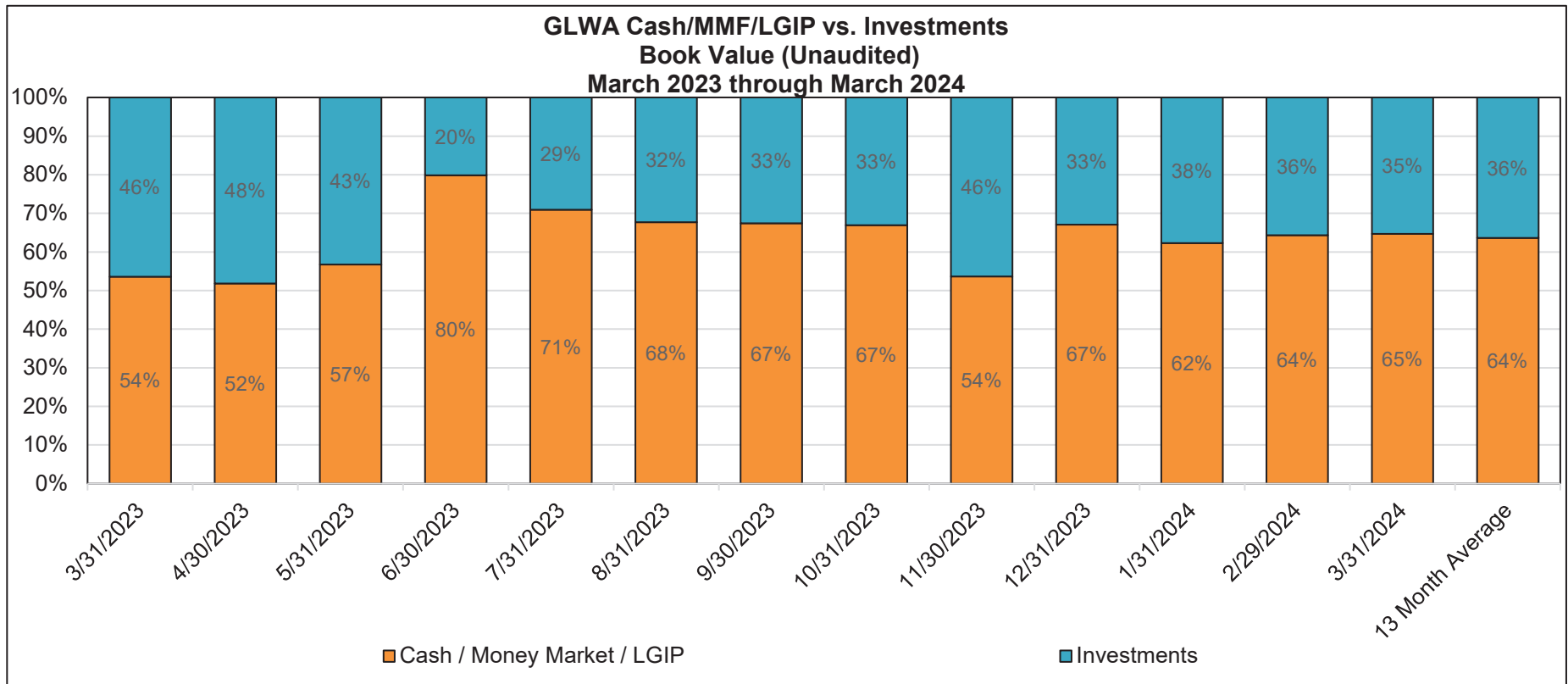
Invested Amount	\$1.350 Billion
Duration	0.20 Years
Yield at Cost	5.14%
Yield at Market	5.27%

SECTOR ALLOCATION

CREDIT QUALITY

MATURITY DISTRIBUTION


Portfolio Snapshot

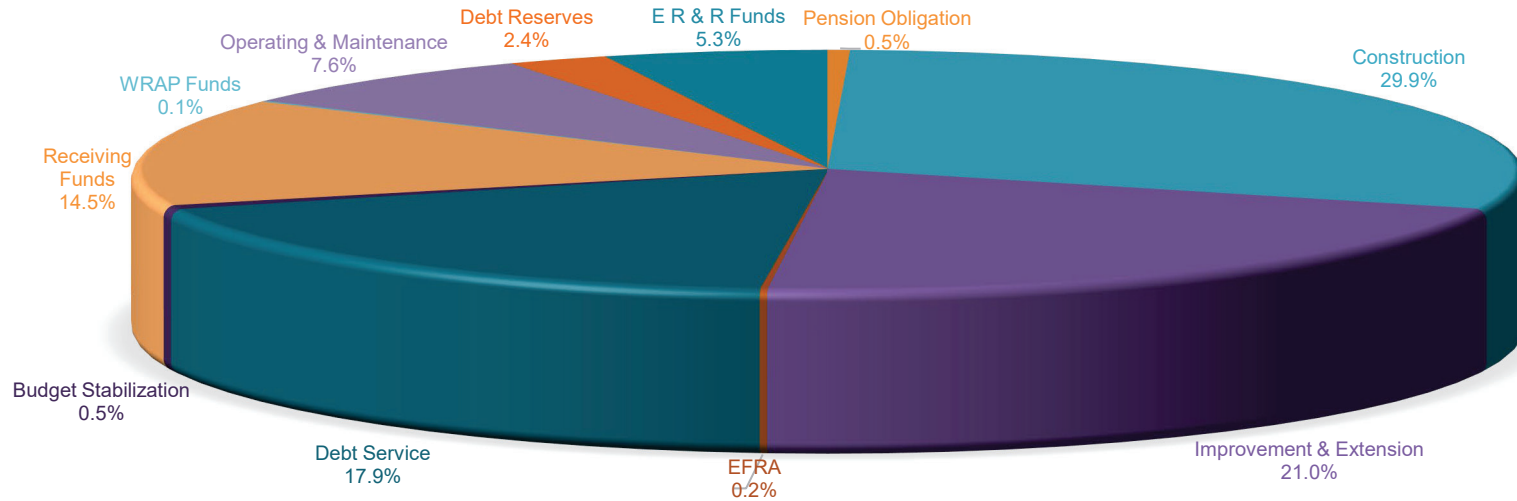
Portfolio Mix – Cash / Money Market vs. Investments

- 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 March of 2024, around 65% of the overall portfolio was invested in cash, LGIP, and/or overnight money market fund accounts. This is in line with the level seen in the previous quarter and is reflective of the inverted yield curve currently seen in the market.



Portfolio Snapshot

Investments – By Account Purpose

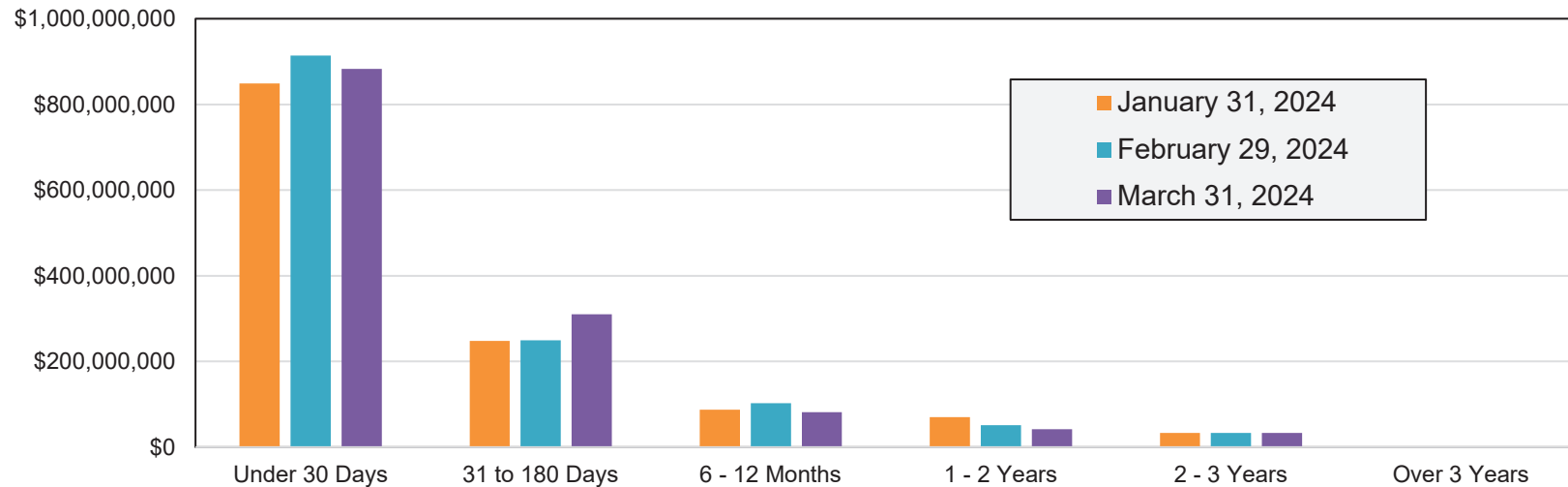


Account Purpose	Value Market	Allocation %	Cost Yield at	Market Yield at	Duration	Strategy
Construction Bond Funds	\$ 403,365,613	29.9%	5.40%	5.40%	0.003 Years	Cash Flow Driven
Improvement & Extension	\$ 283,810,869	21.0%	5.32%	5.23%	0.268 Years	Cash Flow Driven
Debt Service	\$ 242,335,794	17.9%	5.45%	5.46%	0.264 Years	Short-Term
Receiving Funds (includes lockbox account)	\$ 195,343,547	14.5%	5.11%	5.11%	0.003 Years	Short-Term
Operating & Maintenance	\$ 103,233,983	7.6%	5.10%	5.10%	0.003 Years	Short-Term
Extraordinary Repair & Replacement Funds	\$ 71,715,957	5.3%	2.65%	4.83%	1.555 Years	Long-Term
Debt Reserves	\$ 31,850,303	2.4%	4.37%	5.23%	0.234 Years	Long-Term
Budget Stabilization Funds	\$ 7,314,078	0.5%	2.90%	4.77%	1.741 Years	Long-Term
Pension Obligation Funds	\$ 7,090,884	0.5%	5.41%	5.30%	0.167 Years	Short-Term
Evergreen Farmington Regional Account	\$ 2,237,960	0.2%	3.85%	3.85%	0.003 Years	Short-Term
WRAP Funds	\$ 1,915,556	0.1%	5.18%	5.18%	0.003 Years	Short-Term
Total	\$ 1,350,214,544	100.0%	5.14%	5.27%	0.204 Years	

Note: Flint Security Deposit, Evergreen Farmington Local System, and Retainage accounts which are not owned by GLWA are not included in this report.

Portfolio Snapshot Investments – By Maturity

Maturity Distribution	January 31, 2024		February 29, 2024		March 31, 2024	
	\$	%	\$	%	\$	%
Under 30 Days	849,282,390	66.0%	914,000,976	67.7%	883,101,727	65.4%
31 to 180 Days	247,753,225	19.2%	249,604,296	18.5%	310,562,685	23.0%
6 - 12 Months	87,321,872	6.8%	102,410,429	7.6%	81,386,847	6.0%
1 - 2 Years	70,149,547	5.4%	50,991,383	3.8%	41,779,267	3.1%
2 - 3 Years	33,241,392	2.6%	32,904,759	2.4%	32,893,561	2.4%
Over 3 Years	-	0.0%	-	0.0%	490,457	0.0%
Totals	\$ 1,287,748,426	100.0%	\$ 1,349,911,843	100.0%	\$ 1,350,214,544	100.0%



Portfolio Snapshot

Investment Accounts – Yield at Cost & Market

	As of March 31, 2024		As of December 31, 2023	
	YTM @ Cost	YTM @ Market	YTM @ Cost	YTM @ Market
Bank Deposits				
Bank A	0.01%	0.01%	0.01%	0.01%
Bank B	3.85%	3.85%	3.61%	3.61%
Sub-Total Bank Deposits	2.40%	2.40%	1.49%	1.49%
Money Market Funds / LGIPs				
Local Government Investment Pool	5.40%	5.40%	5.53%	5.53%
Trust Money Market Fund	5.18%	5.18%	5.25%	5.25%
Money Market Fund	5.19%	5.19%	5.24%	5.24%
Sub-Total MMF / LGIPs	5.30%	5.30%	5.40%	5.40%
Investment Portfolios				
Sewage SR Debt Serv 5403	5.47%	5.46%	5.61%	5.36%
Sewage SR Res 5400	3.32%	5.24%	3.67%	5.11%
Sew 2nd Debt Serv 5403	5.45%	5.48%	5.59%	5.36%
Sewage 2nd Res 5481	4.82%	5.24%	4.82%	5.08%
Sew SRF Debt Serv 5410	5.32%	5.45%	5.57%	5.31%
Sewage ER & R	2.65%	4.84%	2.14%	4.35%
Sewer Improvement & Extension	5.46%	5.35%	5.48%	5.16%
Sewer Pension Obligation	5.42%	5.32%	5.49%	5.38%
Sewer Wrap Fund	0.00%	0.00%	5.64%	7.39%
Sewer Budget Stabilization Fund	2.89%	4.77%	2.14%	4.34%
Sewer Bond Fund	0.00%	0.00%	5.33%	5.56%
Sewer O&M Pension Sub Account	5.31%	5.16%	5.31%	5.30%
Water SR Debt Ser 5503	5.48%	5.47%	5.64%	5.38%
Water SR Reserve 5500	4.70%	5.27%	5.02%	5.18%
Water 2nd Debt Serv 5503	5.49%	5.50%	5.62%	5.39%
Water 2nd Res 5581	5.16%	5.27%	5.15%	5.23%
Water SRF Debt Serv 5575	5.33%	5.46%	5.63%	5.38%
Water ER & R	2.64%	4.82%	2.20%	4.34%
Water Improvement & Extension	5.46%	5.35%	5.48%	5.16%
Water Pension Obligation	5.43%	5.32%	5.52%	5.39%
Water Wrap Fund	0.00%	0.00%	5.59%	11.22%
Water Budget Stabilization Fund	2.93%	4.76%	2.17%	4.33%
Water O&M Pension Sub Account	5.31%	5.16%	5.31%	5.30%
Sub-Total Investment Portfolios	4.93%	5.32%	4.86%	5.15%
Grand Total	5.14%	5.27%	5.03%	5.12%

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 March 31, 2024				
	Market Value	YTM @ Market	Effective Duration	Weighted Average Maturity
GLWA				
Great Lakes Water Authority	\$1,350,214,544	5.27%	0.20 Years	75 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		5.12%	0.16 Years	59 Days
BoA / ML 6-Month Treasury Index		5.19%	0.41 Years	150 Days
BoA / ML 1-Year Treasury Index		5.08%	0.88 Years	322 Days
BoA / ML 1-3 Year Treasury Index		4.72%	1.76 Years	644 Days
BoA / ML 1-5 Year Treasury Index		4.56%	2.52 Years	922 Days
Peer Analysis (Water Entities / Utilities)				
District of Columbia Water & Sewer Authority, DC	\$345,925,957	4.94%	1.13 Years	451 Days
DuPage Water Commission, IL	\$198,569,712	4.81%	2.09 Years	1,003 Days
Fairfax County Water Authority, VA	\$185,374,349	4.83%	1.78 Years	685 Days
Metro Wastewater Reclamation District, CO	\$210,316,290	4.65%	2.49 Years	1,000 Days
Metropolitan Water District of Southern California, CA	\$739,063,457	4.96%	1.84 Years	811 Days
Philadelphia Water Department, PA	\$240,377,416	5.21%	0.87 Years	332 Days
San Bernardino Valley Municipal Water District, CA	\$348,360,453	4.82%	1.72 Years	676 Days
Tohopekaliga Water Authority, FL	\$204,423,983	4.59%	1.77 Years	882 Days
Truckee Meadows Water Authority, NV	\$74,127,933	5.03%	1.06 Years	392 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

Monthly Investment Income

(Book Value in 000's)

FY 2024 INVESTMENT INCOME BY MONTH (Unaudited)

Month	Interest Earned During Period <i>(in thousands)</i>	Realized Gain / Loss <i>(in thousands)</i>	Investment Income <i>(in thousands)</i>
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
<u>FY 2024 Y-T-D</u>	<u>\$43,326.6</u>	<u>\$0.7</u>	<u>\$43,327.3</u>

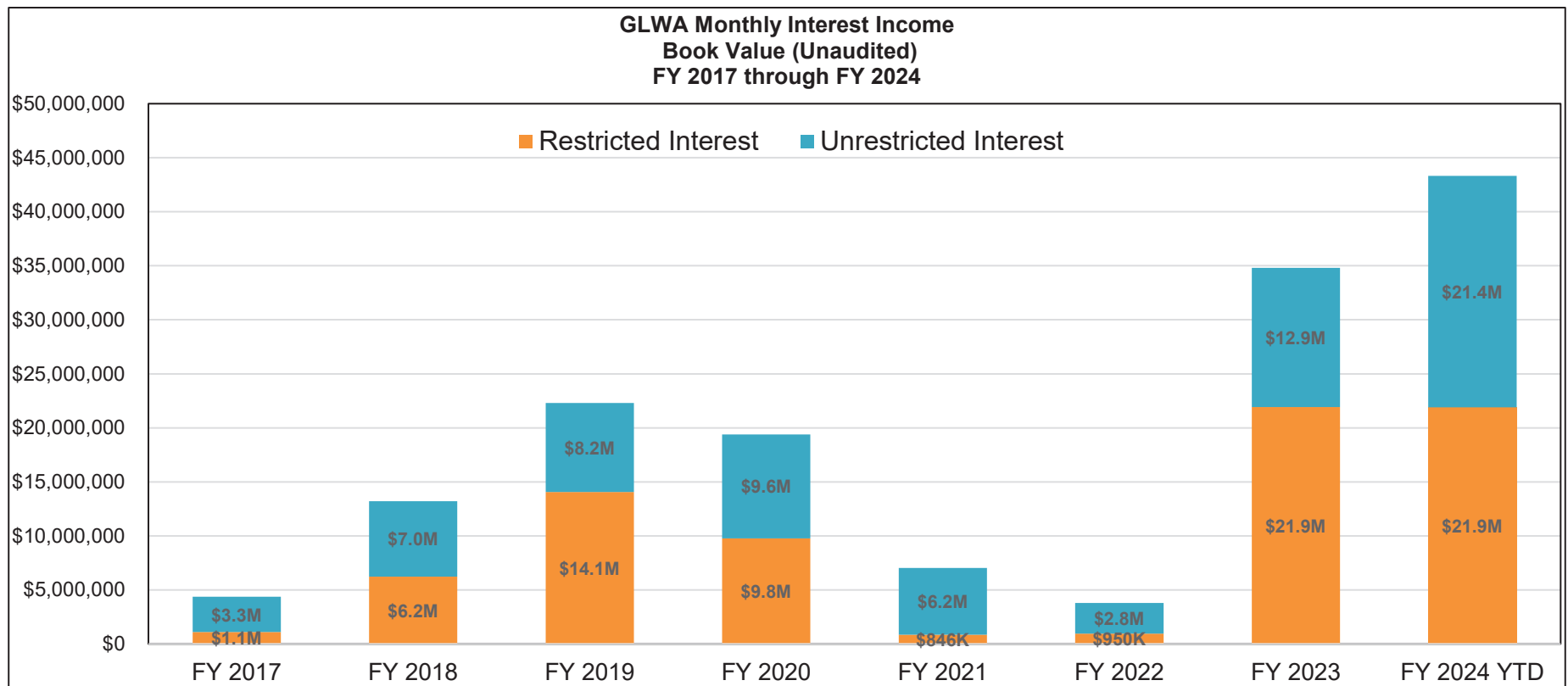
** The realized loss in December of 2023 was due to the sale of investments in the Sewer Second Reserve account in anticipation of liquidity requirements and liquidity needed in the Reserve Fund. The trade settled on December 1st and was available ahead of the bond closing on December 5th.*

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

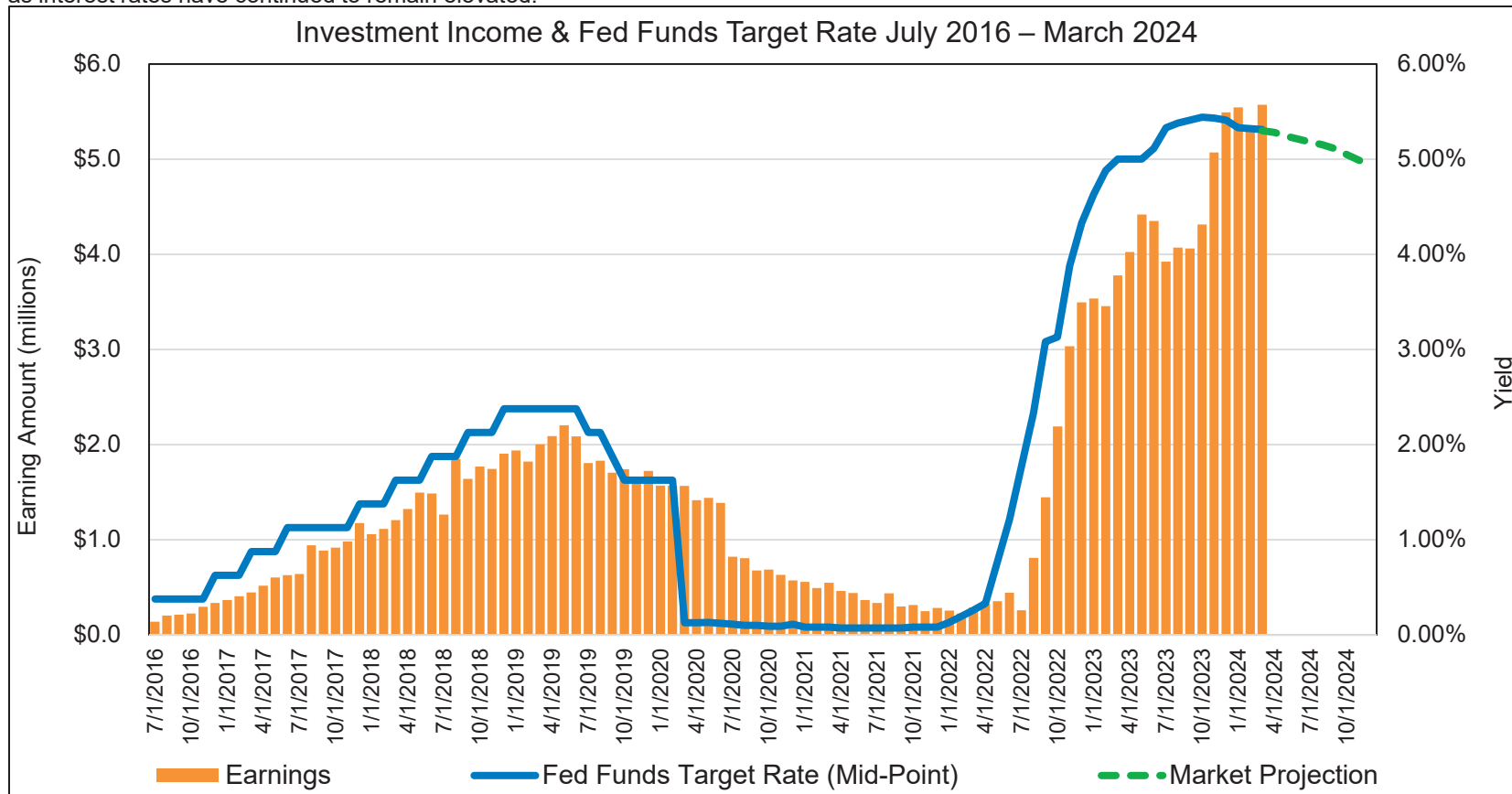
- GLWA earned \$43.3 million in investment income for the first nine months of fiscal year 2024 on a book value basis compared to \$21.9 million for the first six months of fiscal year 2024.
- Based on current market assumptions and the addition of assets and proceeds from GLWA’s recent bond fund issue, projected investment income for fiscal year 2024 is forecasted to be much higher than in FY 2023 (both restricted fund income and unrestricted fund income combined), as the market expects the Federal Reserve to hold overnight rates “higher for longer” over the next several months.



Portfolio Snapshot

Monthly Investment Income Compared to Fed Funds Rate

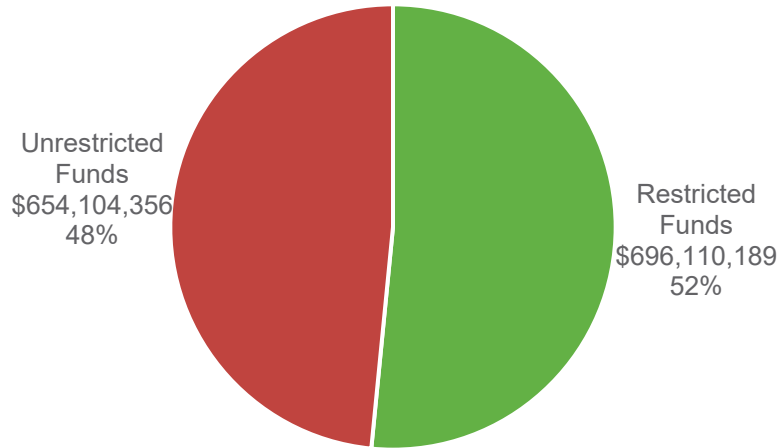
- At least 50% of the GLWA portfolio is designated for obligations that are 12 months or less. As a result of the short-term duration of GLWA’s portfolio, it is heavily impacted by changes in the Fed Funds rate; the chart below shows that GLWA’s income has consistently followed the trend of the Fed Funds rate.
- The Federal Open Market Committee (“FOMC”) continued to hold rates steady in March at a range of 5.25% to 5.50% as Fed officials need “greater confidence” that inflation is slowing sustainably to 2.0%. Looking forward, while the committee revised both their projections for growth and inflation slightly higher, at least one rate cut is still expected for 2024. Nonetheless, GLWA is expected to have higher interest earnings for FY 2024 than in previous years as interest rates have continued to remain elevated.



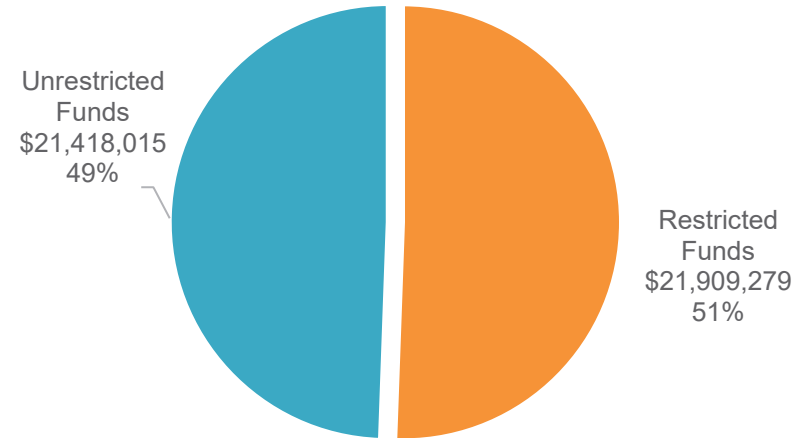
Portfolio Snapshot

Allocation and Income by Fund Type

Bank Balance as of March 31, 2024



July 2023 – March 2024 Interest Earnings



Restricted Principal 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)

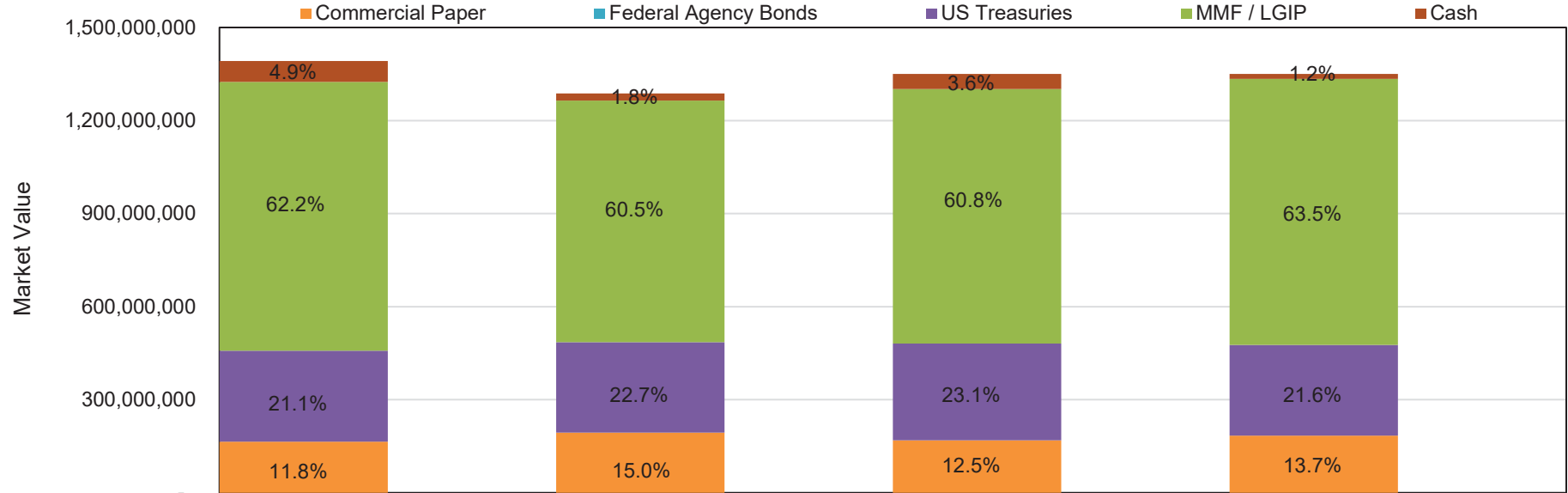
Restricted Principal Unrestricted Interest
Budget Stabilization Funds
Pension Obligation Funds
WRAP Funds

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

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.

Portfolio Snapshot

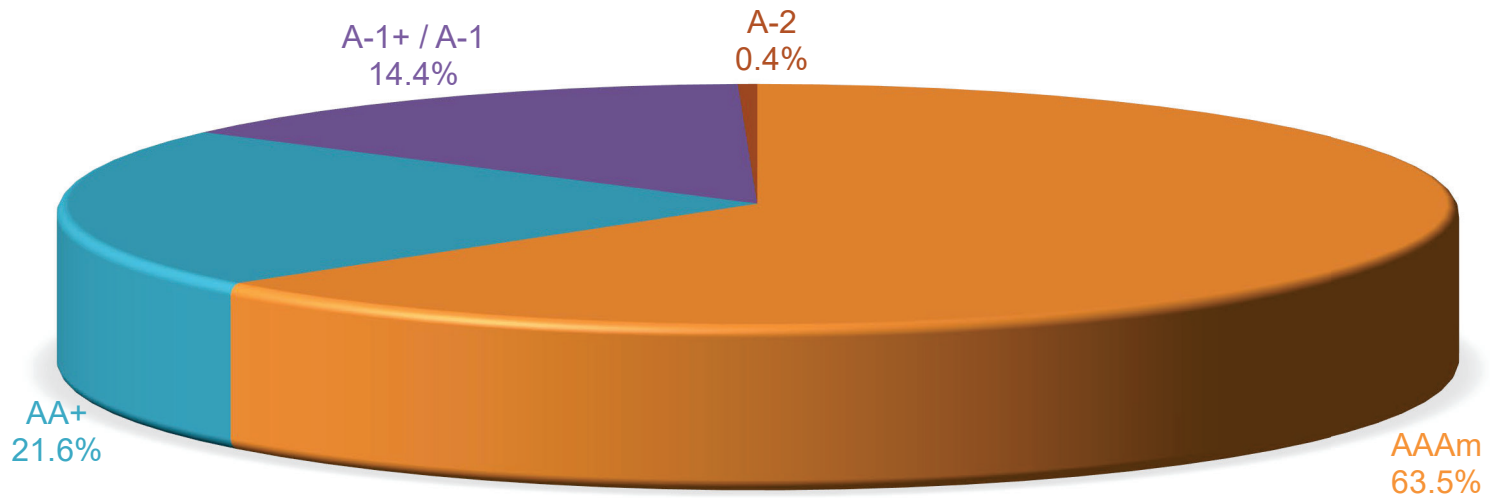
Investments – By Security Type



Security Type	December		January		February		March	
	Market Value	Asset Allocation	Market Value	Asset Allocation	Market Value	Asset Allocation	Market Value	Asset Allocation
Commercial Paper	164,781,332	11.8%	193,624,879	15.0%	169,169,161	12.5%	184,327,347	13.7%
Federal Agencies	-	0.0%	-	0.0%	-	0.0%	-	0.0%
U.S. Treasuries	293,495,328	21.1%	291,765,426	22.7%	311,900,934	23.1%	292,199,371	21.6%
MMF / LGIP	866,076,046	62.2%	778,926,934	60.5%	820,917,969	60.8%	857,689,687	63.5%
Cash	67,569,347	4.9%	23,431,186	1.8%	47,923,780	3.6%	15,998,140	1.2%
Total	1,391,922,053	100.0%	1,287,748,426	100.0%	1,349,911,843	100.0%	1,350,214,544	100.0%

Portfolio Snapshot

Investments – By Credit Quality

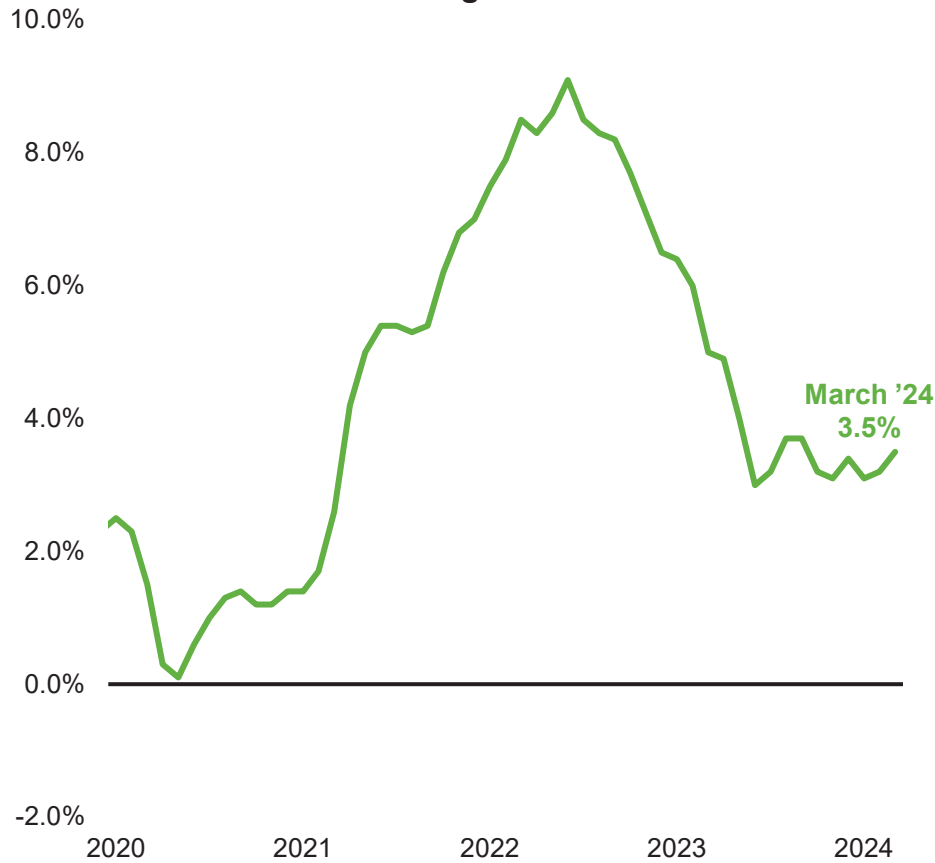


Credit Quality	Market Value	Asset Allocation
Ratings		
AAAm	857,657,008	63.5%
AA+	292,192,069	21.6%
A-1 + / A-1	194,333,643	14.4%
A-2	6,031,825	0.4%
NR	-	0.0%
Totals	1,350,214,544	100.0%

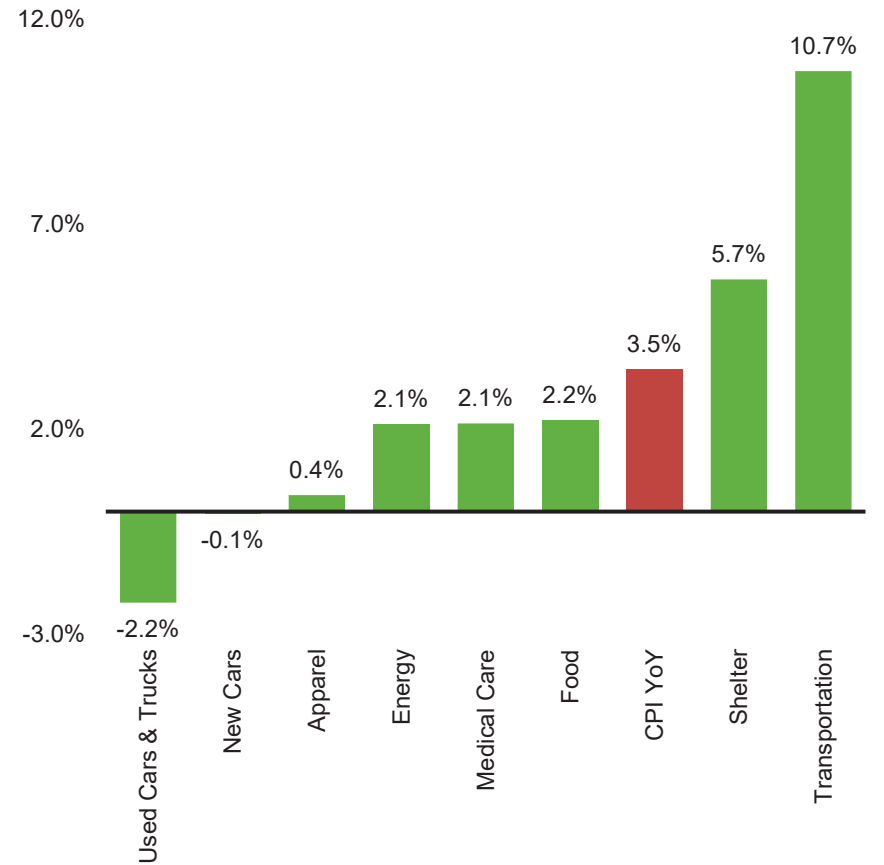
Appendix I: Economic Update

Consumer Inflation

**Consumer Price Index
% Change YoY**



**Key Consumer Price Index Components
% Change YoY**

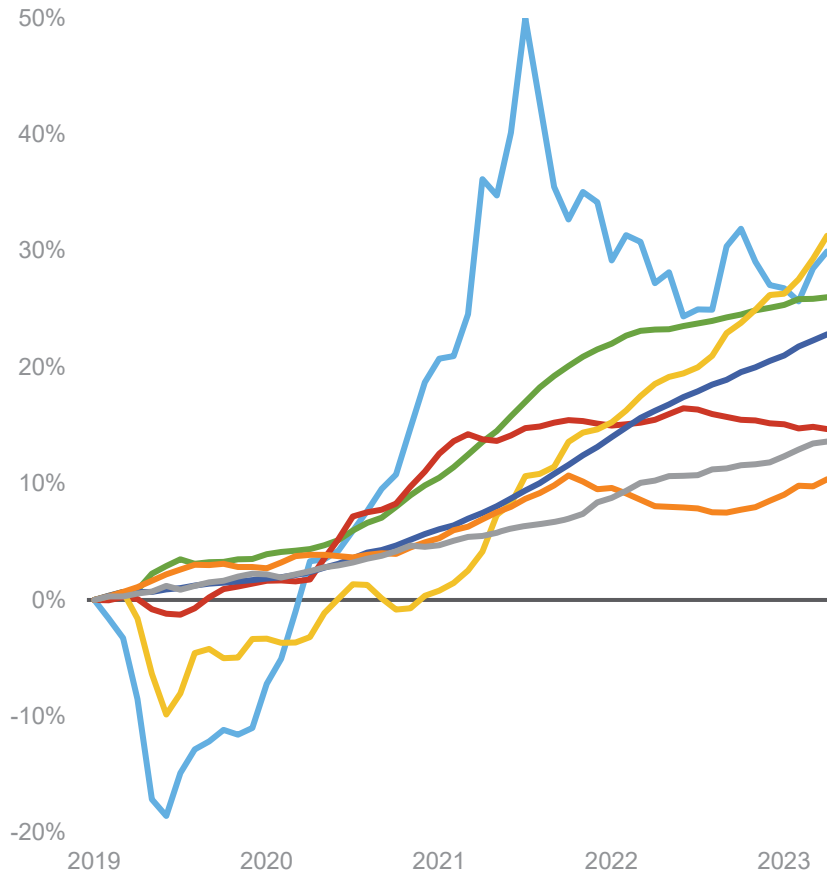


Source: Bloomberg, as of March 2024.

CPI Disinflation Signals Potential for Soft Landing

Price Change of Major CPI Components

Since December 2019



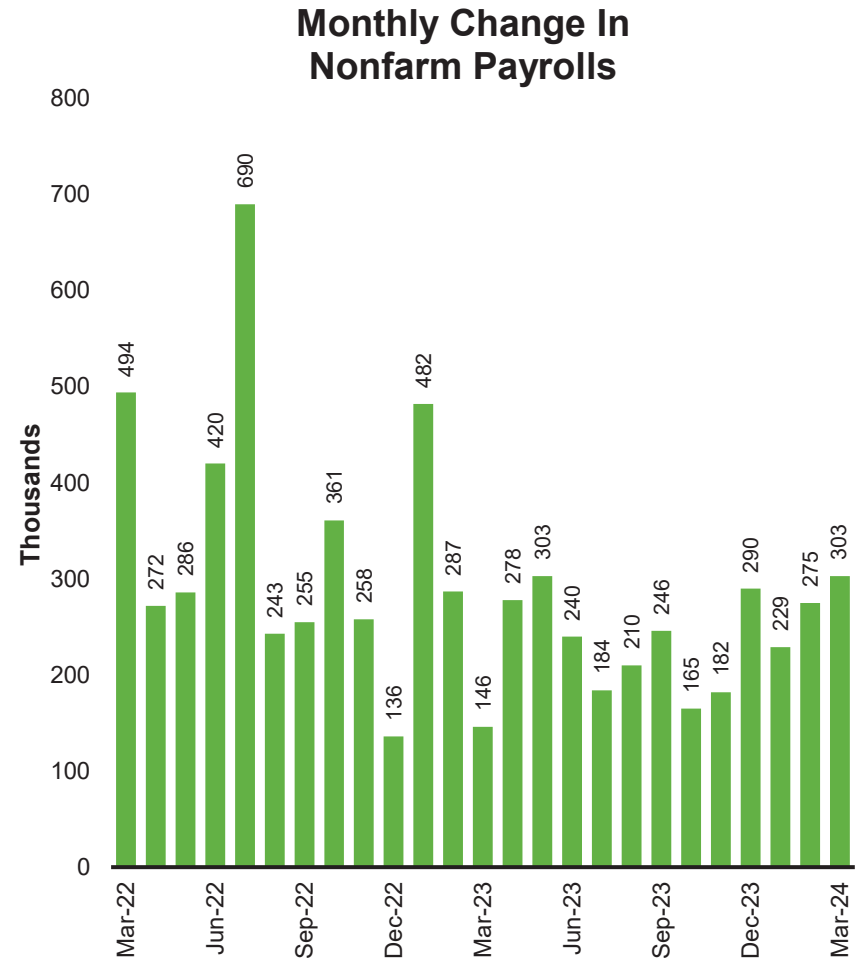
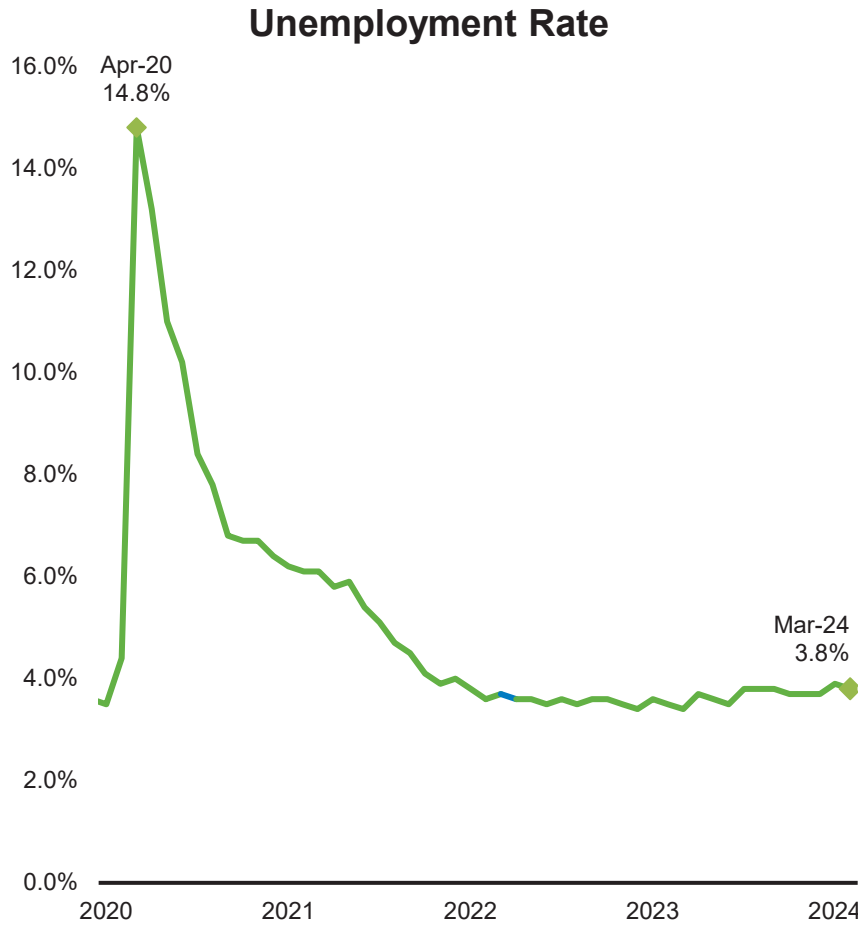
CPI Component	12-mo. Change	Weight ¹	Contribution to YoY CPI
Energy	2.1%	6.7%	0.1%
Food	2.2%	13.5%	0.3%
Transportation	10.7%	6.4%	0.7%
Shelter	5.6%	36.2%	2.0%
Goods	-0.7%	18.8%	-0.1%
Other Services ²	3.0%	11.9%	0.4%
Medical Services	2.1%	6.5%	0.1%
Overall	3.5%		

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

¹ Index weights are as of February 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.

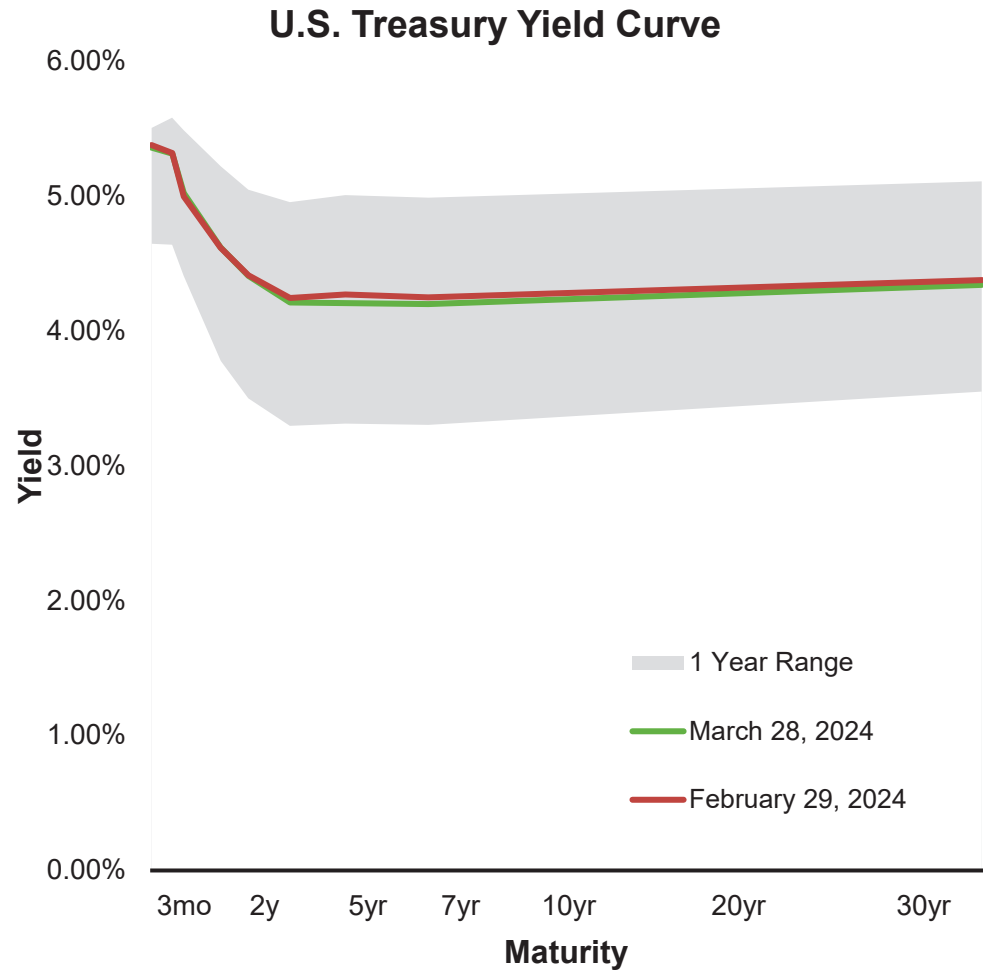
Unemployment Rate Increased to 3.9%



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

Treasury Yield Curve

	2/29/2024	3/31/2024	Change
3 month	5.38%	5.36%	-0.02%
6 month	5.32%	5.32%	0.00%
1 year	5.00%	5.02%	0.02%
2 year	4.62%	4.62%	0.00%
3 year	4.41%	4.41%	0.00%
5 year	4.24%	4.21%	-0.03%
10 year	4.25%	4.20%	-0.05%
30 year	4.38%	4.34%	-0.04%



Source: Bloomberg, as of 02/29/2024 and 03/31/2024, as indicated.

Fixed Income Market Overview and Outlook

FIXED INCOME MARKET – ECONOMIC HIGHLIGHTS

- The U.S. economy is characterized by:
 - Robust growth that continues to show surprising strength
 - Sticky inflation that remains above the Federal Reserve’s 2.0% target
 - Labor markets continuing to show impressive job gains and low unemployment
 - Resilient consumer spending supported by wage growth that is outpacing inflation

- Federal Reserve reaffirms rate cut expectations
 - Forecast of 75 basis points of cuts this year
 - After entering the year expecting 6 cuts in 2024, markets have adjusted their expectations to only 2 to 3 cuts in 2024
 - Fed officials reaffirm that restoring price stability is the priority, but further confidence in inflation moving toward the 2.0% target is needed, which may delay the timing of rate cuts
 - Chair Powell: “...the Committee needs to see more evidence to build our confidence that inflation is moving down sustainably toward our 2.0% goal, and we do not expect that it will be appropriate to begin to reduce rates until we are more confident that that is the case

- Treasury yields increase following the change in market expectations
 - Yields on maturities between 2 and 10 years rose 30 – 40 basis points during the quarter
 - Yield curve inversion persists
 - Spreads in most sectors fell to multi-year lows given the strong economic environment

Fixed Income Market Overview and Outlook

FIXED INCOME MARKET – ECONOMIC HIGHLIGHTS

- The past quarter was characterized by continued economic resilience led by strong consumer spending, inflation that continues to slowly grind lower, and a robust labor market

- The Federal Reserve (the “Fed”) kept the overnight rate at its current target range of 5.25% to 5.50% at its March 20th meeting, as expected, marking the fifth consecutive pause following the last rate hike in July of 2023
 - The Fed’s updated “dot plot” implies three 0.25% rate cuts through 2024 while the number of cuts implied for 2025 was reduced from three to two
 - Markets entered the year pricing in over six cuts in 2024 but since have now converged to Fed projections
 - The Fed Chair has said they need more confidence that inflation is moving toward its 2.0% target before the first rate cut
 - Yields moved higher in the quarter with the return of the Fed’s “higher-for-longer” stance

- The market spent the majority of the quarter adjusting its expectations as strong economic data and Fed commentary pushed back on the notion that a rate cut was imminent
 - As a result, Fed Funds futures recalibrated expectations throughout the quarter and are now priced for the first rate cut to occur in July, a four-month delay from expectations at the beginning of the year

- Reflecting the market adjustment to delayed rate cuts expectations, U.S. Treasury yields increased notably over the quarter
 - The yield on the 2, 5, and 10-year Treasuries rose 37, basis points, 37 basis points, and 32 basis points, respectively
 - As a result of higher absolute yields, U.S. Treasury indices with longer durations generated negative returns, with the breakeven point around the two-year maturity

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