

Is the Fed Done Raising Interest Rates?

ICCCFO Fall Conference 2023

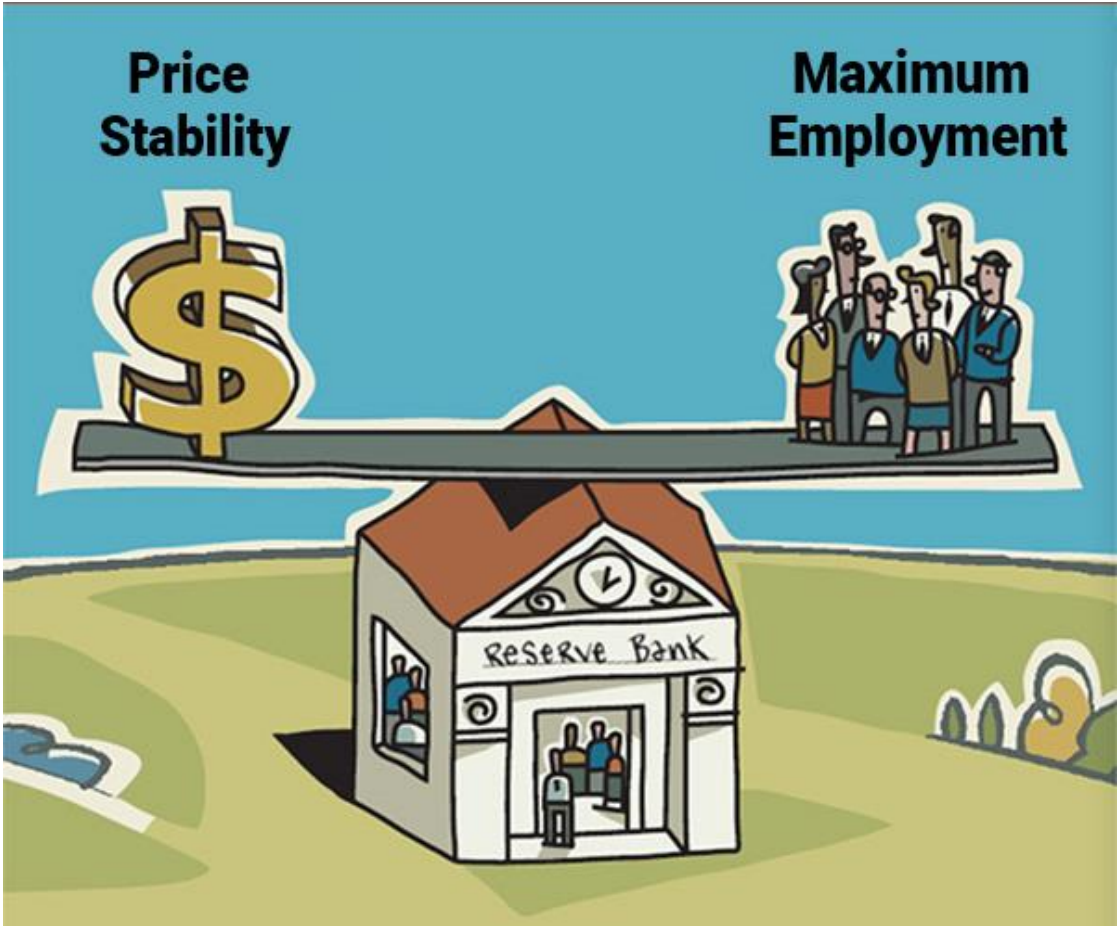
October 12, 2023

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The Fed's Dual Mandate

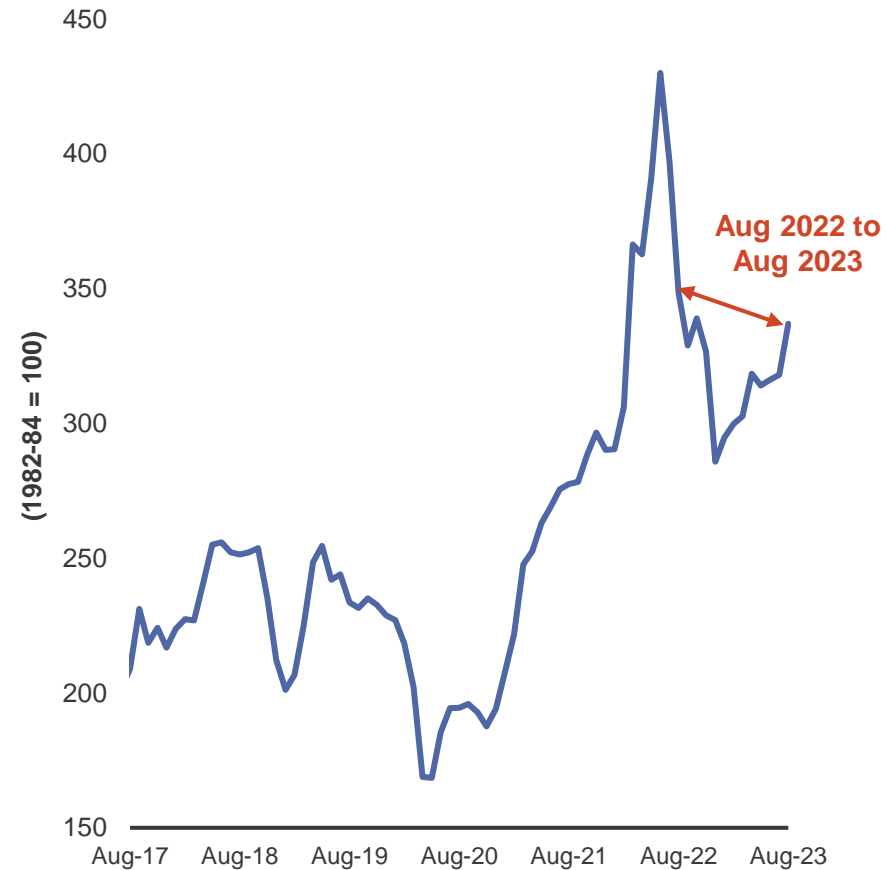


Gasoline May Become a Bigger Driver of Inflation in Coming Months

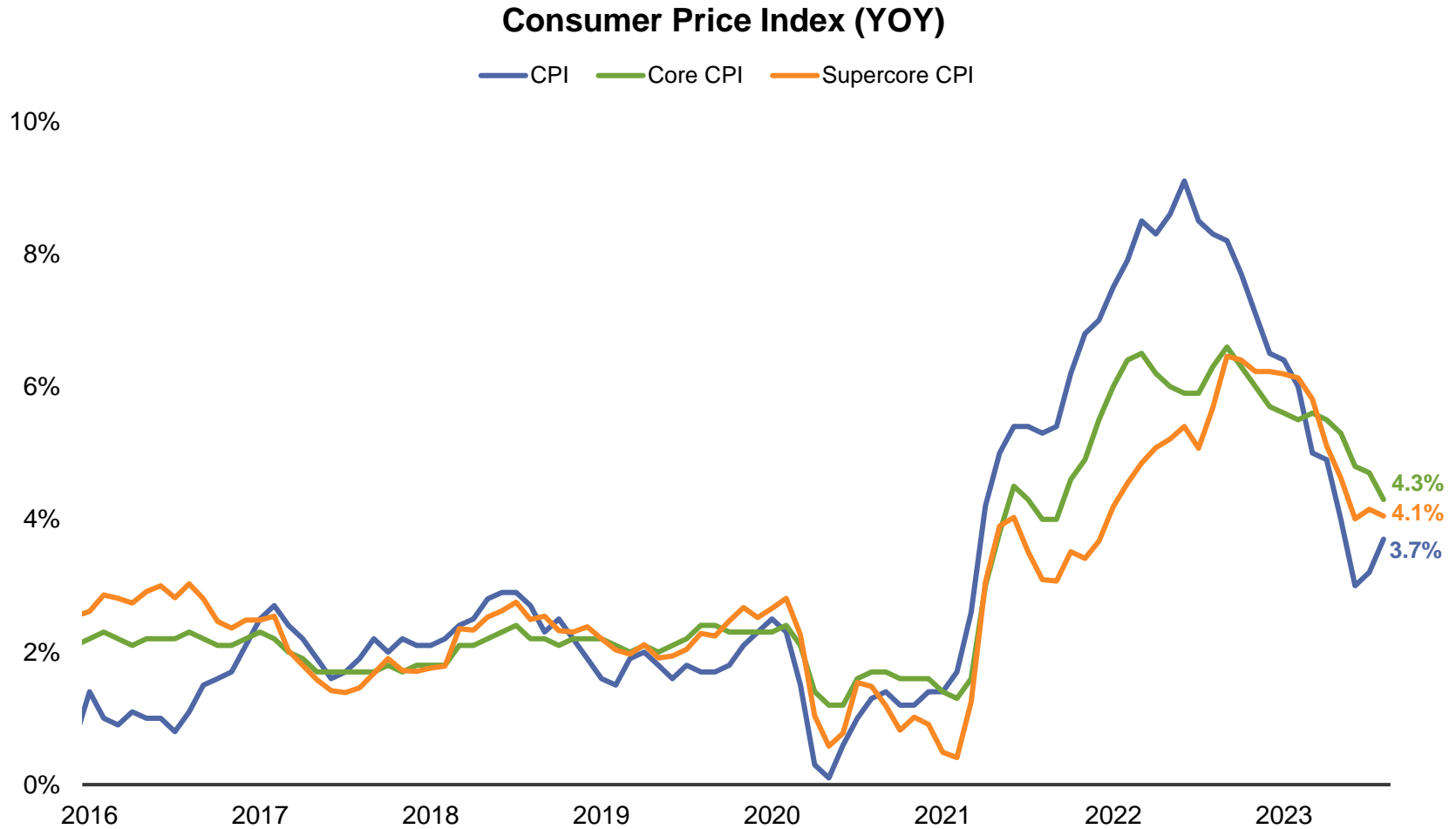
Reason: Higher gasoline prices reflected oil-production cuts by Saudi Arabia and Russia, which extended to the end of 2023

CPI For Energy, by Category	MoM	YoY
Overall Energy CPI	5.6%	-3.6%
Gasoline	10.6%	-3.3%
Utility natural gas to home	0.1%	-16.5%
Electricity service	0.2%	2.1%
Heating oil, propane, kerosene, firewood	-12.4%	8.4%

CPI Gasoline, Index Value



Without Oil, Core Inflation Metrics Fell in August



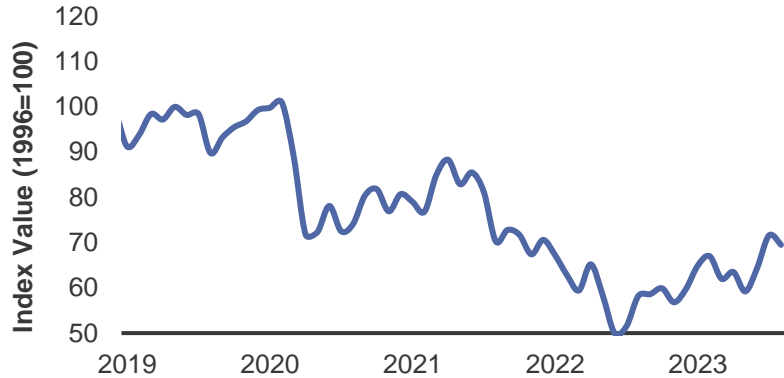
Source: Bloomberg, Bureau of Labor Statistics as of August 2023.
Super core CPI = Core services less housing

Consumers and Businesses Are Both Expecting Higher Prices in Short-Term

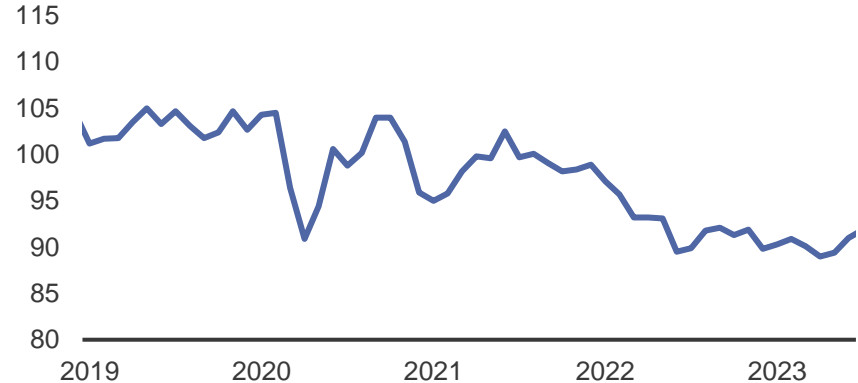
Consumer Side

Business Side

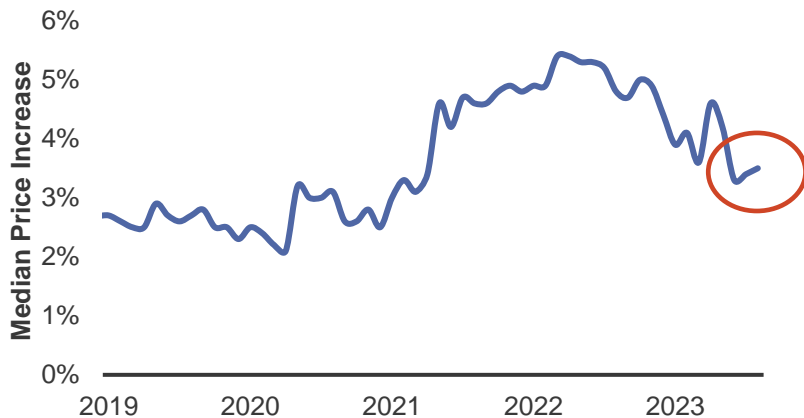
Consumer Sentiment Index



NFIB Small Business Optimism Index



Expected Change in Prices During Next Year



Small Business Selling Prices



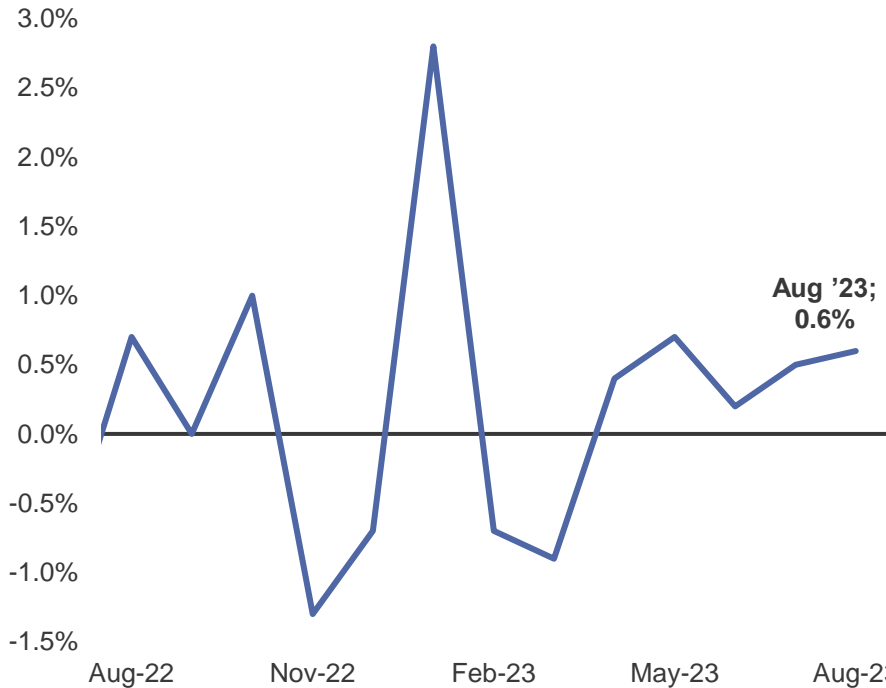
Source(left): Bloomberg, University of Michigan Consumer Sentiment and underlying index components, as of August 2023.

Source(right): NFIB Small Business Survey, as of August 2023.

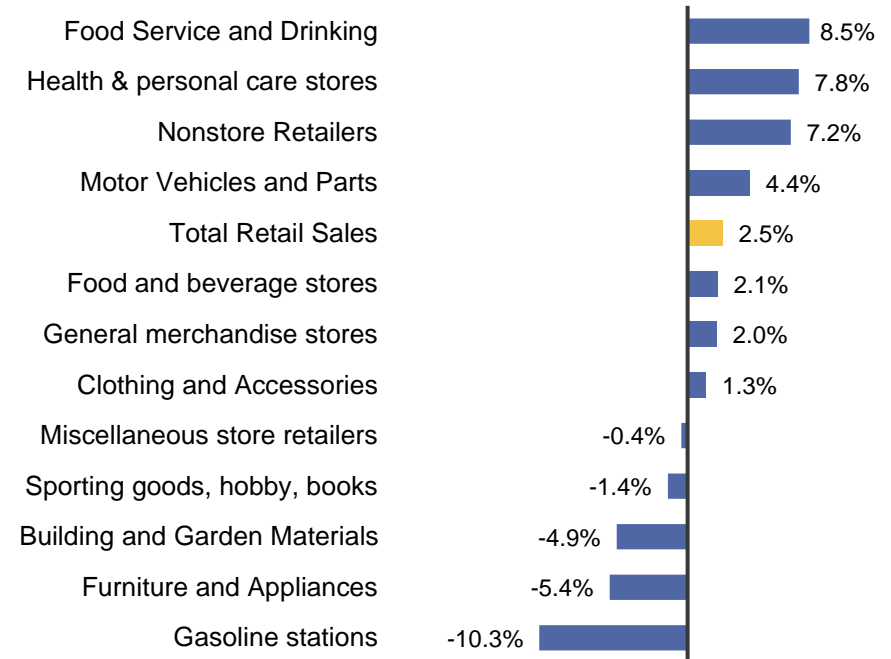
Retail Sales, Which Excludes Services, Jumped on Rising Energy Costs

- Retail sales are not adjusted for inflation, indicating that consumers continue to hold up well despite rising prices and increasing levels of credit card debt

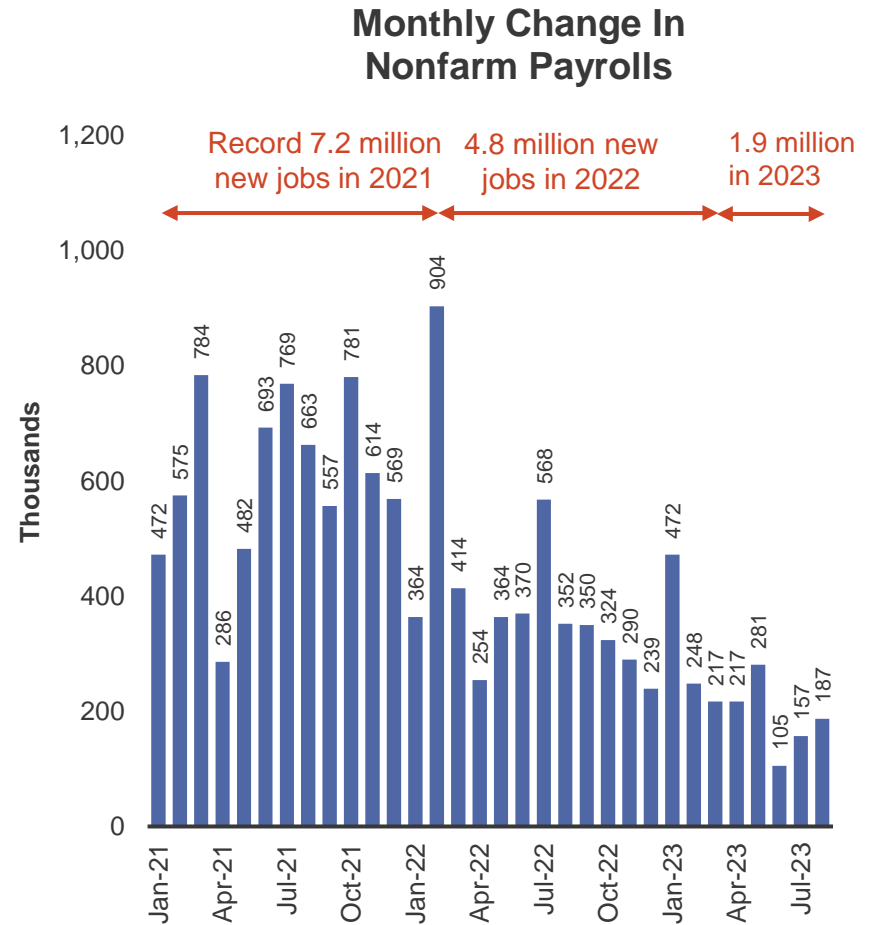
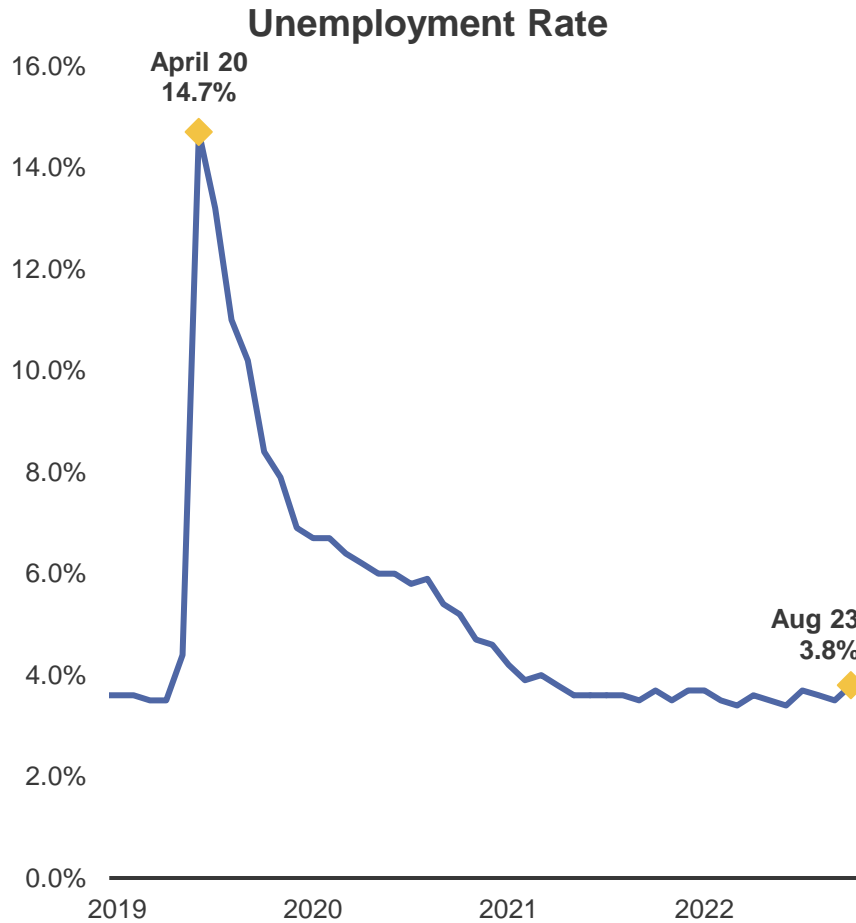
Retail Sales
Month-over-Month



Retail Sales (Year over Year)
August 2023



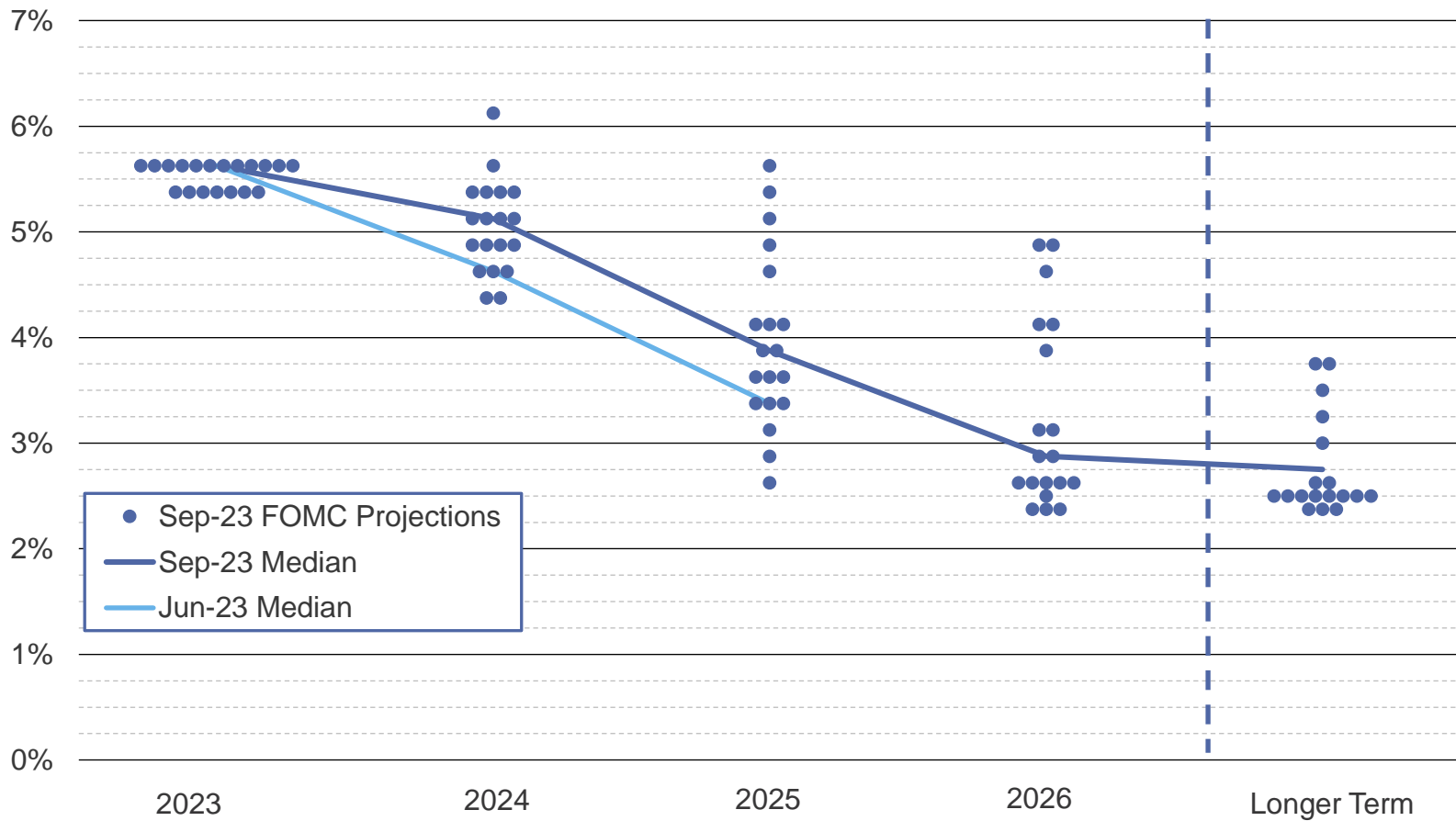
Payrolls Came in Higher than Forecast While the Unemployment Rate Climbed



Source: Bloomberg, as of August 2023. Data is seasonally adjusted.

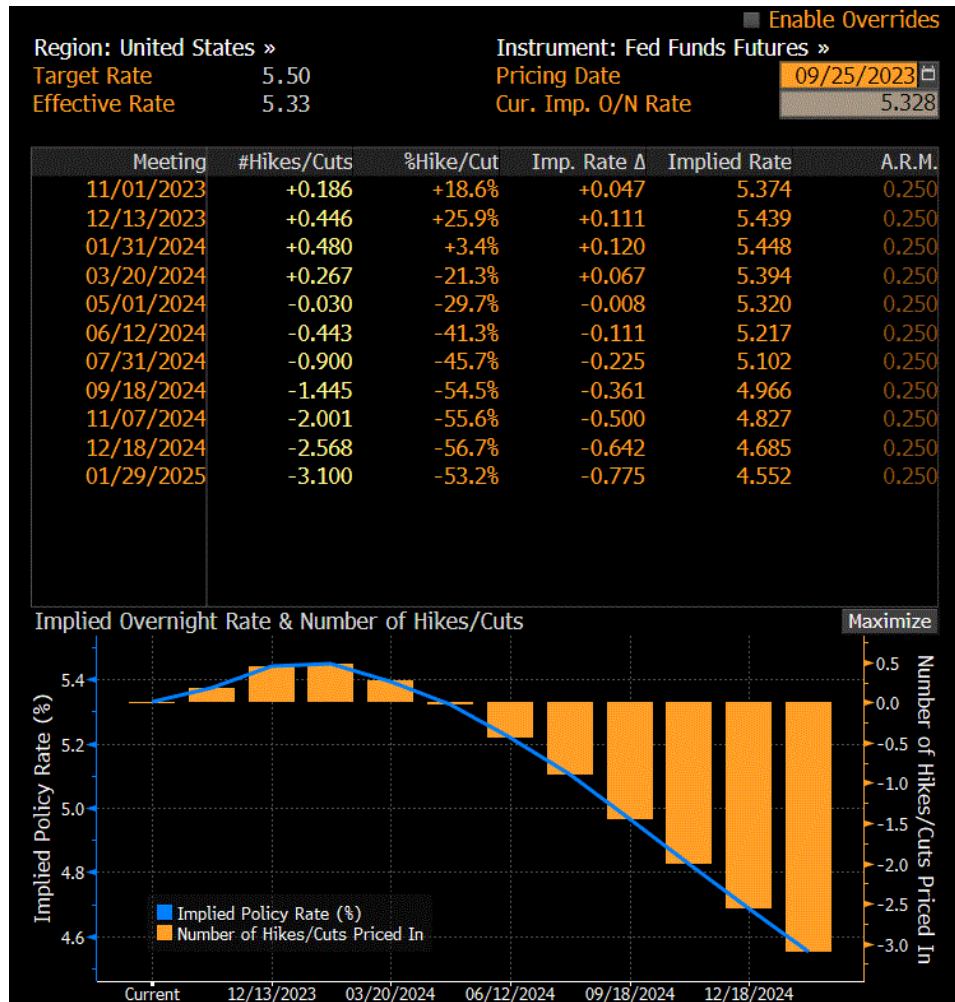
Fed's Update "Dot Plot" Shows Higher Rates for Longer

Fed Participants' Assessments of 'Appropriate' Monetary Policy



Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end.

No Fed Move in September, But There Remains Room for a Hike Later This Year



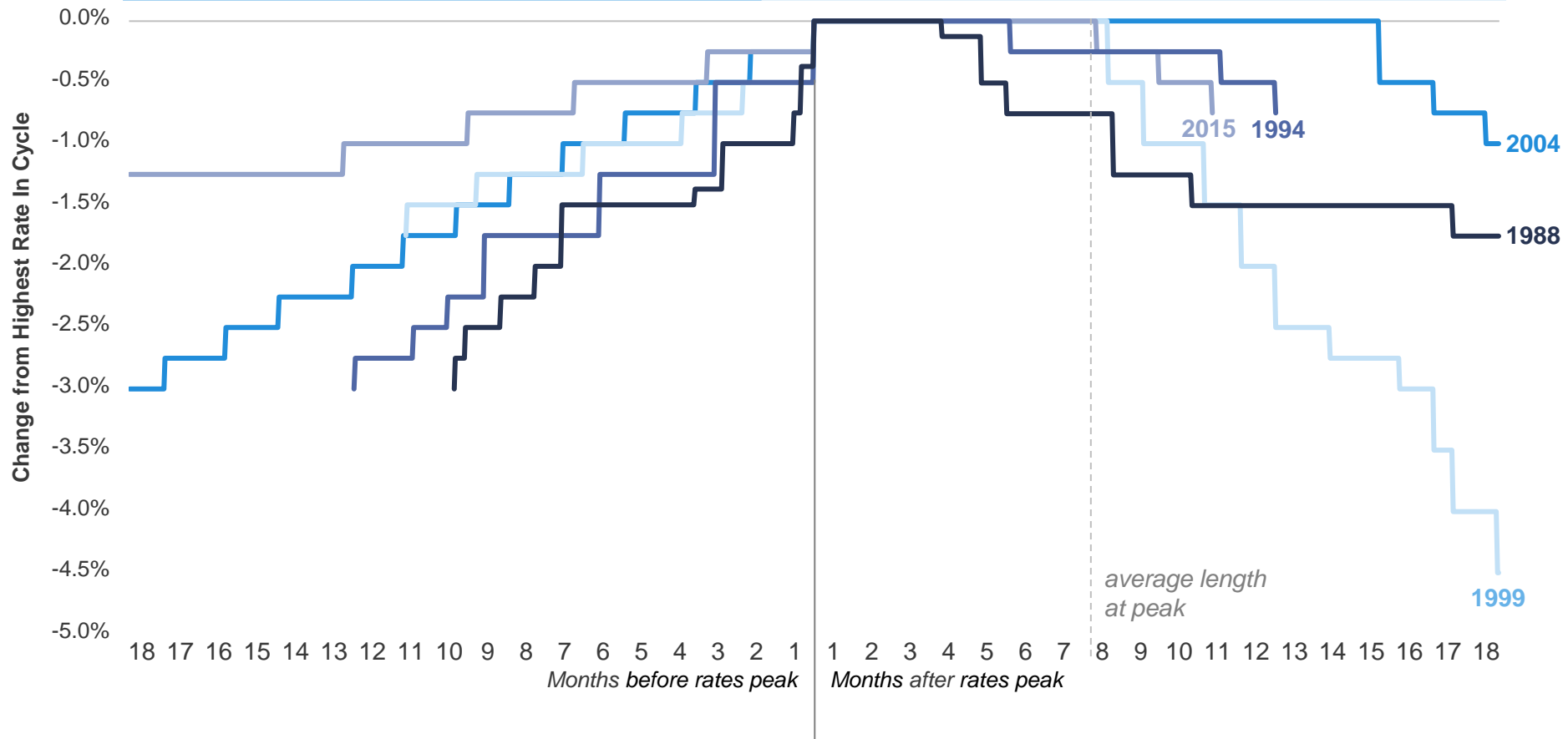
Source: Bloomberg, as of 9/25/2023.

How Long Have Rates Stayed at the Peak?

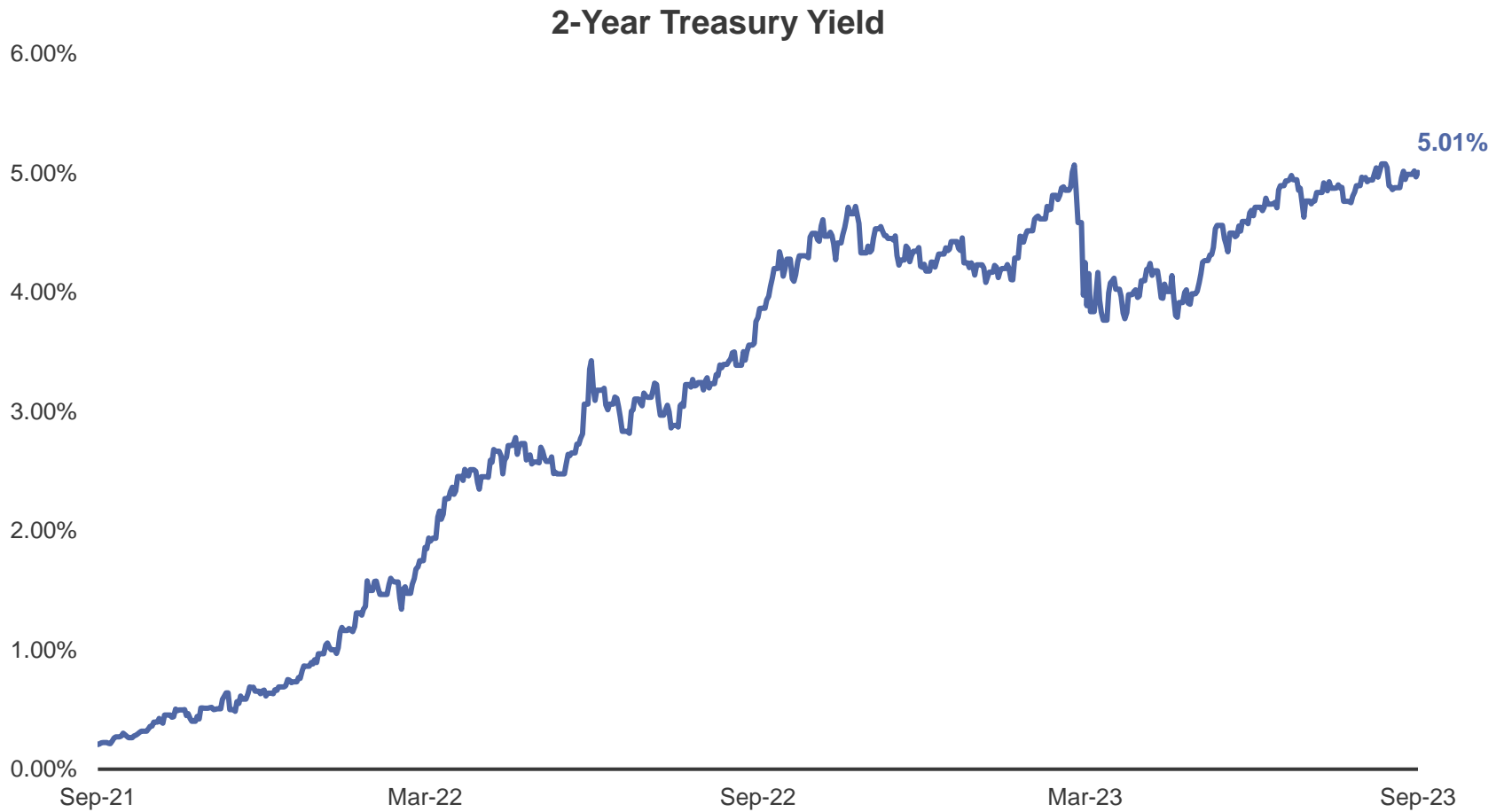
Federal Funds Rate Cycles

Peaks of previous Fed rate cycles, indexed to 0%

Once the Fed reaches their peak Fed Funds rate, they have historically held rates at that level for around **8 months**

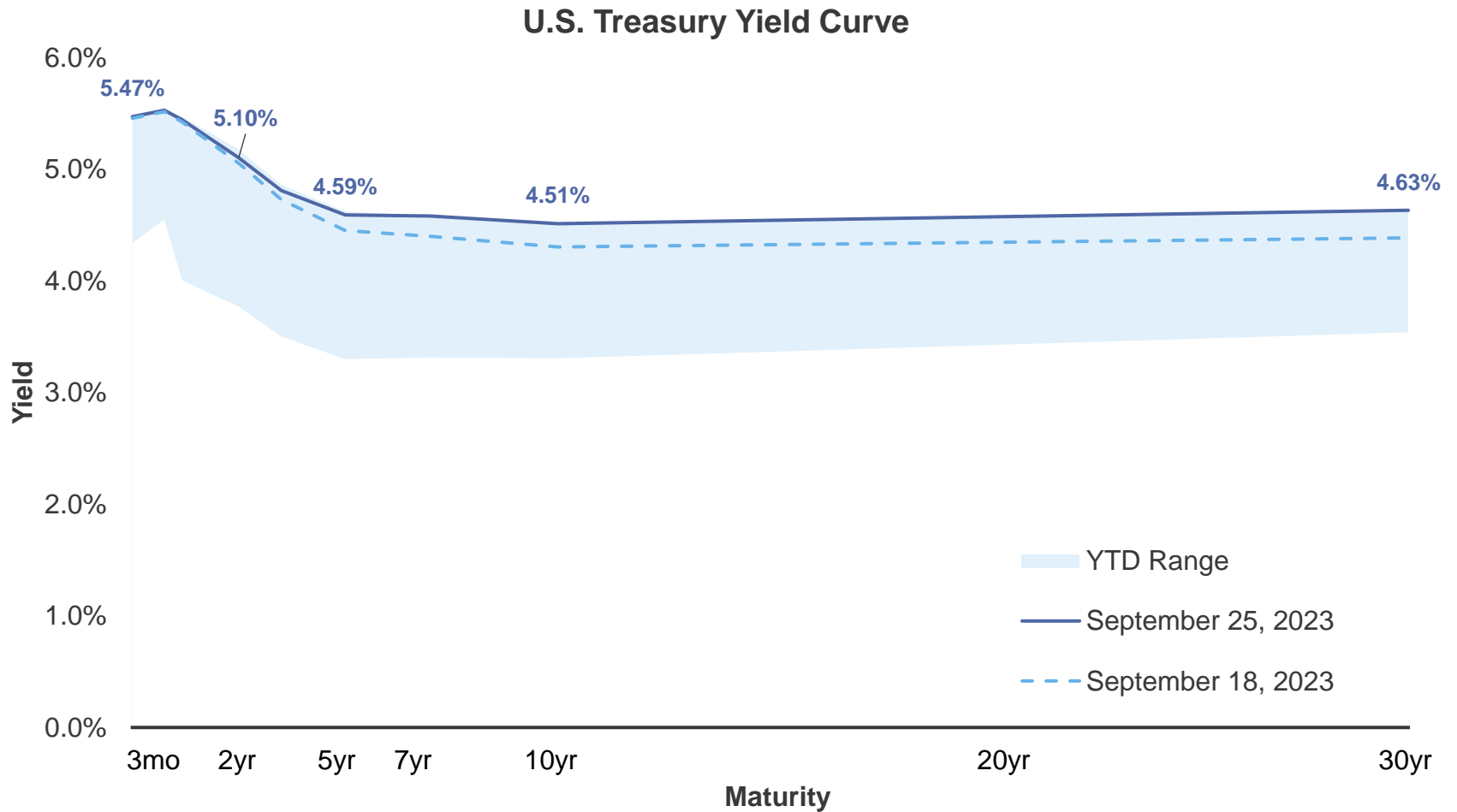


2-Year Treasury Yield at 15 Year Highs



Source: Bloomberg, as of 9/14/2023.

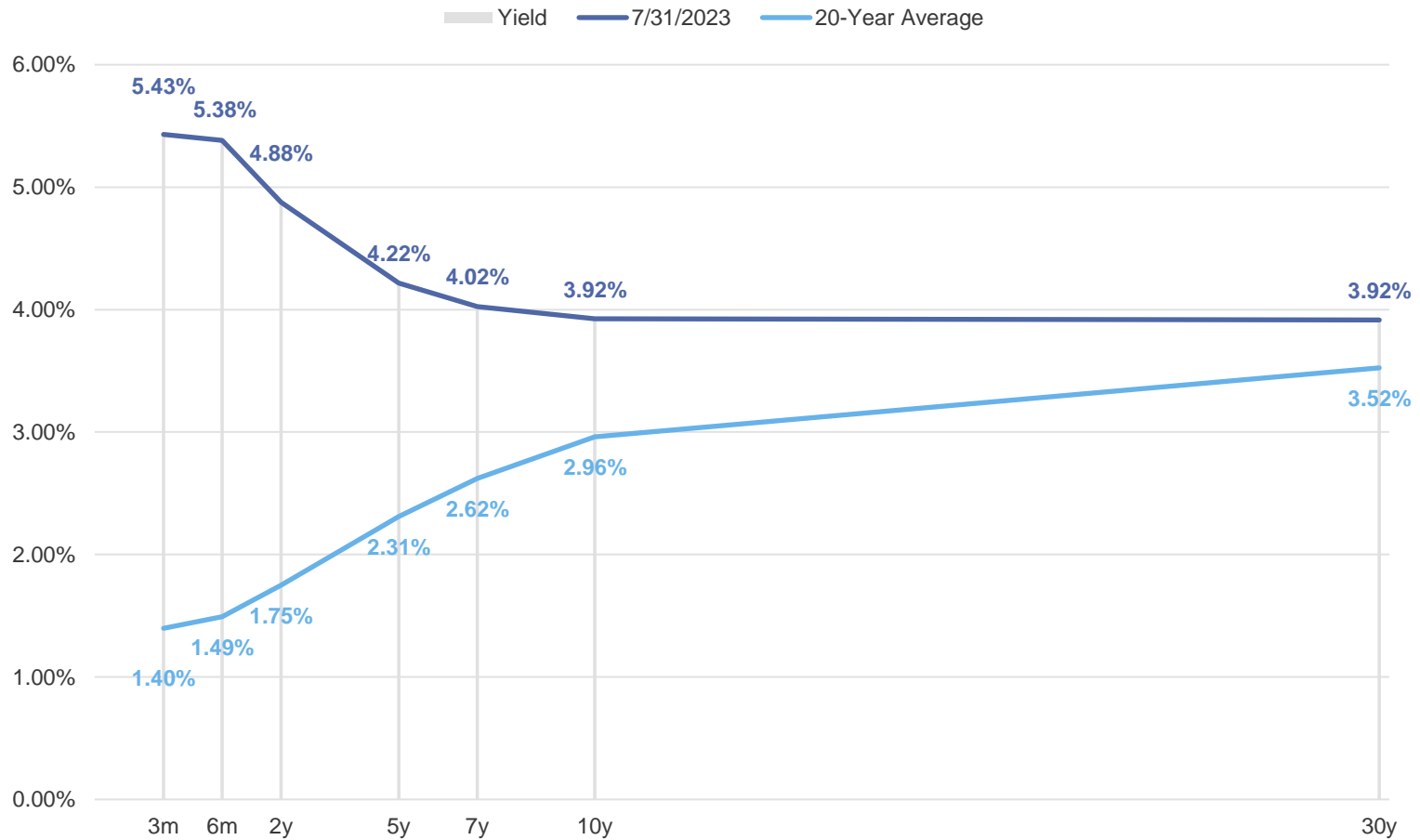
Treasuries Sell-Off, Yields Climb, Following Fed Meeting



Source: Bloomberg, as of 09/25/2023.

Current Inverted Yield Curve NOT Normal

U.S. Treasury Yield Curve



Source: Bloomberg, ICE BofAML Indices.

Longer Duration Portfolios Have Historically Higher Returns

30 Years Ended June 30, 2023			
Bank of America Merrill Lynch Treasury Index	Duration (years)	Annualized Total Return	Cumulative Value of \$40 Million
3 Month Treasury	0.23	2.41%	\$81,657,575
1-3 Year Treasury	1.82	3.04%	\$98,232,563
1-5 Year Treasury	2.57	3.34%	\$107,141,196
1-10 Year Treasury	3.68	3.69%	\$118,785,054

Source: Bloomberg, ICE BofAML Indices, as of June 30, 2023.

Cash Flow Analysis Leads to Prudent Investment Decisions

Liquidity

- ▶ Cash and equivalents, providing immediate availability
- ▶ Manage liquidity needs

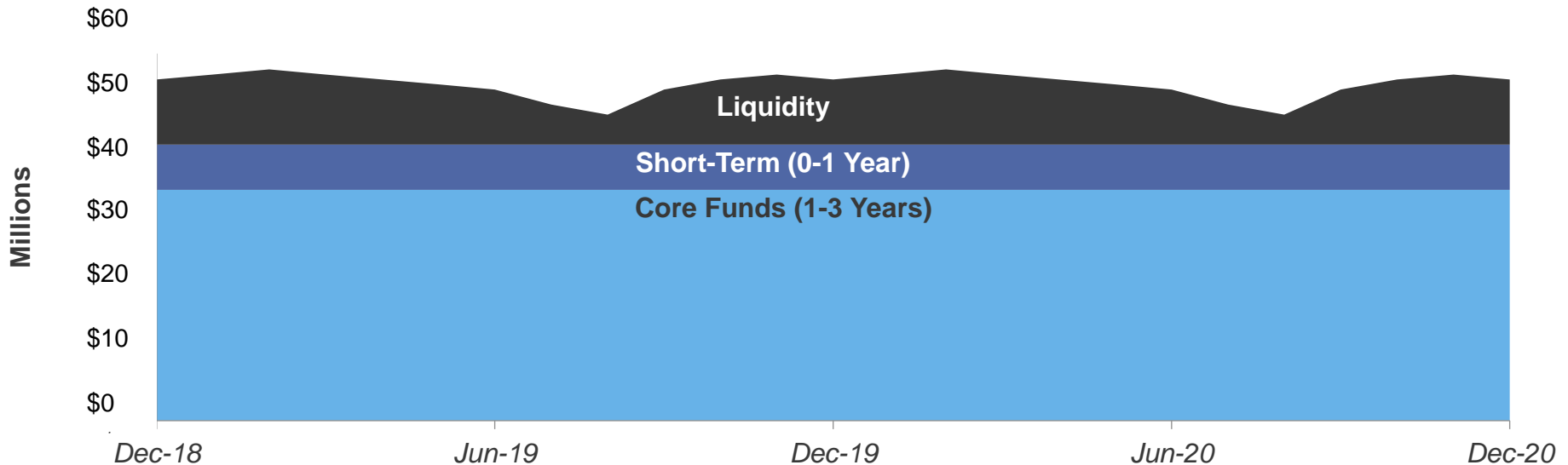
Short-Term

- ▶ Laddered investments to known and expected cash flows
- ▶ High-quality fixed income

Core

- ▶ Reserve funds not expected to be spent for the foreseeable future
- ▶ Intermediate- & longer-term investments

Sample Cash Flow Analysis



For illustrative purposes only.

Corporate Spreads Remain Attractive

Corporate Yield Spreads 1 – 3 Year A – AAA (OAS)



Source: Bloomberg, ICE BofA Indices. OAS is option adjusted spreads. As of 9/22/2023.

Summary Takeaway Considerations

- ▶ Federal Reserve
 - ▶ Dual Mandate
 - Unemployment – 3.8% in August 2023
 - Inflation – CPI 3.7% in August 2023
 - ▶ Potentially nearing restrictive territory, but will remain data dependent
 - ▶ **Rates are near 15-year highs across the yield curve, despite inversion**
- ▶ Interest rates will rise & fall
 - ▶ When?
 - ▶ What pace?
 - ▶ **Establish a disciplined investment strategy to weather all market environments**
- ▶ Cash Flow is Key
 - ▶ Identify balances available for longer term investing vs. short term funds
 - ▶ Optimize cash balances, excess cash typically leaves investment income on the table
 - ▶ Match short term investments with known cash liabilities
 - ▶ **Funds not intended for spend should be invested in a longer term, reserve portfolio**

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