

# When Might a Lower Yield be a Better Choice ?

ICCCFO Spring Conference 2023

April 19, 2023

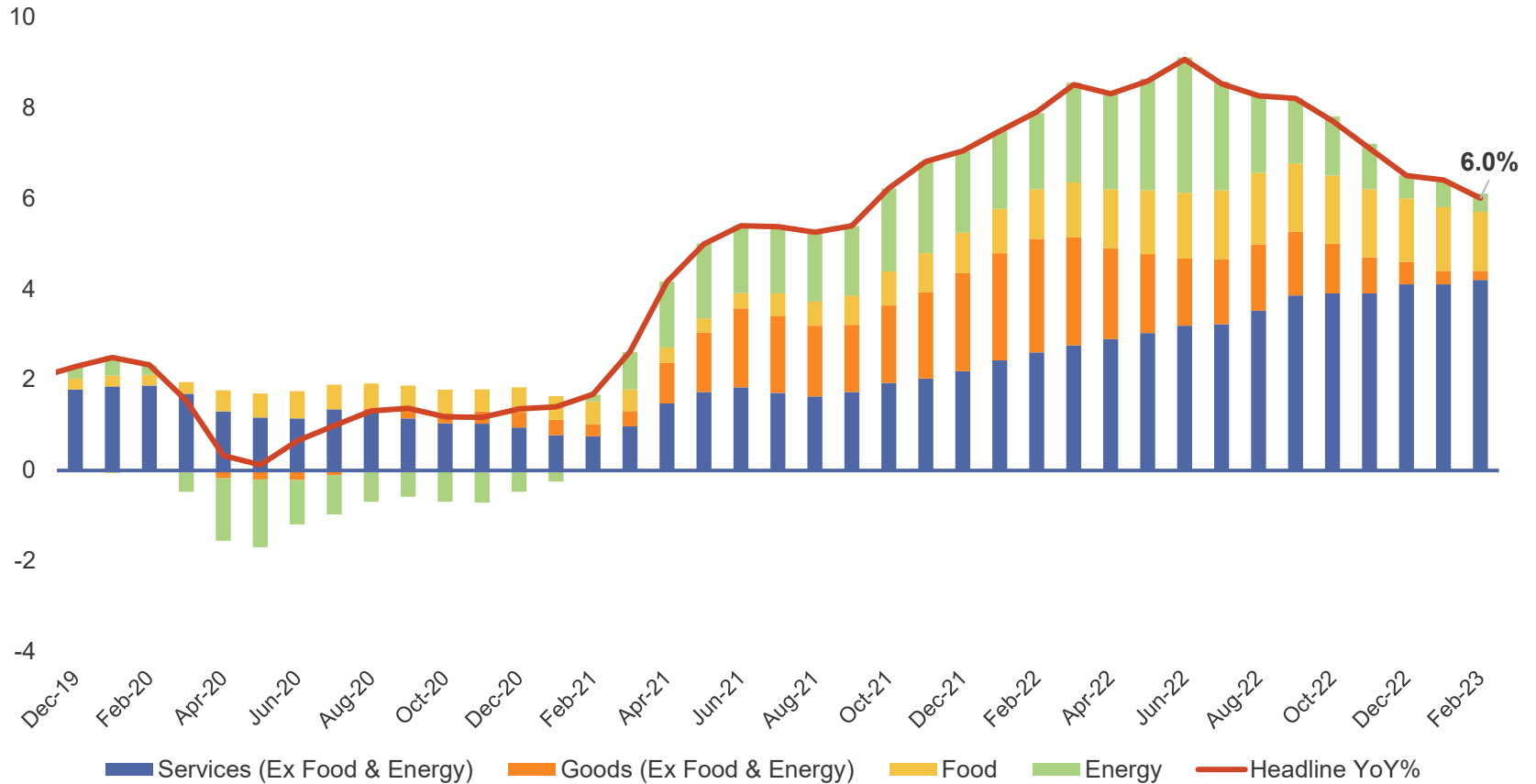
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# Consumer Inflation

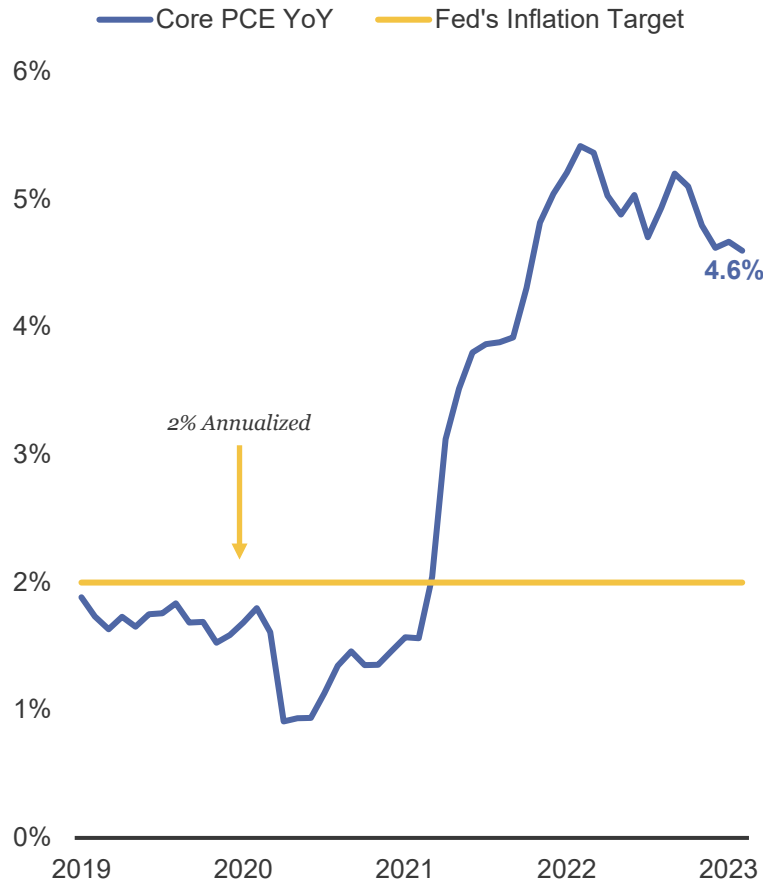
## Factors Contributing to the Consumer Price Index (CPI YoY)



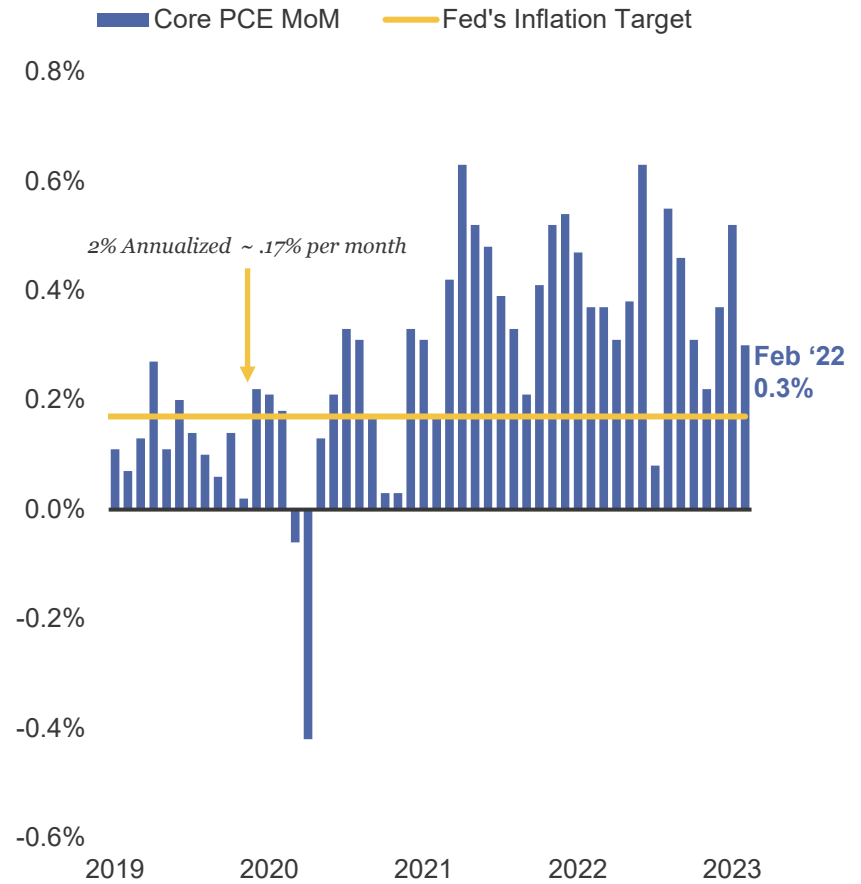
Source: Bloomberg, as of 2/28/23.

# Price Growth Still Remains Too High for The Fed

## Inflation

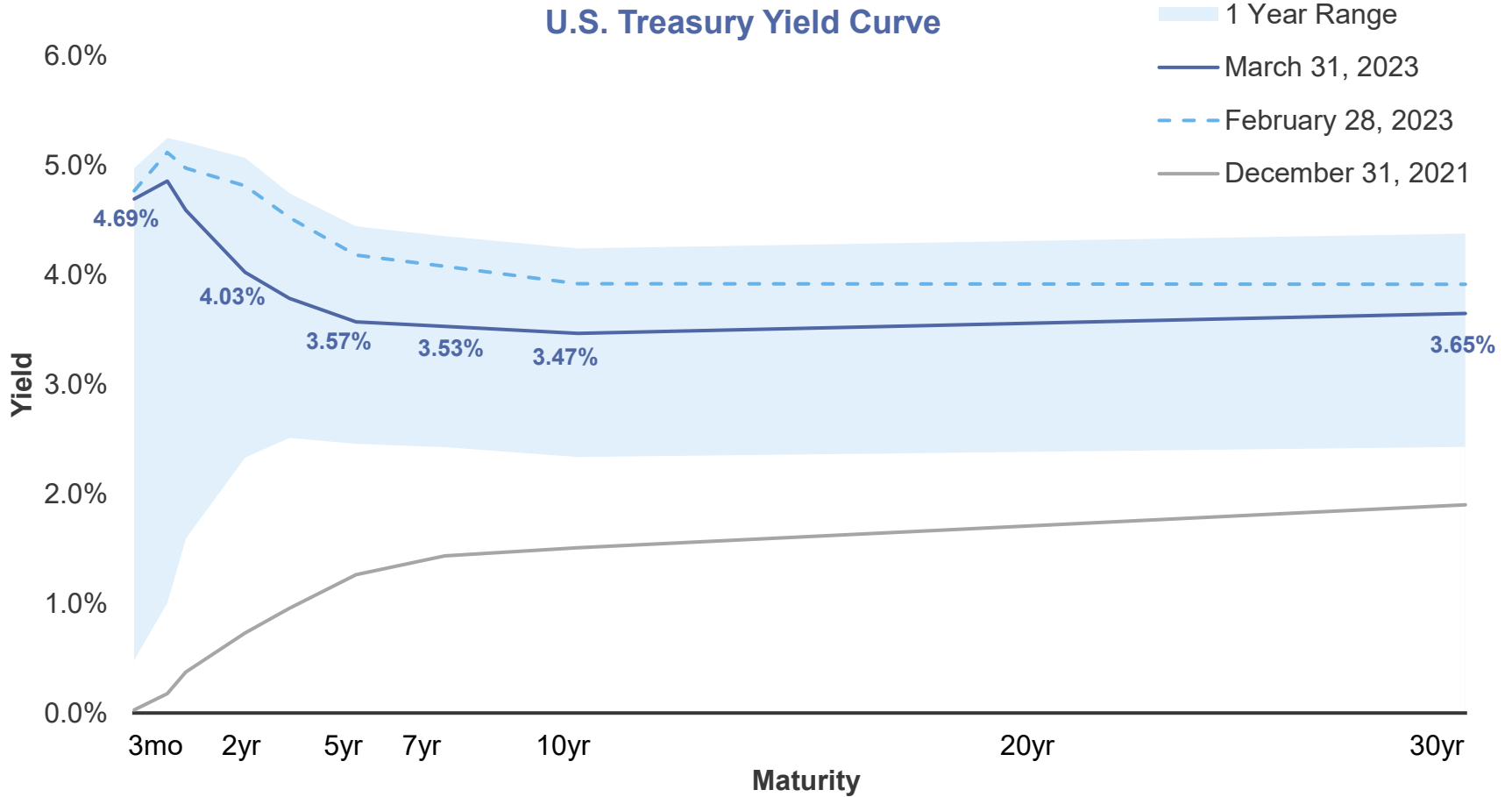


## Inflation



Source U.S. Bureau of Economic Analysis, Federal Reserve, as of February 2023.

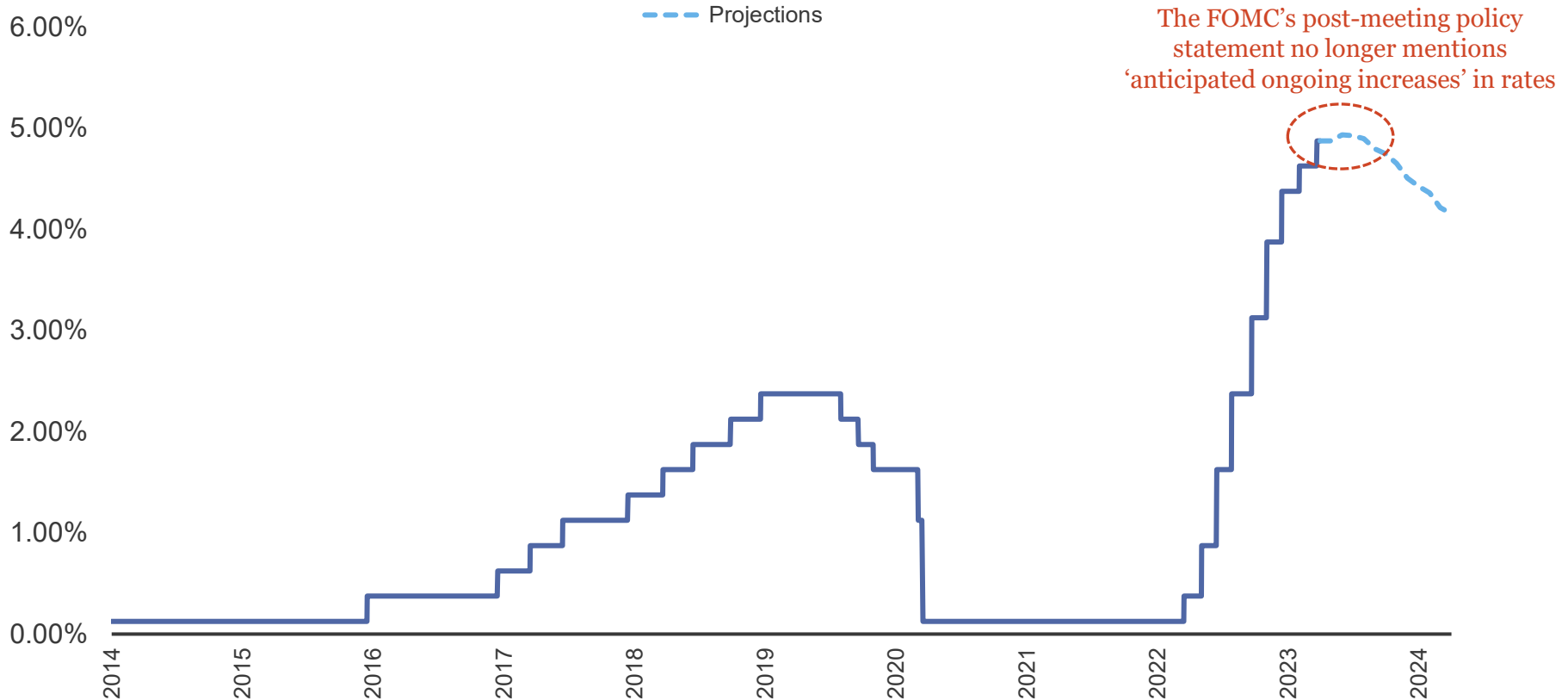
# Current U.S. Treasury Yield Curve vs. Past Yield Curves



Source: Bloomberg, as of 3/31/2023.

# Fed Delivers a 0.25% Hike But Hints at Uncertainty

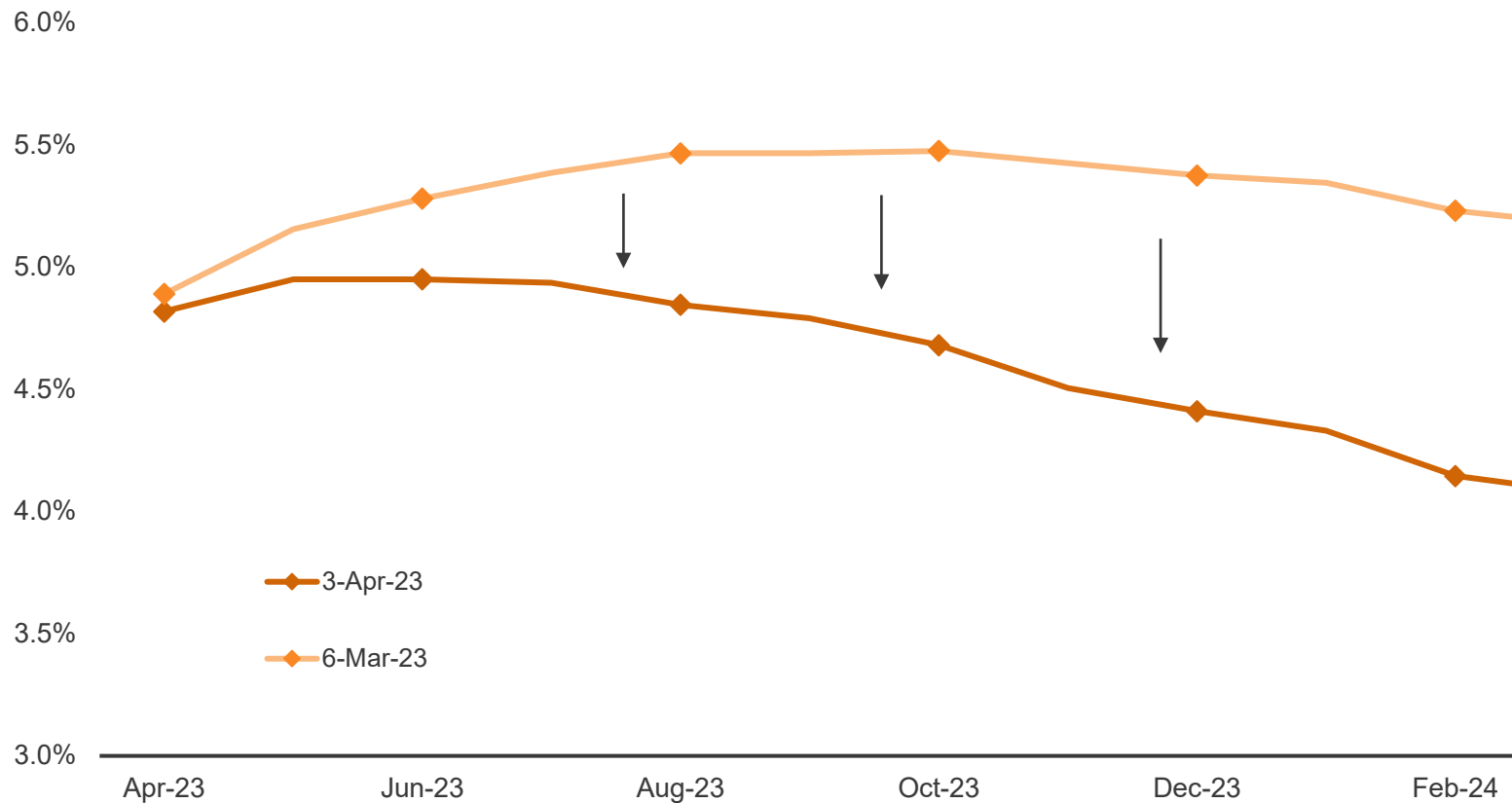
## Federal Funds Rate



The FOMC's post-meeting policy statement no longer mentions 'anticipated ongoing increases' in rates

# One More Rate Hike Ahead in May?

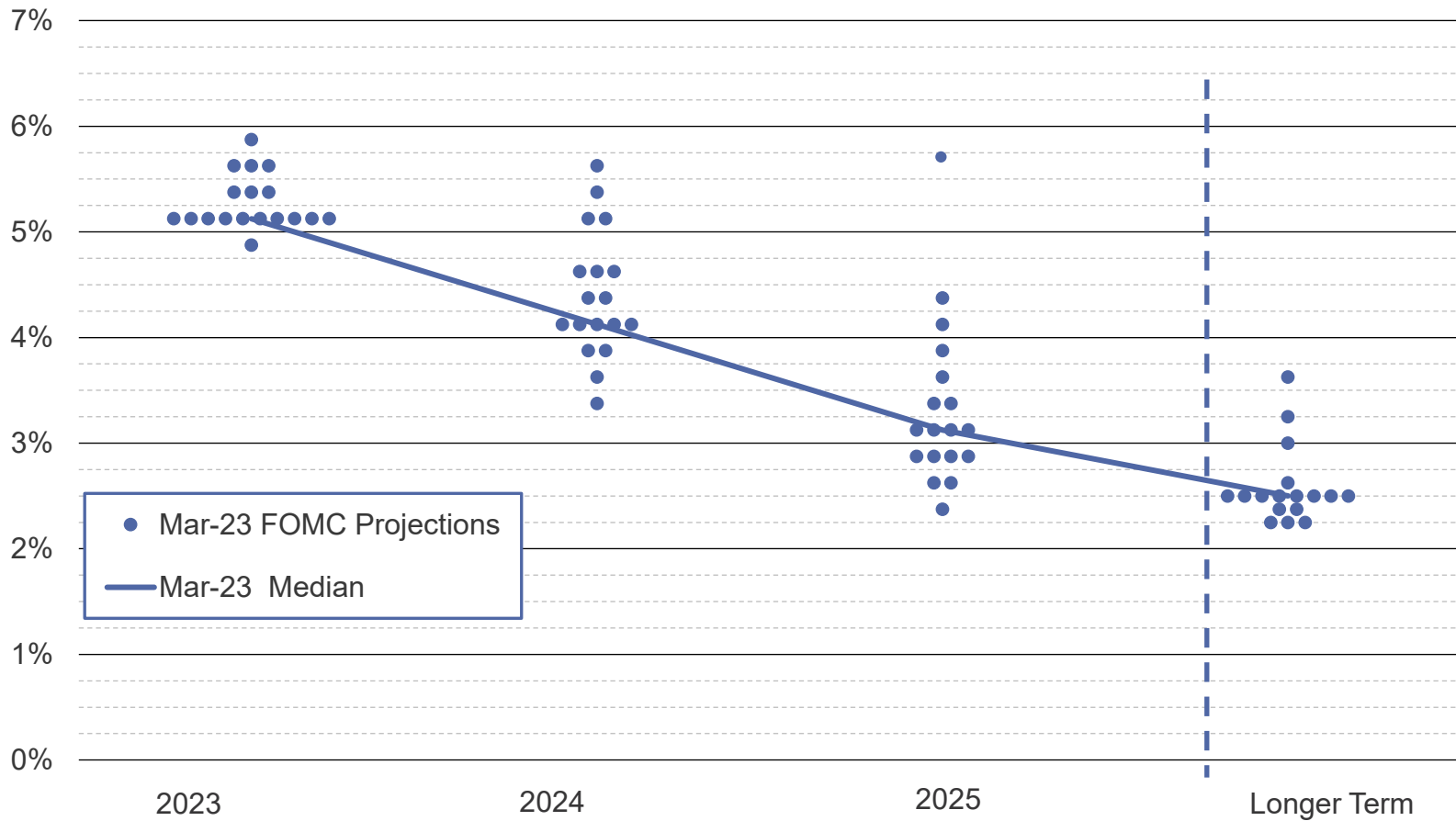
## Implied Fed Funds Rate



Source: Bloomberg, as of 04/03/2023.

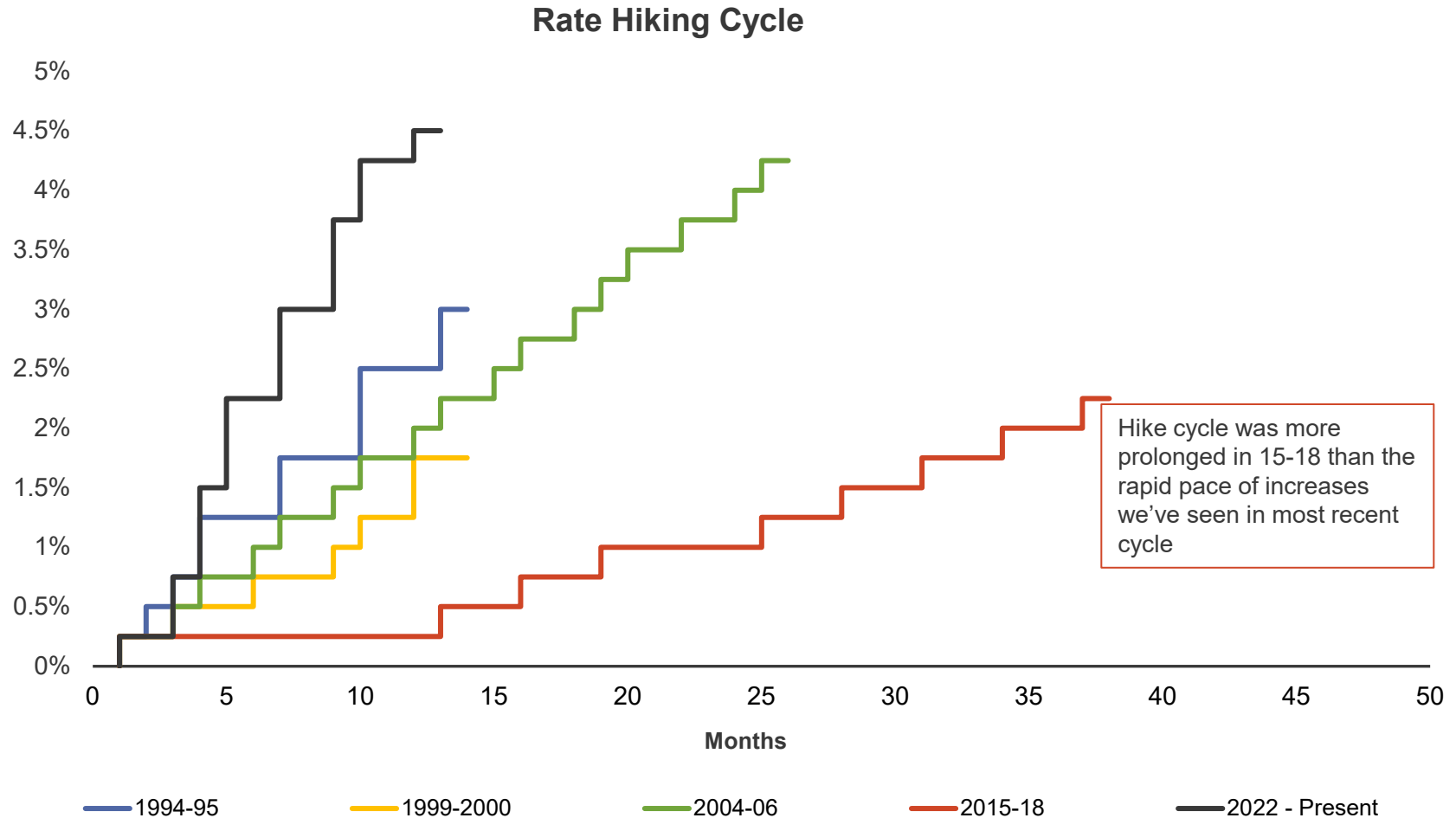
# Fed's "Dot Plot" Shows the Market is Nearing Sufficiently Restrictive Territory

## 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.

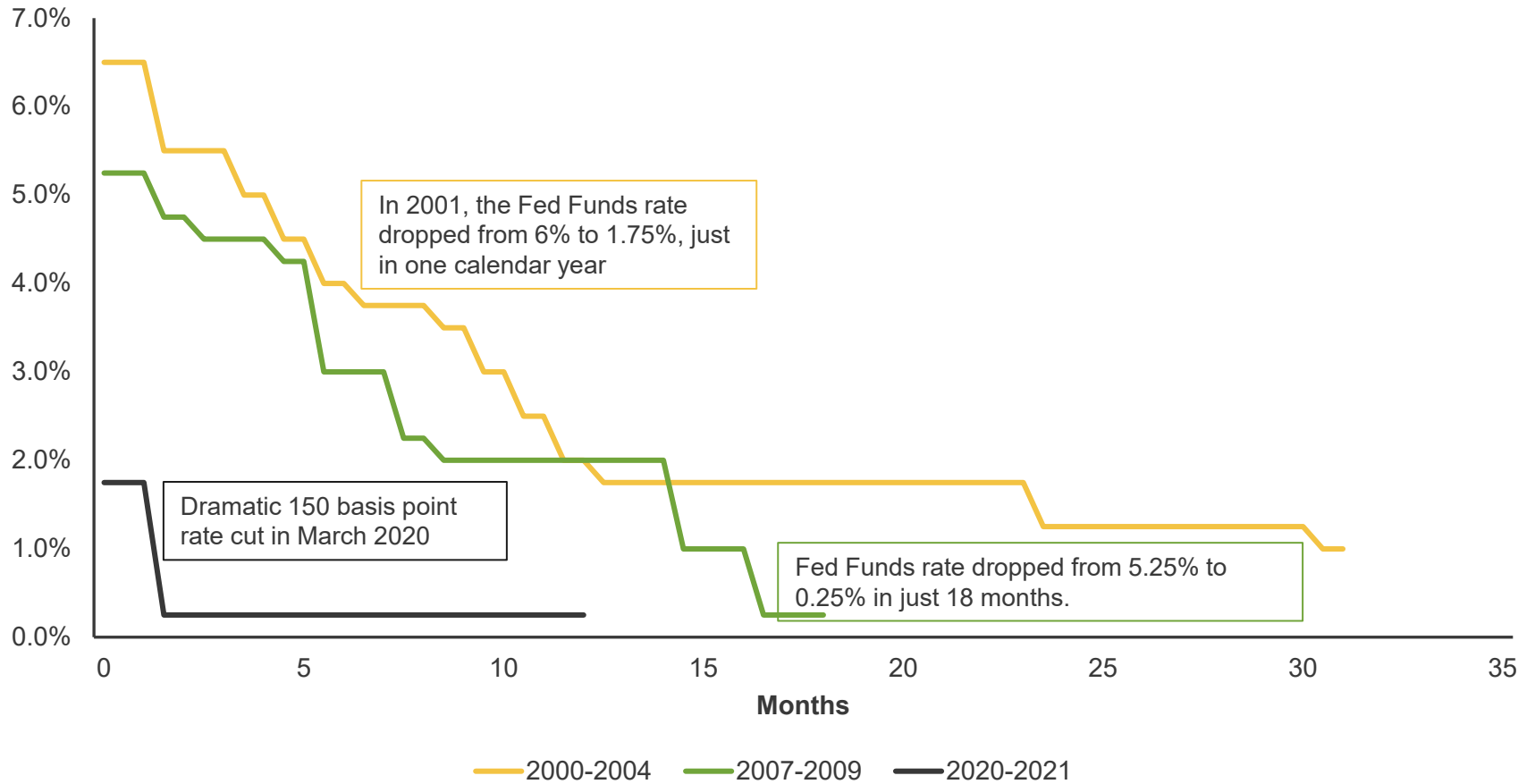
# The Current Rate Hiking Cycle Compared to Previous Rate Hiking Cycles





# Most Recent Rate Cut Cycle Compared to Previous Rate Cutting Cycles

## Rate Cutting Cycle



# 2-Year Treasury Yield Over Last 15 Years



Source: Bloomberg, as of 3/31/2023.

# Cash Flow Analysis Leads to Prudent Investment Decisions

## Liquidity

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

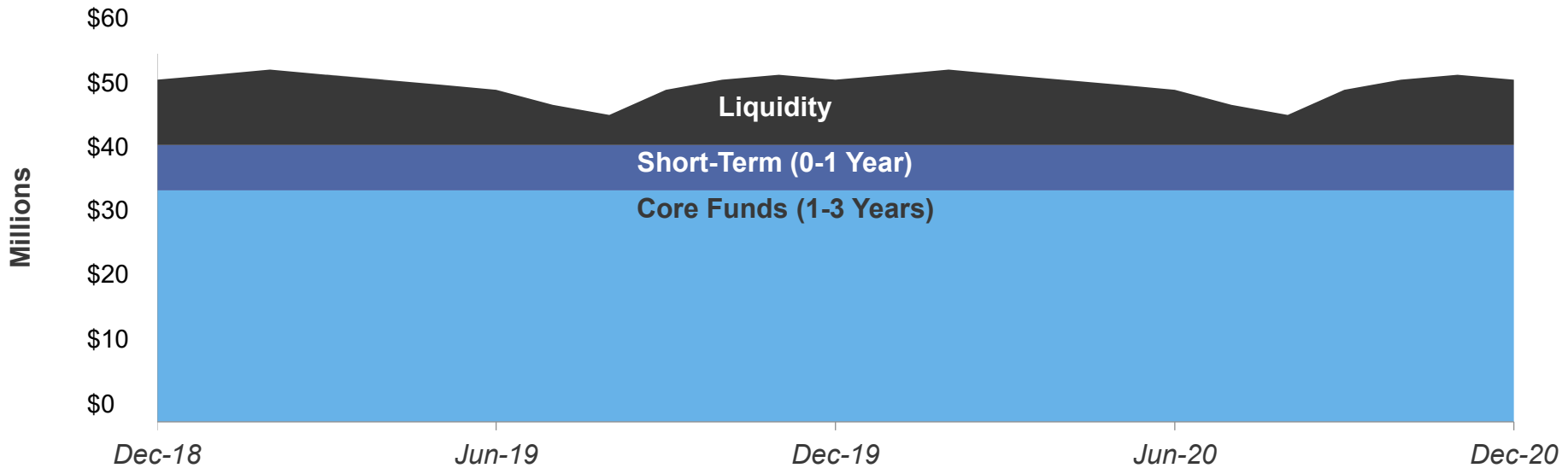
## Short-Term

- ▶ 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.*

# Longer Duration Portfolios Have Historically Higher Returns

30 Years Ended December 31, 2022			
Bank of America Merrill Lynch Treasury Index	Duration (years)	Annualized Total Return	Cumulative Value of \$50 Million
3 Month Treasury	0.23	2.38%	\$101,374,995
1-3 Year Treasury	1.81	3.12%	\$125,632,094
1-5 Year Treasury	2.55	3.46%	\$138,843,596
1-10 Year Treasury	3.71	3.85%	\$155,396,795

# Credit Spreads Have Widened Dramatically, Amid Recent Banking Sector Turmoil

**Corporate Yield Spreads  
1 - 3 Year A-AAA (OAS)**



Source: Bloomberg, ICE BofAML Indices. OAS is option adjusted spreads. As of 3/31/2023.

# Summary Takeaway Considerations

- ▶ Do Not Market Time
  - ▶ Time is Money
    - Time in the market > Timing the market
  - ▶ Disciplined, Defined Investment Strategy should work in all rate environments
    - Rates Rise – reinvest at higher yields, beneficial for future income
    - Rates Remain Stable – extending duration = higher yields
    - Rates Fall – higher yields in longer term investments are locked in, opportunities to realize gains.
- ▶ Don't Pay For Liquidity You Don't Need
  - ▶ Optimize cash balances, excess cash 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
- ▶ Cash Flow is Key
  - ▶ Identify balances available for longer term investing vs. short term funds

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