What’s With These Interest Rates?

ICCCFO Conference Spring 2024

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PFM Asset Management LLC

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Market Update
Treasury Curve Remains Inverted

Source: Bloomberg, as of 4/8/2024
Recent Jobs Reports Show Continued Strength

Source: Bloomberg, as of March 2024. Data is seasonally adjusted.
CPI Continues Trend of Coming in Higher Than Expected in February

Source: Bloomberg; as of February 2024.
Fed’s Updated “Dot Plot” Shows No Change in 2024 and One Fewer Cut in 2025

Fed Participants’ Assessments of ‘Appropriate’ Monetary Policy

Source: Federal Reserve, as of March 20, 2024. Individual dots represent each Fed members’ judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end.
Once the Fed reaches their peak Fed Funds rate, they have historically held rates at that level for around 8 months.

Since July 2023, the Effective Fed Funds rate has been at the current target rate of 5.25% - 5.50%.

Source: Federal Reserve, Bloomberg.
Please see additional notes and disclosures at the end of this presentation.
Investment Strategy Considerations
2-Year Treasury Yield Over Last 15 Years

2-Year Treasury Yield

Source: Bloomberg, as of 3/22/2024.
2-Year Treasury Yield (9/30/23 – 3/22/2024)

Source: Bloomberg, as of 3/22/2024.
Interest Rates and Total Return are Inversely Related

- As interest rates rise or fall market values fluctuate; longer maturity = greater price volatility
- Market value fluctuations will impact total return, which includes **unrealized** price depreciation

For illustrative purposes only.
Fixed-Income Market Returns in 4Q 2023

1-3 Year Indices

3-Month Trailing Returns

- U.S. Treasury: 2.49%
- Agency: 2.53%
- MBS: 3.22%
- Corp A-AAA: 2.98%
- Corp BBB: 3.09%

10-Year Average Annualized Returns

- U.S. Treasury: 1.05%
- Agency: 1.12%
- MBS: 1.08%
- Corp A-AAA: 1.76%
- Corp BBB: 2.09%

Source: ICE BofA Indices. MBS indices are 0-3 year, based on weighted average life. As of 12/31/2023.
Sector Yield Spreads

1-3 Yr. AAA-A Corp

Federal Agency Yield Spread

Mortgage-Backed Securities Yield Spreads

Source: ICE BofA 1-3 year and 1-5 year Indices via Bloomberg, MarketAxess and PFMAM as of 2/29/2024. Spreads on MBS are option-adjusted spreads of 0-5 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries. CMBS is Commercial Mortgage-Backed Securities.
Potential Benefits of Diversification

Example 1-3 Year Portfolio Sector Allocation

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<th>Allocation</th>
<th>Treasury</th>
<th>Agency</th>
<th>AAA Supranational</th>
<th>Corporate AA</th>
<th>Corporate A</th>
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10-Year Total Return Period Ending December 31, 2023

- 25% allocation: 1.29%
- 25% allocation: 1.29%
- 30% allocation: 1.29%
- 30% allocation: 1.25%
- 40% allocation: 1.09%
- 50% allocation: 1.05%

Example portfolio returns are based on the ICE BofAML 1-3 Year indices for all sectors except for Asset-Backed Securities which uses a 0-3 Year index and is annualized for trailing periods longer than one year. Source: Bloomberg.
Cash Flow Analysis

• Helps to determine optimal liquidity allocation
  • Identify short-term vs. long-term
  • Short-term assets should be the primary source for near-term disbursements
  • Core assets are designed for long-term growth

• Seeks to enhance cash management
  • Better understanding of cash flow seasonality
  • Minimize excess liquidity

• Focuses on identifying an optimal allocation of funds to help maximize investment income
  • Improve earnings potential by extending average maturity
  • Reduce budgetary uncertainty

For illustrative purposes only.
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