

What's With These Interest Rates?

ICCCFO Conference Spring 2024

April 18, 2024

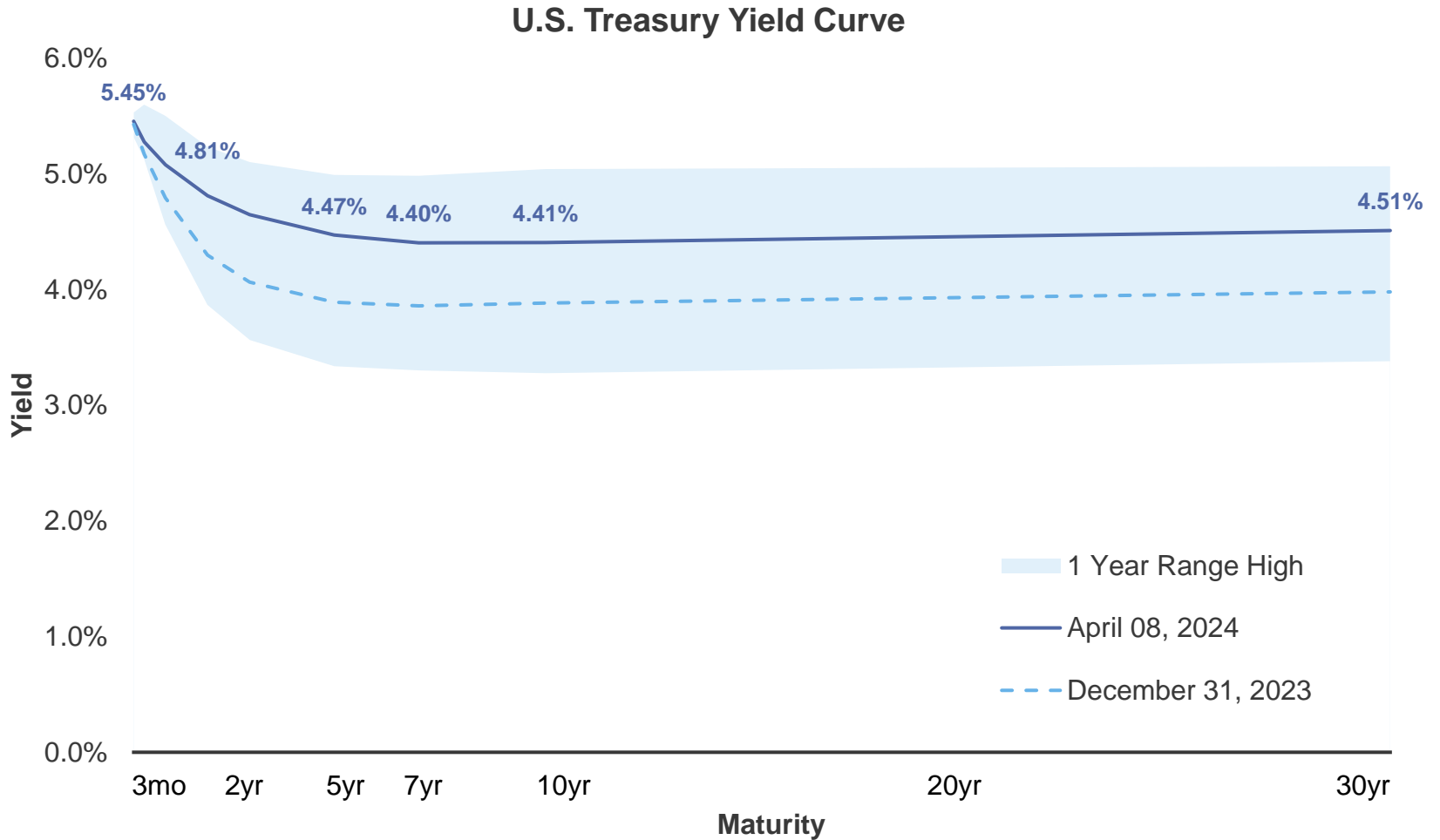
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Market Update

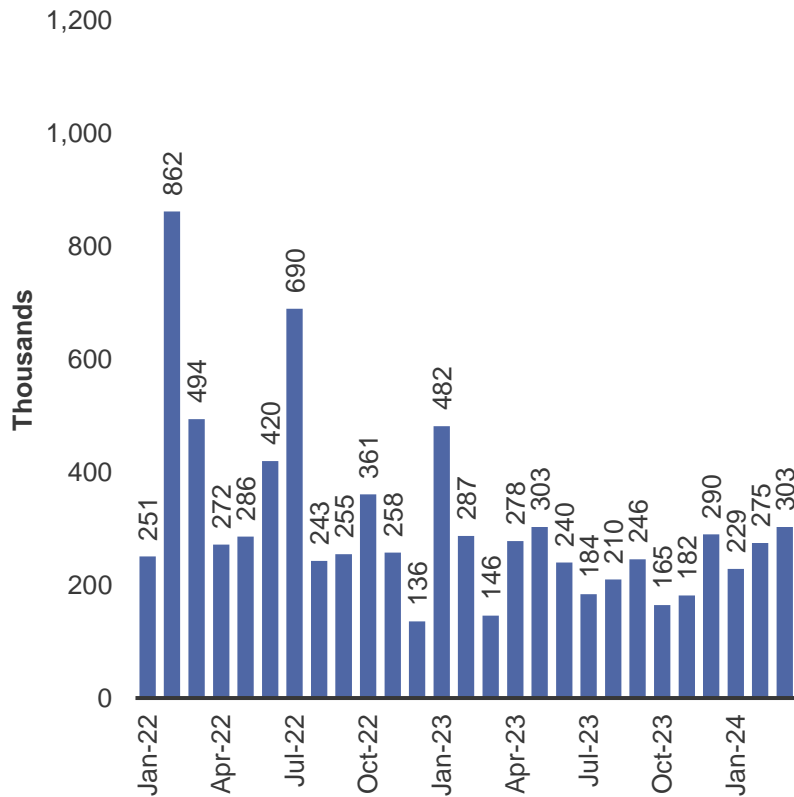
Treasury Curve Remains Inverted



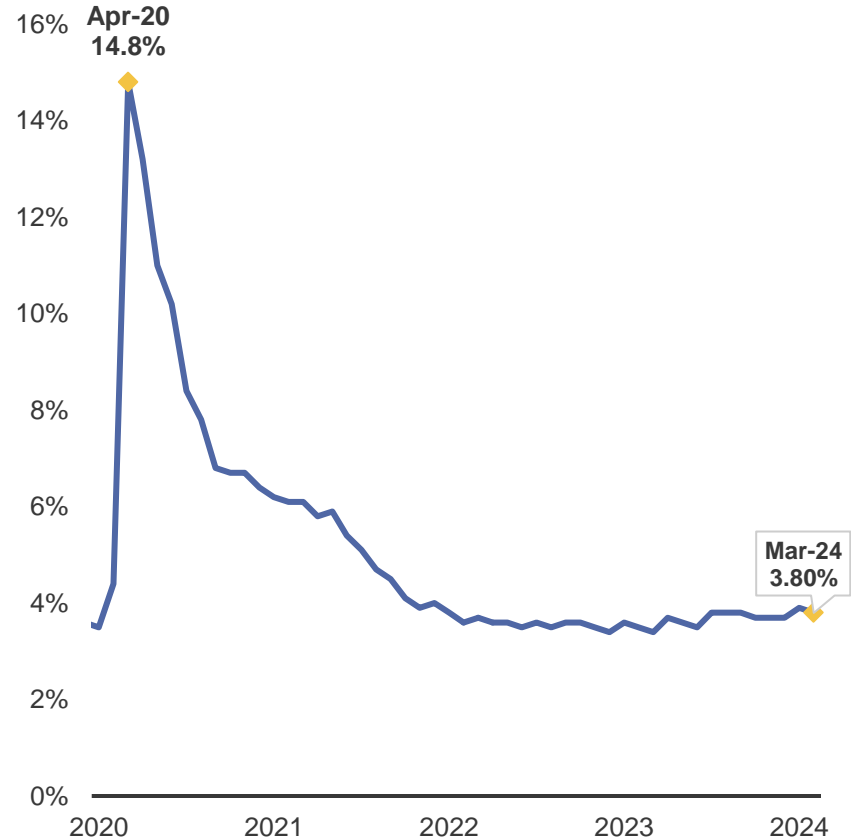
Source: Bloomberg, as of 4/8/2024

Recent Jobs Reports Show Continued Strength

Monthly Change In Nonfarm Payrolls



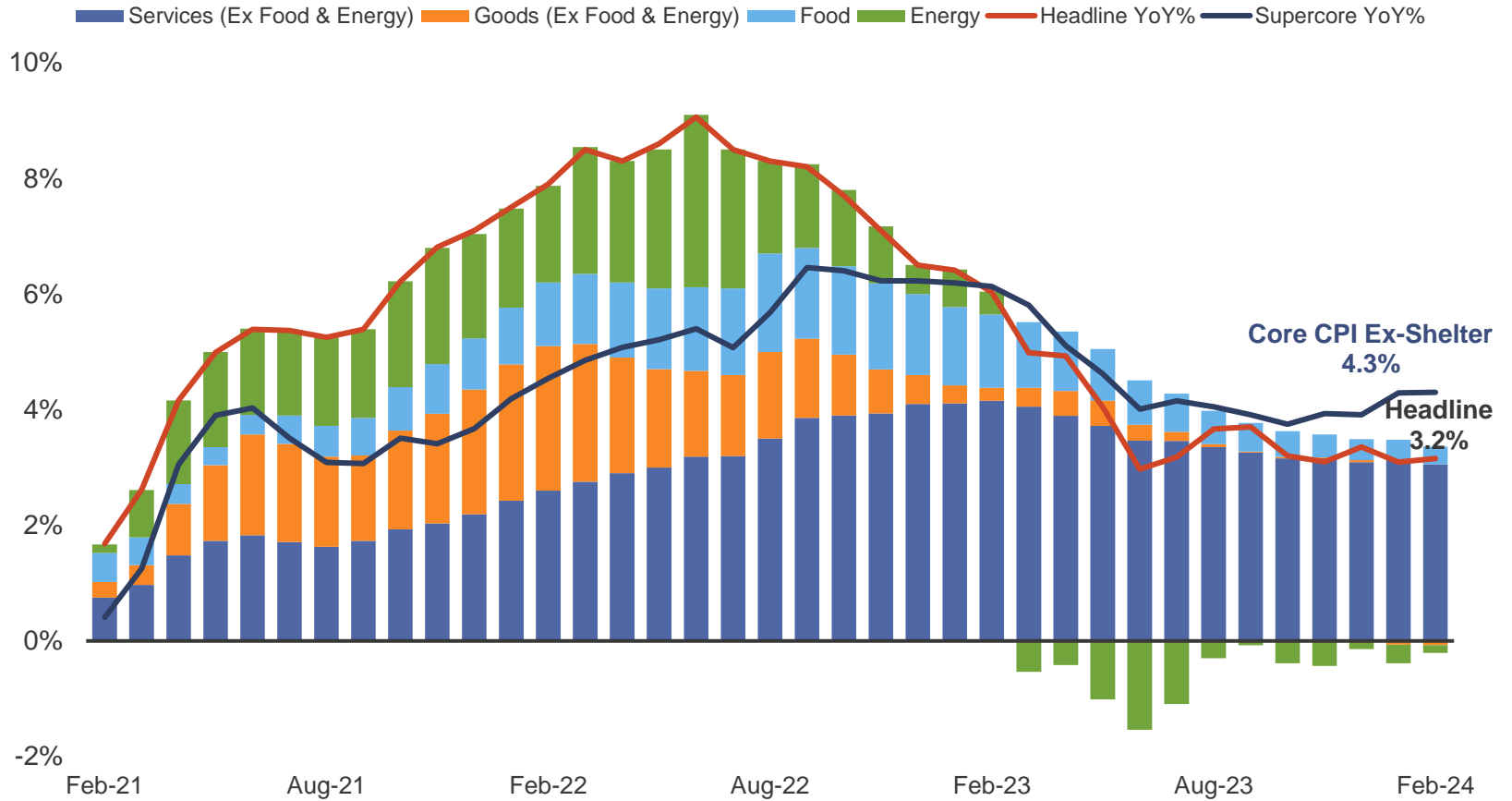
Unemployment Rate



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

CPI Continues Trend of Coming in Higher Than Expected in February

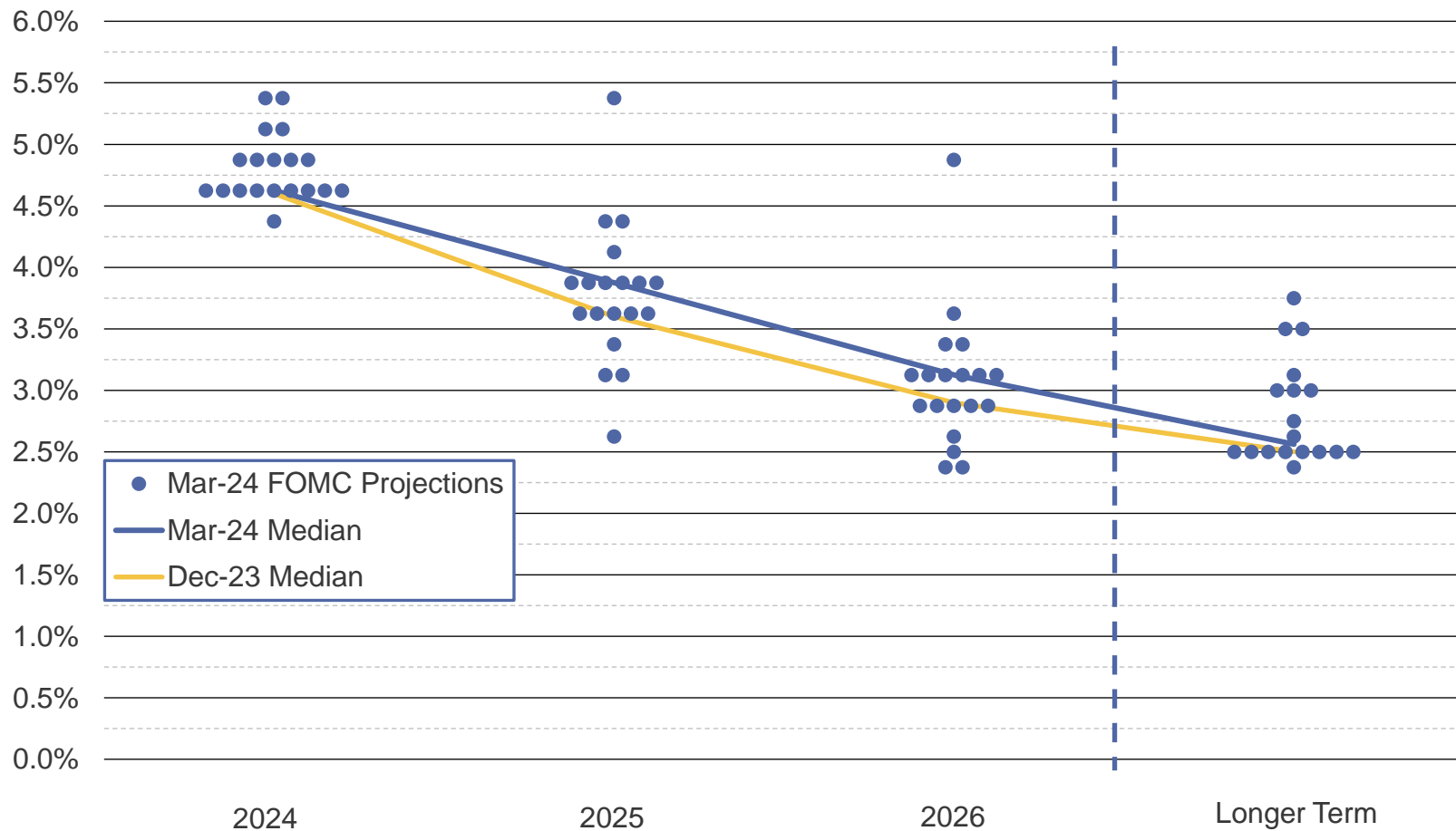
Consumer Price Index (CPI)
Top-Line Contributions, Year-over-Year Changes



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.

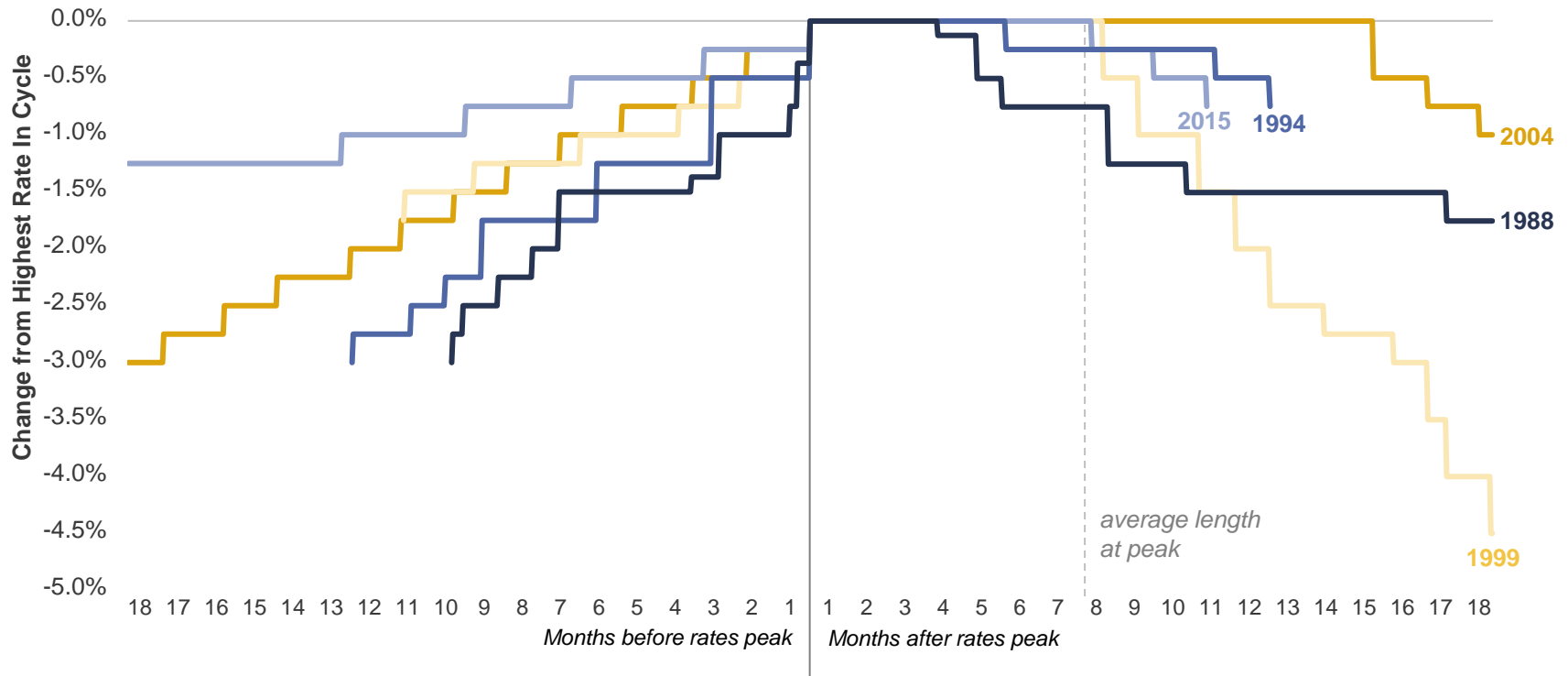
How Long Have Rates Stayed at the Peak?

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

Federal Funds Rate Cycles

Peaks of previous Fed rate cycles, indexed to 0%

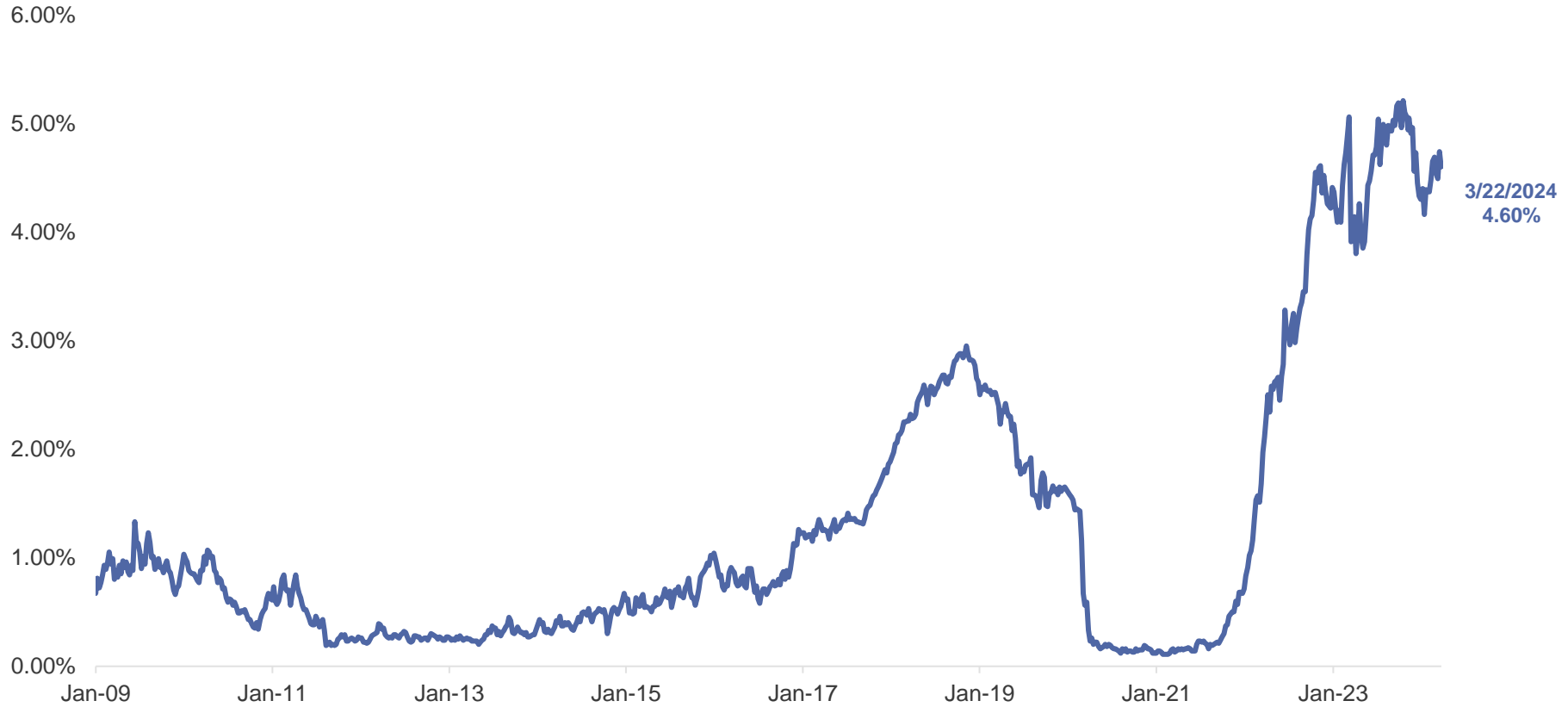
Once the Fed reaches their peak Fed Funds rate, they have historically held rates at that level for around **8 months**



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)

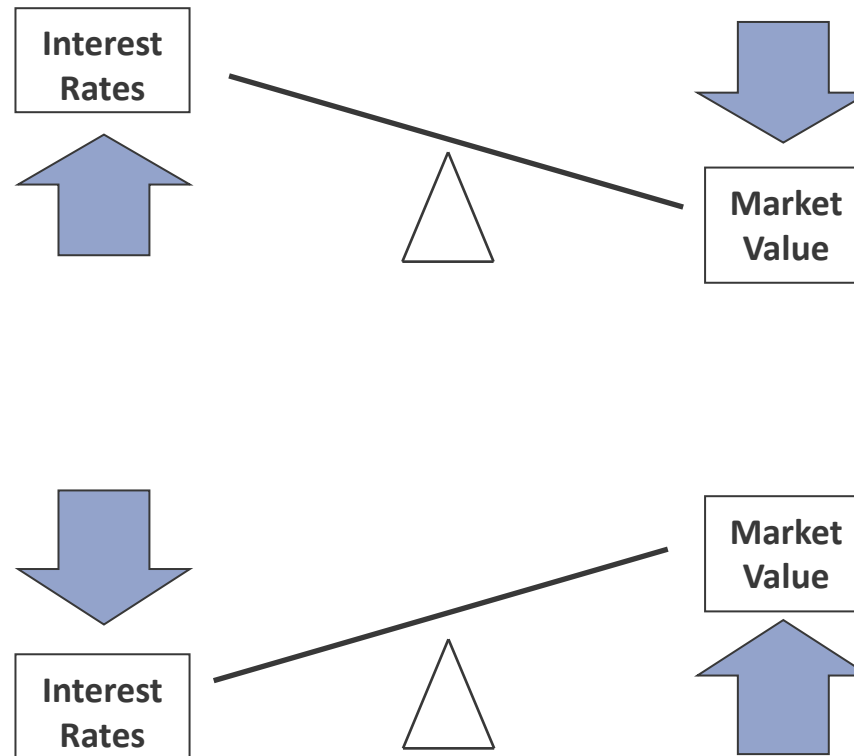
2-Year Treasury Yield



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

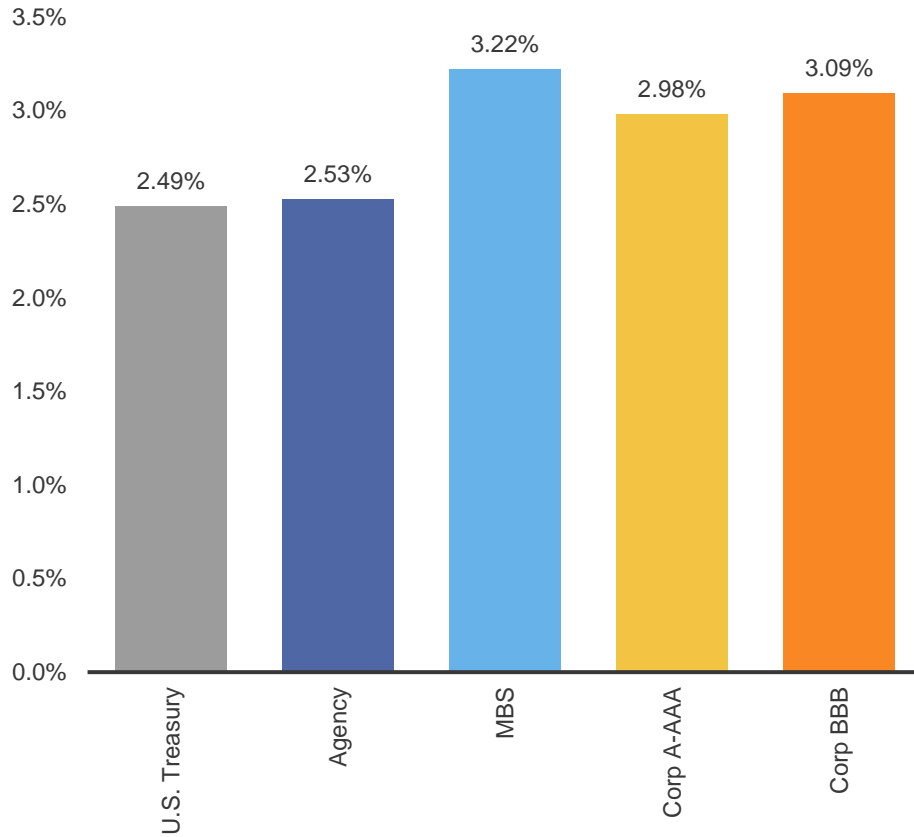


For illustrative purposes only.

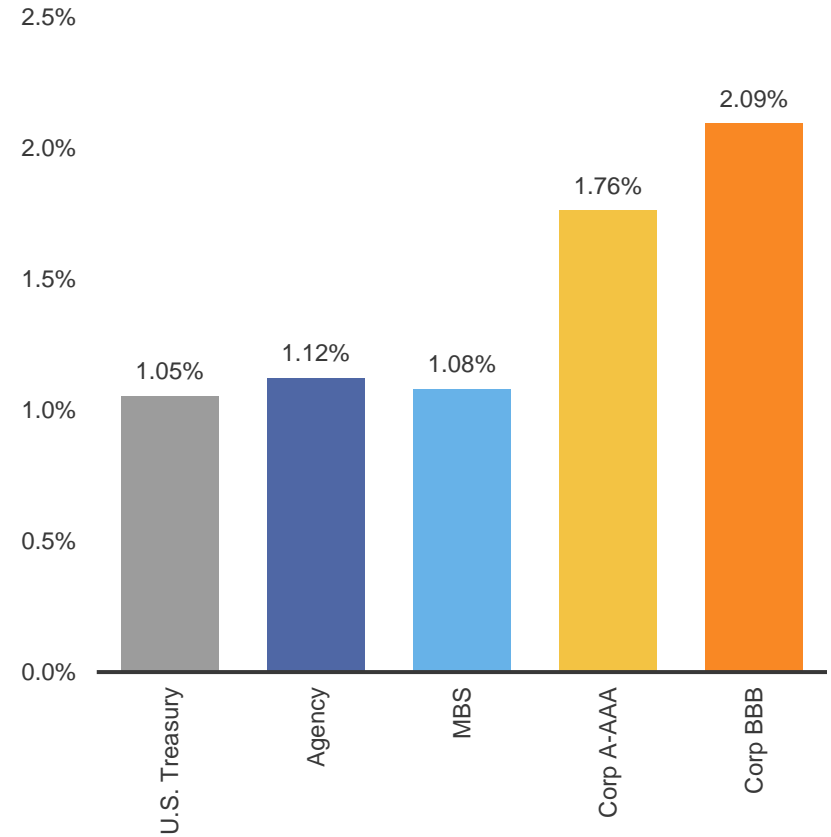
Fixed-Income Market Returns in 4Q 2023

1-3 Year Indices

3-Month Trailing Returns



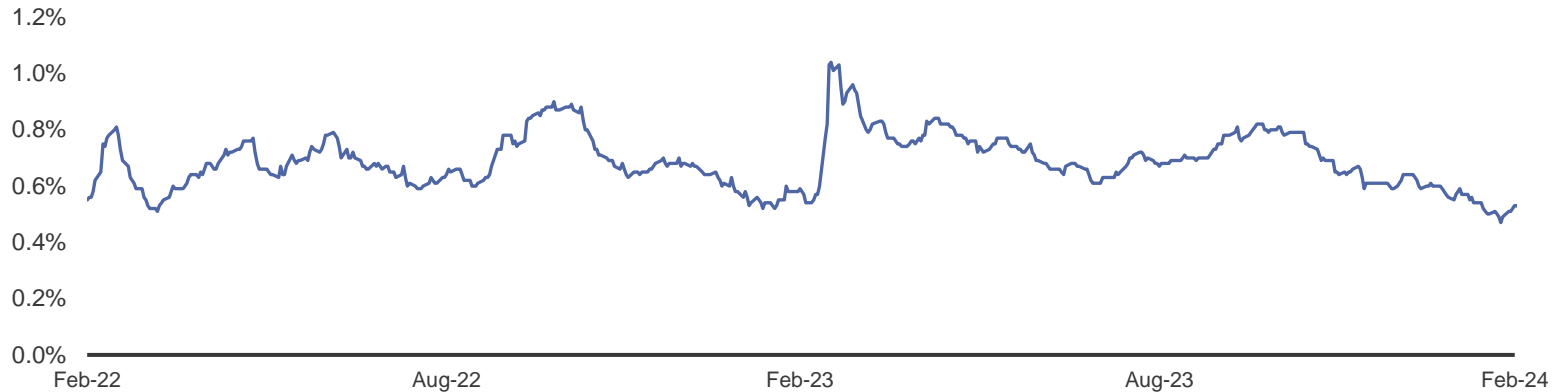
10-Year Average Annualized Returns



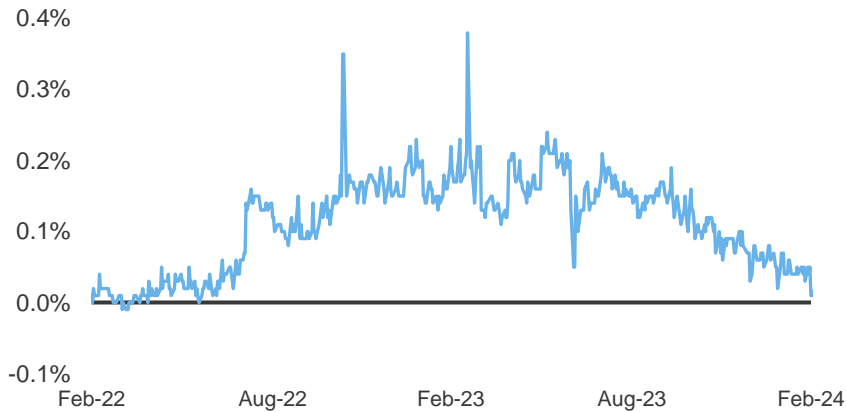
Source: ICE BofA Indices. MBS indices are 0-3 year, based on weighted average life. As of 12/31/2023.

Sector Yield Spreads

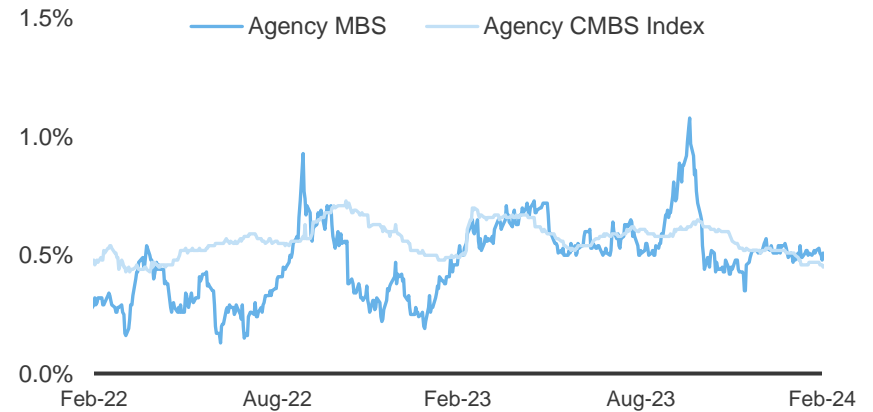
1-3 Yr. AAA-A Corp



Federal Agency Yield Spread



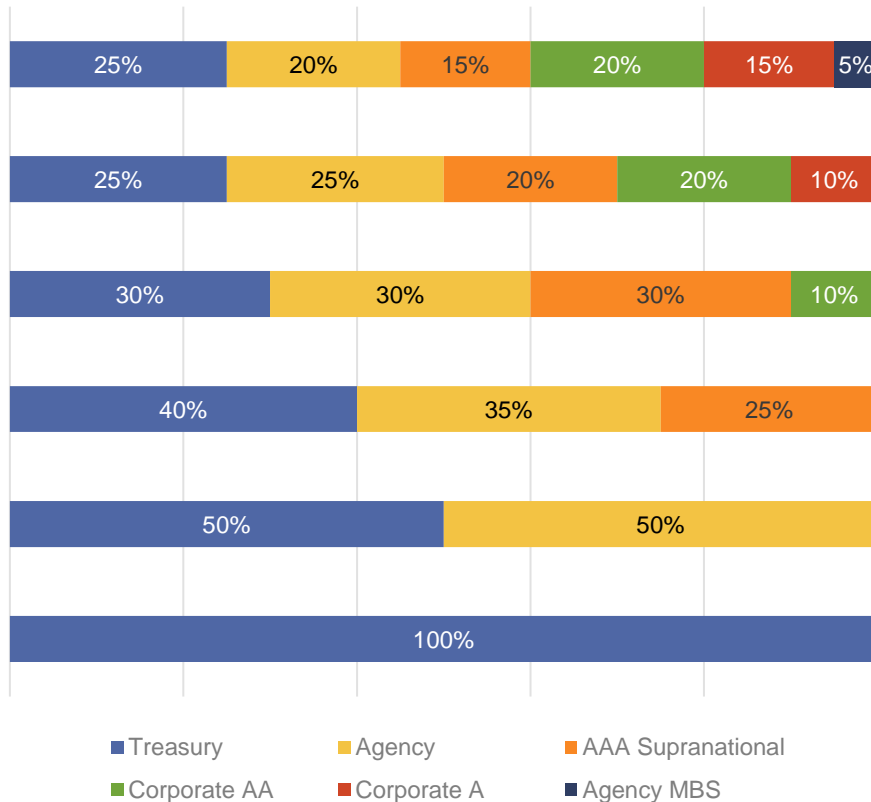
Mortgage-Backed Securities Yield Spreads



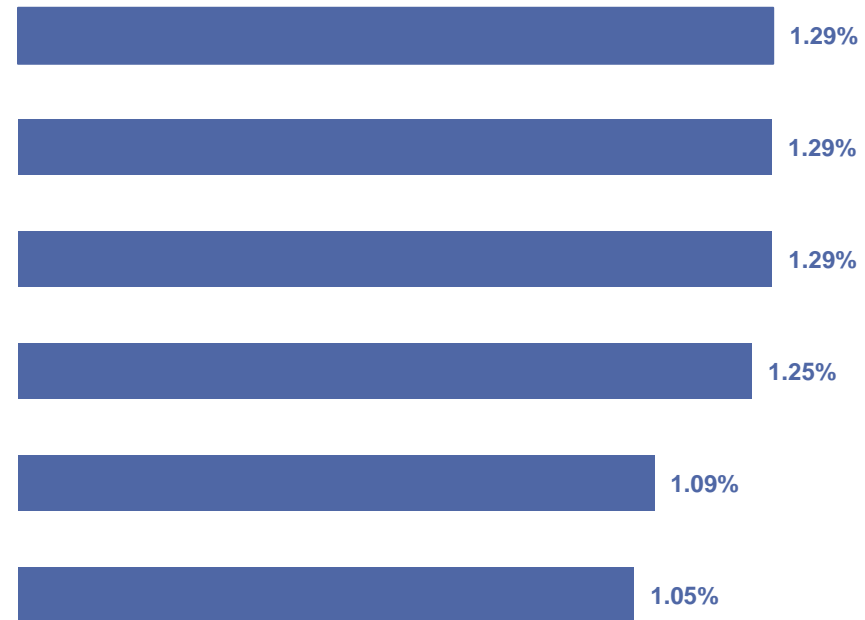
Source: ICE BofA 1-3 year and 1-5 year Indices via Bloomberg, MarketAxess and PFMAM as of 2/29/2024. Spreads on MBS are option-adjusted spreads of 0-5 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries. CMBS is Commercial Mortgage-Backed Securities.

Potential Benefits of Diversification

Example 1-3 Year Portfolio Sector Allocation



10-Year Total Return Period Ending December 31, 2023

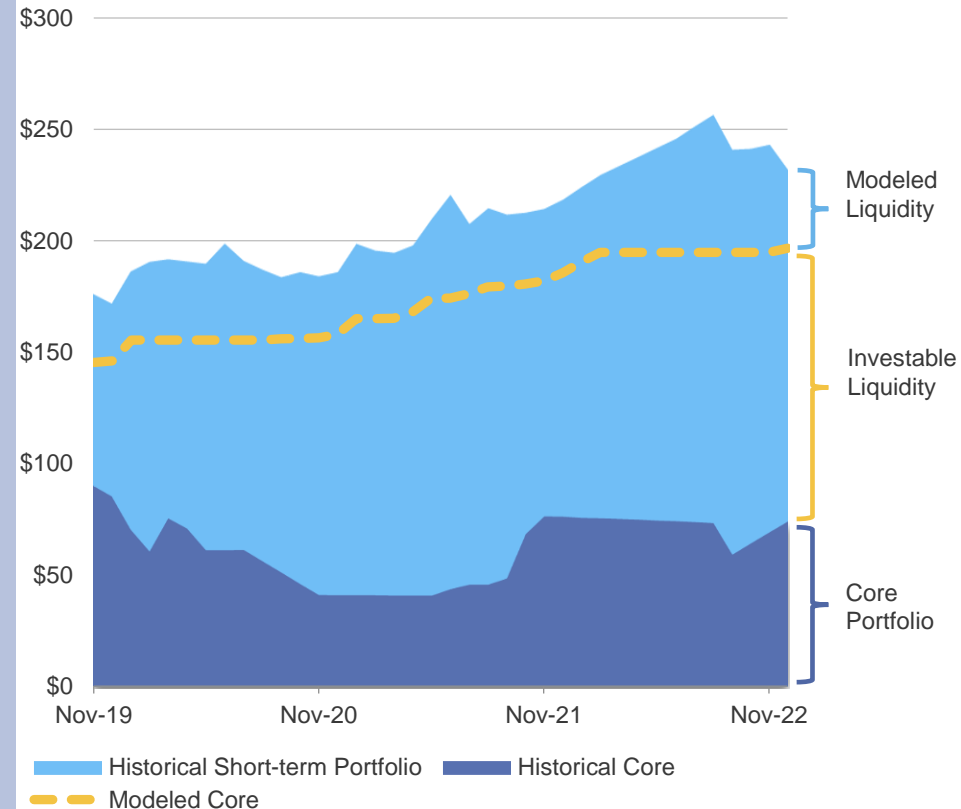


Example portfolio returns are based on the ICE BofAML 1-3 Year indices for all sectors except for Asset-Backed Securities which uses a 0-3 Year index and is annualized for trailing periods longer than one year. Source: Bloomberg.

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

**Sample Client
Historical Analysis of Core Portfolio**



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