

Current Economic Markets and Interest Rates

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City Treasurer's Mission: Steward of Public Funds

Objectives:

- Safety – To safeguard the City's principal (\$)
- Liquidity – To ensure there is sufficient cash to meet City's needs
- Yield – To earn a reasonable market rate of return through budgetary and market cycles

WE CONTINUE TO MEET THESE OBJECTIVES

- Cash flow projections – Matching cash flows to meet liabilities
- No concerns about meeting cash flow needs
- No principal losses
- Portfolio rate of return at 2/29/2020: 2.15%

Market Volatility - Convergence of Escalating Coronavirus Fears and OPEC Issues

- UNCERTAINTY = VOLATILITY
- The spread of the Coronavirus worldwide continues to dampen consumer confidence.
- Sudden introduction of global market share conflict between Russia and Saudi Arabia.
 - The inability between countries to agree on production cuts led to 31% drop in crude prices, largest intraday drop since Gulf War in 1991.
- The VIX Volatility Index – The measure of constant, 30-day expected volatility of the U.S. stock market reached almost 55, its highest since peak of last financial crisis on March 6, 2009. DJIA daily swings of +/-1000+ points.
- March 9, 2020: The S&P 500 and Dow Jones Industrial Average fell sharply, triggering initial circuit-breakers resulting in a 15-minute halt in market wide trading.

Equity Markets

- DJIA and S&P both down approximately 16% through March 10 YTD
- DJIA - Largest point drop ever of 2,021 on March 9, 2020
- Investors were anticipating a correction



January 3, 2020:

S&P500 – 3,235

DJIA – 28,635

March 9, 2020:

S&P500 – 2,745

DJIA – 23,851

Interest Rates

- Interest rates fell with “flight to safety” of U.S. Treasury Securities
- Emergency Federal Reserve meeting on March 3: Cut rates .50%
- March 9, 2020:
 - 10-year Treasury hit record low of 0.501%
 - 30-/10-/2-year all below 1% - 1st time in history

Intraday March 11, 2020:

10-Year Treasury
5-Year Treasury
2-Year Treasury



Anticipated Effect on City's Investment Portfolio

- Market is projecting a 75 basis point drop in rates at March Federal Reserve meeting, with another 25 basis point drop possible in April
 - Fed lowering short-term rates to support the economy with liquidity, should lead to higher longer-term rates
 - Total portfolio 3/10/2020: \$255MM, includes \$57MM of liquidity in LAIF
 - Project approximately \$90MM rolling off next 12 months
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3 scenarios assuming continued conditions, \$90MM reinvest over next 12 months, with remaining balance est. yield of 1.98% (est. LAIF of 1.3%):

- **1) Optimistic: 1% avg. reinvestment rate = blended yield of 1.63%**
- **2) Base Case: .75% avg. reinvestment rate = blended yield of 1.55%**
- **3) Downside Case: .50% avg. reinvestment rate = blended yield of 1.46%**

Investment Plan – Next 12 months

- Liquidity to remain in LAIF while rate > reinvestment rate
- Cautiously awaiting lower market volatility
- Potential stability with Federal Reserve meeting on March 18th, Coronavirus updates (hopefully)
- Continuing to exceed budgeted target of \$1MM
- Concentrate on liability/cash flow matching
- Continue to reinvest in allowable securities following established Investment Plan
- Maintain principal and ensure liquidity for City operations