



24-4357

**DATE:** February 27, 2024 (Item No. {{item.number}})

**TO:** Board of Supervisors

**FROM:** Margaret Olaiya, Director, Finance Agency

**SUBJECT:** Quarterly Investment Report for the Period Ending December 31, 2023

### **RECOMMENDED ACTION**

Receive report relating to the Quarterly Investment Report for the quarter ending December 31, 2023.

### **FISCAL IMPLICATIONS**

There are no fiscal implications by receiving this report.

### **REASONS FOR RECOMMENDATION AND BACKGROUND**

Government Code 53607 allows the Board of Supervisors to authorize the Treasurer of the local agency to invest or reinvest funds. This authorization is renewed annually by the Board. The Treasurer is to provide a quarterly report to the Board of Supervisors of the transactions enacted under this provision.

The County's Investment Policy also requires that a quarterly investment summary report be submitted to the Board of Supervisors. The attached report provides detailed information relating to security transactions conducted by the Treasury Division of the Controller-Treasurer Department during the quarter ending September 30, 2023.

A summary of the status of the investment program is also included with this report

### **CHILD IMPACT**

The recommended action will have no impact on children and youth.

### **SENIOR IMPACT**

The recommended action will have no impact on seniors.

### **SUSTAINABILITY IMPLICATIONS**

The recommended action will have no sustainability implications.

### **BACKGROUND**

#### **Current Economic Outlook**

The U.S. economy's fourth-quarter growth exceeded forecasts. Gross domestic product increased at a 3.3 percent annualized rate with consumer spending accounting for most of the expansion. Growth was boosted by better-than-expected holiday spending and purchasing power benefited from the effects of receding inflation. For all of 2023, the economy expanded 2.5 percent. Despite the burden of Federal Reserve Bank (Fed) interest rates at a two-decade high upon households and businesses, consumer spending has been sustained by durable job growth and most recently from rising equity markets and diminishing inflation. The consumer price index has fallen from its recent peak of 9 percent in mid-2022 to around 3 percent in December 2023. The Fed has been able to achieve significant progress on inflation without causing the labor market to experience the kind of increase in unemployment that has been very typical of similar rate-hiking cycles. The December unemployment rate, at 3.7 percent, a historically low rate, is about where it was when the Fed began raising rates in March 2022.

Federal Reserve policy makers decided to hold interest rates steady at their January 2024 meeting. The Fed's benchmark rate has been left unchanged at about 5.4 percent, where it has stood since July 2023, at its highest point since 2001. The bank began raising rates from near zero in March 2022. With recent strong progress in lowering inflation, policy makers have begun to consider when to cut interest rates and by how much. The Fed's preferred inflation measure, the personal-consumption expenditures price index rose 2.6 percent in December from a year earlier, well below the 5.4 percent increase at the end of 2022. Economists expect the first-rate reduction to occur in May or June.

Normally, the Fed cuts borrowing costs because economic activity is slowing sharply. This is not the current circumstance. Growth remained robust throughout 2023. Policy makers are concerned that declining inflation combined with current elevated rates, increases real interest rates (also known as inflation adjusted rates) which could unnecessarily restrain economic activity over time. At the same time, the Fed has an equivalent risk in the other direction: that is the bank cuts rates only to have to make a reversal and raise them again if inflation reaccelerates. It's possible that inflation could stay undesirably high, especially if the economy remains strong, and due to other factors such as geo-politics re-igniting supply chain disruptions.

Fed policy makers have emphasized that incoming data will guide their decision on when to cut interest rates. Given the economy's health, no urgency exists and so far, they have not seen sufficient evidence to begin easing. Also, the Fed's decision is taking place against the backdrop of a presidential campaign as President Joe Biden seeks re-election and defends his administration's inflation performance.

The U.S. economy posted another month of mild inflation in December. Inflation closed 2023 trending in the preferred direction of the Fed. The Commerce Department reported that its measure of consumer prices, the Fed's favored inflation gauge, rose 0.2 percent in December from November. In the six months ending in December, prices rose at a 2 percent annual rate, the Fed's target rate of inflation.

Using the same gauge but with core prices, which exclude food and energy items to better track inflation's underlying trend, showed a similar pattern. The core index rose 0.2 percent in December from November, increased 2.9 percent versus a year earlier, and rose at a 1.9 percent annual rate over the final six months of 2023.

Recent employment data indicates the U.S. labor market is still quite sturdy and not on the rapid deceleration trend predicted by some forecasters. U.S. employment posted solid gains in December, exceeding expectations. Nonfarm payrolls increased by 216,000. Modest downward revisions were made to the prior two months. The unemployment rate held at 3.7 percent, while average hourly earnings rose 0.4 percent from a month earlier. Job openings rose in December, exceeding 9 million for the first time in three months. Employers laid off 1 percent of U.S. employees in December. In the 20 years of available data preceding the pandemic, the layoff rate was never so low. The layoff figure is consistent with the very low levels of initial claims for unemployment in December and more recently. Labor Department data suggests that the job market remains healthy, with employment continuing to grow.

The portfolio strategy continues to focus on the:

1. acquisition of high-quality issuers;
2. identifying and selecting bonds with attractive valuations;
3. appropriately sizing the liquidity portion of the portfolio to ensure adequate cash for near term obligations; and
4. ensuring that monies targeted for longer term investments are deployed in vehicles with favorable risk-adjusted yields.

## **CONSEQUENCES OF NEGATIVE ACTION**

The report will not be received.

## **STEPS FOLLOWING APPROVAL**

Upon acceptance by the Board, the Clerk of the Board of Supervisors will electronically notify Fixed Income Portfolio Manager, Jacqueline A. Flippin.

## **ATTACHMENTS:**

- December 2023 Quarterly Investment Report