



Local Government Investment Pool NEWSLETTER

February 2026



PORTFOLIO SUMMARY

- ▶ Ending December market value for the LGIP Short Term (ST) was \$2.309 bil versus November's reported closing value of \$2.220 bil.
- ▶ The LGIP ST maintains a AAAM rating by Standard & Poor's.

PORTFOLIO MIX

- ▶ At the end of December, the portfolio was invested as follows: 49% in US government agency securities, 29% in repurchase agreements, 18% in collateralized demand deposit accounts with qualified banking institutions, and 4% in US Treasury securities.
- ▶ At month-end, the LGIP ST held positions in 43 securities.

INVESTMENT EARNINGS

- ▶ During December, the fund earned \$7,365,096.
- ▶ For FY2026, the fund earned \$47,314,718.
- ▶ LGIP ST earnings are retained by participants after a management fee of 0.05%.

PERFORMANCE

- ▶ Gross yield on the LGIP ST was 3.83% at the end of December.
- ▶ Net yield to participants was 3.78%.

INVESTMENT HIGHLIGHTS

- ▶ For the LGIP ST, the WAM(R) of 11 days and WAM(F) of 68 days were within their maximums of 60 and 120 days respectively.
- ▶ During the month, the LGIP ST purchased \$425.0 mil US Treasury securities maturing in 2 weeks to 2 months and \$429.2 mil agency discount notes maturing in 1 to 4 months.

INVESTMENT STRATEGY

- ▶ LGIP ST WAMs are currently 16 and 73 days for WAM(R) and WAM(F), respectively.
- ▶ LGIP ST will continue to focus on maximizing safety of principal and providing adequate liquidity through the use of prudent investments.

NET ASSET VALUE / SHARE

- ▶ The Net Asset Value per Share of the Local Government Investment Pool was \$1.00003 at month-end.

MARKET WATCH

During the fourth quarter, the Fed reduced the policy interest rate to 3.50%-3.75% across two FOMC meetings, down from 4.00%-4.25% at the end of the third quarter. These reductions occurred at the October 29 and December 10 Federal Open Market Committee (FOMC) meetings. Both decisions came with multiple dissenting votes: two at the October meeting, with Governor Miran in favor of a 0.50% reduction and Governor Schmid in favor of no change; and three at the December meeting, with Miran again voting for a 0.50% reduction, and Schmid and Goolsbee voting for no change.

The decision to lower the benchmark Fed Funds rate was widely anticipated by markets, with the Fed increasingly focused on a slowing labor market, a view supported by the 2-month 33,000 downward revision to payrolls as of September. Meanwhile, inflation has remained above the 2% target, with tariff effects noted by the Fed chair as a near-term obstacle to further price reductions. Overall, the economic picture was less clear at the time of the December meeting, due to the 43-day US Government shutdown that began October 1, which delayed and even eliminated key data releases (October CPI was not released). The Fed also announced the start of "Reserve Management Purchases" at the December meeting, which would reinvest maturities of agency debt securities into Treasury bills at a pace of approximately \$40B per month. This decision helped to support short-term Treasury bill yields, which moved to the lower end of the Funds range, particularly the 3-month part of the bill curve.

In the updated economic projections released at the December meeting, the Fed maintained its estimate for an unemployment rate of 4.5% in 2025, gradually decreasing to 4.2% by 2028. GDP estimates were revised higher for 2025, to 1.7% from 1.6%, as the consumer remains strong - notably the higher-end consumer, benefiting from a "wealth effect" attributable to elevated real estate prices and stock market gains. The Fed reduced inflation expectations, as measured by the preferred Core PCE index, to 3.0% from 3.1% for 2025, and the expectation for 2026 to 2.5% from 2.6%, before decelerating to the 2% goal in 2028. As of December, the median Fed expectation was for an additional 0.25% rate cut in 2026, to a range of 3.25%-3.50%, and one more in 2027, to a range of 3.00%-3.25% -- unchanged from the prior projections. The dispersion among Fed members for the 2026 Fed Funds projections was noteworthy, ranging from a low of 2.00-2.25% to a high of 3.75%-4.00%.

MARKET WATCH (CONT.)

Out of the 19 Fed members, 7 expected Fed Funds to be unchanged or higher than the current 3.50%-3.75% range, 4 projected a 0.25% reduction, to the median range of 3.25%-3.50%, and 8 projected a range below the median.

At the January 28 FOMC meeting, The Fed held the policy range at 3.50%-3.75%, with two dissents from Governors Waller and Miran, who favored a 0.25% reduction. There have been multiple dissenting votes at the past 3 FOMC meetings, an unusual circumstance that reflects heightened economic uncertainty and the differing viewpoints of Fed members. The policy decision itself, and slight tweaks to the economic outlook, were widely anticipated by markets, and the bond market barely budged after the announcement. The notable change to the Fed policy statement was the removal of the language regarding rising downside risks to employment, replaced by the view that the unemployment rate has stabilized in recent months. Chair Powell noted that the economy has been surprisingly strong, with the consumer continuing to spend, despite pessimistic survey responses. The January Fed meeting came just as fears of a government shutdown were renewed, with economic data still catching up from the fourth quarter shutdown disruptions.

Two days after the January FOMC meeting, President Trump announced his nomination of former Fed Governor Kevin Warsh to succeed Powell as the next chair of the Federal Reserve. The market is still digesting the implications of this pick. On one hand, Warsh has indicated support of lower rates in the near term. On the other hand, he has been more hawkish on inflation and critical of "Quantitative Easing", favoring a reduced Fed balance sheet. This would imply less price support for longer maturities, notably the benchmark 10-year Treasury, and a steepening of the yield curve.

The objectives of the Short-Term LGIP remain unchanged: safety, liquidity, and yield – in that order. Preservation of principal and providing access to liquidity, in most cases within 24 hours, are the pool's primary objectives. The pool is managed within the confines of Standard & Poor's Principal Stability Fund criteria and possesses the highest possible rating, AAAM.

S&P REAFFIRMS LGIP "AAA"

For the 19th year in a row, the NM LGIP has received the highest attainable rating that can be awarded to a principal stability fund, "AAAM," by Standard & Poor's Global Ratings. Please access the most recent reaffirmation letter here: https://www.nmsto.gov/files/ugd/23f543_d83d653bbb8e4b5c927e98ee5e15174f.pdf.

LGIP ACCOUNT UPDATES

Recent changes to personnel overseeing your LGIP account? Other LGIP account updates? As we start the new year, now is a good time to ensure that all LGIP account paperwork, including the certification of authorized persons documentation, is current. The STO website has links to LGIP participant forms, located here: <https://nmsto.gov/local-government-investment-pool-lgip/>. Please reach out to Amanda Padilla, LGIP Coordinator, for any updates or changes to your account documents at (505) 955-1142, or NMSTO.LGIP@sto.nm.gov.

Data	Period*	Value	Next Period	Expected Value	Release Date*
ISM Manufacturing Index	Dec-25	47.9	Jan-26	48.5	2/2/2026
ISM Services Index	Dec-25	54.4	Jan-26	53.5	2/4/2026
U.S. Unemployment	Dec-25	4.40%	Jan-26	4.40%	2/6/2026
Change in Nonfarm Payrolls	Dec-25	50,000	Jan-26	65,000	2/6/2026
CPI Ex Food and Energy YoY	Dec-25	2.60%	Jan-26		2/11/2026
CPI Ex Food and Energy MoM	Dec-25	0.20%	Jan-26	0.30%	2/11/2026
CPI YoY	Dec-25	2.70%	Jan-26		2/11/2026
CPI MoM	Dec-25	0.30%	Jan-26	0.20%	2/11/2026
PCE Core Deflator YoY	Nov-25	2.80%	Dec-25	2.90%	2/20/2026
PCE Core Deflator MoM	Nov-25	0.20%	Dec-25	0.30%	2/20/2026
GDP QoQ	Q3 2025	4.40%	Q4 2025		2/20/2026
PPI YoY	Dec-25	3.00%	Jan-26		2/27/2026
PPI MoM	Dec-25	0.50%	Jan-26		2/27/2026
Fed Funds Target	28-Jan-26	3.50%-3.75%	18-Mar-26	3.50%-3.75%	3/18/2026

*Some data release dates are impacted by US government shutdown from 10/1/2025-11/12/2025
Data from Bloomberg as of 1/30/2026

LGIP STAFF

Transaction Coordinator: Amanda Padilla

Investment Transaction Supervisor: Hannah Chavez

Portfolio Managers: Anna Murphy, CFA, and Vikki Hanges, Chief Investment Officer

Data unaudited. Information is obtained from third-party sources that may or may not be verified. Many factors affect performance, including changes in market conditions and interest rates and in response to other economic, political, or financial developments. All comments and discussions presented are purely based on opinion and assumptions, not fact. These assumptions may or may not be correct based on foreseen and unforeseen events. The information presented should not be used in making any investment decisions. This material is not a recommendation to buy, sell, implement, or change any securities or investment strategy, function, or process. Any financial and/or investment decision should be made only after considerable research, consideration, and involvement with an experienced professional engaged for the specific purpose. Past performance is not an indication of future performance. Any financial and/or investment decision may incur loss. New Mexico Local Government Investment Pool (LGIP) deposits are not guaranteed or insured by any bank, the State of New Mexico, the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency. New Mexico LGIP deposits involve certain investment risk. Yield and total return may fluctuate and are not guaranteed.