



Local Government Investment Pool NEWSLETTER

November 2024



PORTFOLIO SUMMARY

- ▶ Ending September market value for the LGIP Short Term (ST) was \$1.942 bil versus August's reported closing value of \$1.839 bil.
- ▶ The LGIP ST maintains a AAAM rating by Standard & Poor's.

PORTFOLIO MIX

- ▶ At the end of September, the portfolio was invested as follows: 38% in collateralized demand deposit accounts with qualified banking institutions, 34% in US government agency floating rate securities, and 22% in repurchase agreements, and 6% in US Treasury floating rate securities.
- ▶ At month-end, the LGIP ST held positions in 36 securities.

INVESTMENT EARNINGS

- ▶ During September, the fund earned \$7,912,808.
- ▶ For FY2025, the fund earned \$24,927,956.
- ▶ LGIP ST earnings are retained by participants after a management fee of 0.05% is paid to the General Fund.

PERFORMANCE

- ▶ Gross yield on the LGIP ST was 5.19% at the end of September.
- ▶ Net yield to participants was 5.14%.

INVESTMENT HIGHLIGHTS

- ▶ For the LGIP ST, the WAM(R) of 1 day and WAM (F) of 93 days were within their maximums of 60 and 120 days respectively.
- ▶ During the month, the LGIP ST purchased \$100.0 mil US Treasury securities maturing in 1 month, and \$120.0 mil US agency floating rate securities maturing in 3 months to 2 years.

INVESTMENT STRATEGY

- ▶ LGIP ST WAMs are currently 1 and 96 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

- ▶ At month-end, the Net Asset Value per Share of the Local Government Investment Pool was \$ 1.00001.

MARKET WATCH

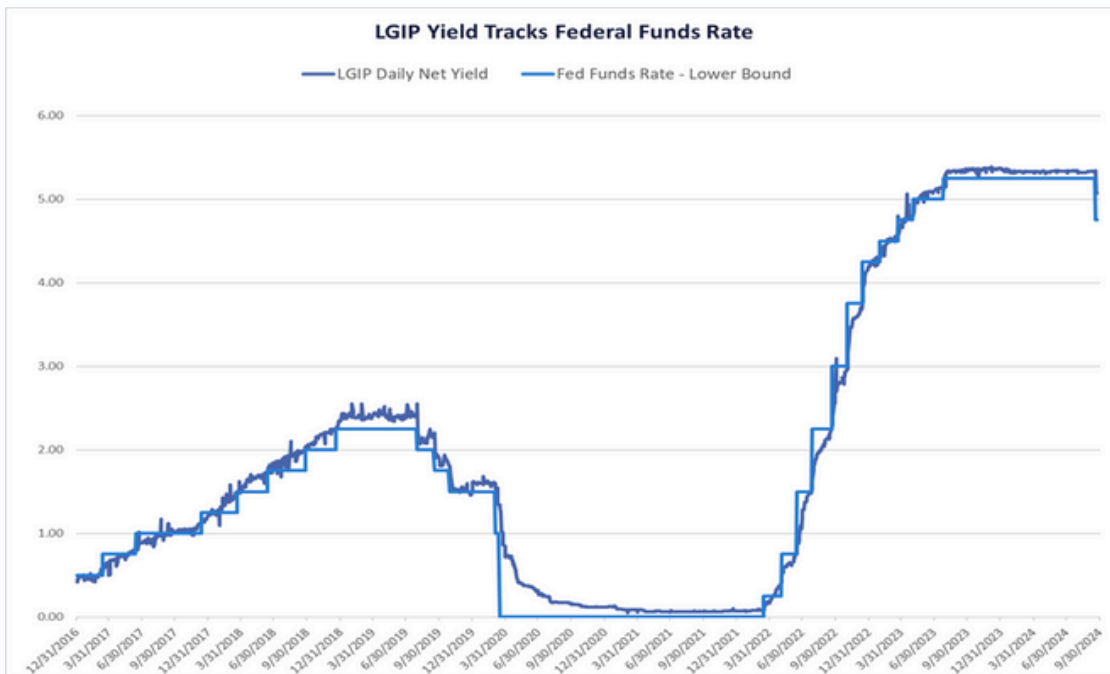
During the third quarter, the Fed cut its policy interest rate by 0.50%, reducing the Funds range to 4.75%-5.00% at the September 18 Federal Open Market Committee (FOMC) meeting. This was the Fed's first step in "recalibrating" its restrictive monetary policy toward a neutral stance. Incoming data between the July and September FOMC meetings helped to support the decision, although the magnitude of the reduction was somewhat surprising, with the market rapidly repricing for a 0.50% cut in the days leading up to the FOMC meeting.

The Core PCE Price Index, the Fed's preferred inflation metric, held steady in July at 2.6% annualized, lower than the expected 2.7%, although still higher than the Fed's 2% target. Headline Consumer Price Index (CPI) for July was slightly lower than expected at 2.9%, as well as the Producer Price Index, which came in at 2.4% versus the expected 2.6%, excluding the more volatile food and energy components. Signs of a weakening labor market were more pronounced in the third quarter. The non-farm payrolls number, released only two days after the July FOMC meeting, significantly missed expectations at only 114,000 new jobs added. The lower-than-expected jobs data came with a large reduction to the previous number, which was revised from 206,000 to 118,000 jobs added in June. Most significantly, the Bureau of Labor Statistics released the preliminary estimate of annual benchmark revisions to payroll data in August, showing that 818,000 fewer jobs were added from April 2023 to March 2024 than the initial numbers implied. While the jobs data alone did not signal recessionary conditions, these reductions appear to have emboldened the Fed, and notably Chair Powell, to take a more significant first step in reducing interest rates by 0.50%.

The Fed also provided updated economic and interest rate projections as follows: real (inflation-adjusted) GDP growth was reduced slightly from 2.1% to 2.0%, Core PCE decreased from 2.8% to 2.6%, and the unemployment rate increased from 4.0% to 4.4%. Clearly the Fed views the balance of risks as tilting increasingly in the direction of a weakening labor market. Chair Powell indicated at the press conference following the September policy decision that had the labor market data been released prior to the July FOMC meeting, rather than a few days after, Fed members could have favored a 0.25% cut in July. In effect, the 0.50% cut in September appeared to be "playing catch up" given the timing of the data.

MARKET WATCH (CONT.)

The Fed's decision to cut interest rates 0.50% triggered a selloff in bonds, sending yields higher, as the market had moved toward this consensus in the days leading up to the Fed meeting, and the economic outlook presented by Chair Powell was generally positive, including a more reassuring view of the labor market as remaining in solid condition. Economic data since the September meeting has generally been strong, pushing bond yields higher. Most notable was the non-farm payrolls increase in September, coming in at 254,000 versus 150,000 expected – a complete reversal from the third quarter data – and a lower unemployment rate for September, which dropped from 4.2% to 4.1%. Meanwhile, the Core PCE Price Index for August increased from 2.6% to 2.7%, where it remained for September, and the Producer Price Index signaled an uptick in prices, moving from 1.6% to 1.8% for September. The result in the market has been the removal of one of the Fed's forecasted rate cuts by the end of 2025, with less than two 0.25% cuts priced in by year-end 2024.



Over market cycles, the yield on the LGIP will track the level of Federal Funds closely, albeit at a slightly lagged pace. This is illustrated over time in the graph below. The Fed recently took the first step in easing monetary policy with the 0.50% cut at the September meeting. The current Fed projections are for an additional 0.50% in rate reductions by the end of this year, followed by a cumulative 1.00% reduction next year, lowering the Fed Funds range to 3.25%-3.50% by the end of 2025. **As the funds rate decreases, the yield on the Pool will also decline, resulting in lower LGIP participant income earned.** However, the very high quality and short-term average maturity of the LGIP provides limited risk to principal stability. Participants who elect to automatically reinvest interest earned can further maximize returns. As always, the LGIP will prioritize safety, liquidity, and yield—in that order. This is illustrated in the graph above.

Data	Period	Value	Next Period	Expected Value	Release Date
ISM Manufacturing Index	Sep-24	47.2	Oct-24	47.6	11/1/2024
U.S. Unemployment	Sep-24	4.10%	Oct-24	4.10%	11/1/2024
Change in Nonfarm Payrolls	Sep-24	254,000	Oct-24	105,000	11/1/2024
ISM Services Index	Sep-24	54.9	Oct-24	53.3	11/5/2024
Fed Funds Target	18-Sep-24	4.75%-5.00%	7-Nov-24	4.50%-4.75%	11/7/2024
CPI YoY	Sep-24	2.40%	Oct-24		11/13/2024
CPI MoM	Sep-24	0.20%	Oct-24	0.30%	11/13/2024
CPI Ex Food and Energy YoY	Sep-24	3.30%	Oct-24		11/13/2024
CPI Ex Food and Energy MoM	Sep-24	0.30%	Oct-24	0.30%	11/13/2024
PPI YoY	Sep-24	1.80%	Oct-24		11/14/2024
PPI MoM	Sep-24	0.00%	Oct-24		11/14/2024
PCE Core Deflator YoY*	Sep-24	2.70%	Oct-24		11/27/2024
PCE Core Deflator MoM*	Sep-24	0.30%	Oct-24		11/27/2024
GDP QoQ - Advance*	Q3 2024	2.80%	Q4 2024		1/30/2025

Data from Bloomberg as of 10/31/24

LGIP STAFF

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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.