From the New Mexico State Treasurer's Office
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LGIP

The New Mexico Local Government Investment Pool NEWSLETTER

MAY 2023

PORTFOLIO SUMMARY OF THE LOCAL GOVERNMENT INVESTMENT POOL

Summary

- Ending March market value for the LGIP was $1.402 bil versus February's reported closing value of $1.466 bil.
- The LGIP maintains a AAAm rating by Standard & Poor's.

Portfolio Mix

- At the end of March, the portfolio was invested as follows: 37% in US government agency securities (17% fixed rate and 20% floating rate), 26% in US Treasury securities, 19% in collateralized demand deposit accounts with qualified banking institutions, 13% in repurchase agreements, and 5% in supranational securities.
- At month-end, the LGIP held positions in 39 securities.

Investment Earnings

- During March, the fund earned $5,708,387.
- For FY2023, the fund earned $34,212,226.
- LGIP earnings are retained by participants after a management fee of 0.05% is paid to the General Fund.

Performance

- Gross yield on the LGIP was 4.61% at the end of March.
- Net yield to participants was 4.56%.

Investment Highlights

- For the LGIP, the WAM(R) of 25 days and WAM (F) of 86 days were within their maximums of 60 and 120 days respectively.
- During the month, the LGIP purchased $314.0 mil US government agency fixed rate securities, $95.0 mil US government agency floating rate securities, $50.0 mil supranational securities, and $30.0 mil US Treasury securities.

Investment Strategy

- LGIP WAMs are currently 14 and 85 days for WAM(R) and WAM(F), respectively.
- LGIP 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 $1.00012.

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.

LGIP STAFF
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Investment Transaction Supervisor: Hannah Chavez
Portfolio Managers: Anna Murphy, CFA,
and Vikki Hanges, Chief Investment Officer

PLEASE NOTE: All STO emails have been updated to sto.nm.gov. EMAILS SENT TO state.nm.us will NO LONGER BE RECEIVED. Please update all STO contact lists. Thank you!

Is your approved signer list up-to-date? Please contact STO to confirm all account documentation is current! Contact Joseph Vasquez: 505-955-1142, or email NMSTO.LGIP@STO.NM.GOV.

The LGIP Internet Participant Access System (IPAS) gives you paperless transactions and statements, and easy, no hassle, multi-level approvals. You can transfer cash, purchase shares, and redeem shares within authorized accounts at the push of a button. To enroll, contact Joseph Vasquez.

The Local Government Investment Pool (LGIP) is a Program of the New Mexico State Treasurer's Office.

Market Watch

During the first quarter, the Fed increased the Funds rate range to 4.75%-5.00%, an increase of 0.50% across two Federal Open Market Committee meetings. The Fed provided updated economic and interest rate projections at the March meeting, decreasing their expectation for real (inflation-adjusted) growth in 2023 to 0.40% from 0.50%, attributable to an increase in 2023 Core PCE, the Fed's preferred inflation measure, to 3.60% from 3.50%. The Fed lowered its unemployment forecast to 4.50%, previously 4.60%, signaling continued optimism about labor market resiliency in the face of tighter monetary policy, as the demand for labor still substantially exceeds supply. Looking ahead, the Fed softened its language slightly regarding future rate increases, stating that "some additional policy firming may be appropriate," versus the prior statement that "ongoing increases in the target range will be appropriate." At the press conference following the FOMC meeting, Chair Powell emphasized that the committee did not anticipate rate cuts this year, indicated by the updated FOMC interest rate forecast for a terminal rate of 5.00%-5.25% at the end of 2023.

The health of the banking system was in focus at the March 22 FOMC meeting, given the rapid collapse of Silicon Valley Bank (SVB), followed by Signature Bank. The FDIC stepped in to seize control of both banks the week prior to the Fed policy decision, after they experienced massive deposit outflows. Following the bank failures, the Fed launched the Bank Term Funding Program, which along with the Fed's standing discount window, provided a liquidity backstop to stem the risk of contagion from spreading throughout the system. The Federal Home Loan Banks also issued over $428B in short-term funding the week of March 13, boosting funding substantially in order to support member bank liquidity needs. First Republic Bank was the latest bank to collapse due to deposit outflows and was ultimately taken over by the FDIC and sold to JPMorgan. The "banking crisis" has so far left the Fed undeterred. At the March meeting, Chair Powell was succinct in his defense of the Fed's policy tightening, noting that the rate increases have been well telegraphed, that most banks have managed these risks, and that curbing inflation, which is running well above the 2% target, remains in focus. **LGIP bank deposits are held with A-1 rated banks and are 100% collateralized, at a minimum, with US Treasury or Agency securities or US Agency Letters of Credit, in alignment with the highest rating criteria (AAAm) under Standard & Poor's Principal Stability Fund Criteria.**

The market is currently expecting one more 0.25% increase in Fed Funds at the May 3 meeting followed by a series of rate cuts beginning in the second half of the year, dropping the Funds range to 4.25%-4.50% by year end. The steeply inverted yield curve indicates the market's expectation of a recession later this year given tighter credit conditions, particularly in the fallout of the recent bank failures. First quarter GDP growth was only 1.10% versus the expectation of 1.90%, adding to concerns about slowing growth. The upcoming May 3 FOMC meeting could shed more light on whether the Fed has adjusted its view, or if the committee members are still firm in the expectation of holding rates higher for longer.

The Debt Ceiling

At the start of the year, the Treasury hit the statutory limit for borrowing, known as the "debt ceiling," currently capped at $31.4 trillion. This required Treasury to implement "extraordinary measures" to continue funding the government without breaching the limit. Treasury Secretary Yellen has indicated that these measures would be exhausted potentially as soon as June 2023, and the market has moved the date for technical default forward in recent weeks. The House Republicans submitted a bill to raise the ceiling, however it is not expected to pass the Senate, cementing the fear of a protracted debate. The debt ceiling standoff is not new, and ultimately the expectation is that Congress will reach a resolution without triggering default. However, the consensus is that the risk of a more contentious fight is higher than in the past, casting a warning for heightening volatility in the Treasury market in the months ahead.

Data	Period	Value	Next Period	Expected Value	Release Date
ISM Services Index	Mar-23	51.2	Apr-23	51.8	5/3/2023
Fed Funds Target	22-Mar-23	4.75%-5.00%	3-May-23	5.00%-5.25%	5/3/2023
U.S. Unemployment	Mar-23	3.50%	Apr-23	3.60%	5/5/2023
Change in Nonfarm Payrolls	Mar-23	236,000	Apr-23	180,000	5/5/2023
CPI YoY	Mar-23	5.00%	Apr-23		5/10/2023
CPI MoM	Mar-23	0.10%	Apr-23	0.40%	5/10/2023
CPI Ex Food and Energy YoY	Mar-23	5.60%	Apr-23		5/10/2023
CPI Ex Food and Energy MoM	Mar-23	0.40%	Apr-23	0.30%	5/10/2023
PPI YoY	Mar-23	2.70%	Jan-23		5/11/2023
PPI MoM	Mar-23	-0.50%	Apr-23	0.40%	5/11/2023
PCE Core Deflator YoY	Mar-23	4.60%	Apr-23		5/26/2023
PCE Core Deflator MoM	Mar-23	0.30%	Apr-23		5/26/2023
ISM Manufacturing Index	Apr-23	47.1	May-23		6/1/2023
GDP QoQ - Advance	Q1 2023	1.10%	Q2 2023		7/27/2023
Data from Bloomberg as of 5/1/2023					