The Honorable Laura M. Montoya

THE NEW MEXICO STATE TREASURER'S OFFICE

Local Government Investment Pool NEWSLETTER

February 2025

PORTFOLIO SUMMARY

- Ending December market value for the LGIP Short Term (ST) was $2.034 bil versus November's reported closing value of $1.963 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: 40% in collateralized demand deposit accounts with qualified banking institutions, 23% in US government agency floating rate securities, 22% in repurchase agreements, 9% in government agency fixed rate securities, and 6% in supranational securities.
- At month-end, the LGIP ST held positions in 41 securities.

INVESTMENT EARNINGS

- During December, the fund earned $7,733,296.
- For FY2025, the fund earned $48,179,373.
- 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 4.57% at the end of December.
- Net yield to participants was 4.52%.

INVESTMENT HIGHLIGHTS

- For the LGIP ST, the WAM(R) of 9 days and WAM (F) of 105 days were within their maximums of 60 and 120 days respectively.
- During the month, the LGIP ST purchased $191.0 mil US agency fixed rate securities maturing in 1 to 3 months, $104.0 mil US agency floating rate securities maturing in 5 months to 2 years, and $75.0 mil supranational securities maturing in 2 to 3 months.

INVESTMENT STRATEGY

- LGIP ST WAMs are currently 8 and 98 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 $0.99995 at month-end.

MARKET WATCH

During the fourth quarter, the Fed cut its policy interest rate by 0.50%, reducing the Funds range by 0.25% at both the November and December Federal Open Market Committee (FOMC) meetings. The rate reductions were largely anticipated, despite a pause in progress on inflation and labor market resilience. After several months of moving lower, the Core PCE index, the Fed's preferred measure, ticked up slightly to 2.8%, and fourth quarter job gains came in surprisingly strong. The December rate cut was largely viewed as "hawkish," given Chair Powell's acknowledgement that progress on inflation has slowed and the US economy remained strong; the decision to reduce the Funds range was met with one dissenting vote from Cleveland Fed President Hammack, who preferred to hold the current range.

The Fed also provided updated economic and interest rate projections as follows for 2024: real (inflation-adjusted) GDP growth increased from 2.0% to 2.5%, Core PCE increased from 2.6% to 2.8%, and the unemployment rate increased from 4.1% to 4.2% (subsequently 2024 unemployment data came in at 4.1%). For 2025, the Fed projects 2.1% real GDP growth, 2.5% inflation, up from the prior forecast for 2.1%, and 4.3% unemployment, down from the previous forecast of 4.4%. Fed members also increased the expectation for year-end Fed Funds range by 0.50% in 2025 and 2026, to a median 3.9% and 3.4%, respectively, and by 0.10% in 2027 and longer run, to 3.1% and 3.0%, respectively. Clearly, the Fed's 2% inflation target remains elusive given recent data and the Fed's own forecast.

At the January 29 FOMC Meeting, the Fed members voted unanimously to leave the Funds range unchanged at 4.25%-4.50%. Chair Powell reinforced that the Fed was not in a hurry to make any adjustments to the current policy rate, which he described as "meaningfully restrictive"; he reaffirmed that the economy is strong overall, the labor market remains solid, unemployment is low, and inflation continues to move toward the Fed's 2% target. Overall, the Fed views the risks related to the Fed's dual mandate of maximum employment and price stability as roughly in balance and will be looking for "further progress" on inflation before making any adjustments to the policy rate.

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 current Fed projections are for an additional 0.50% in rate reductions by the end of this year, followed by

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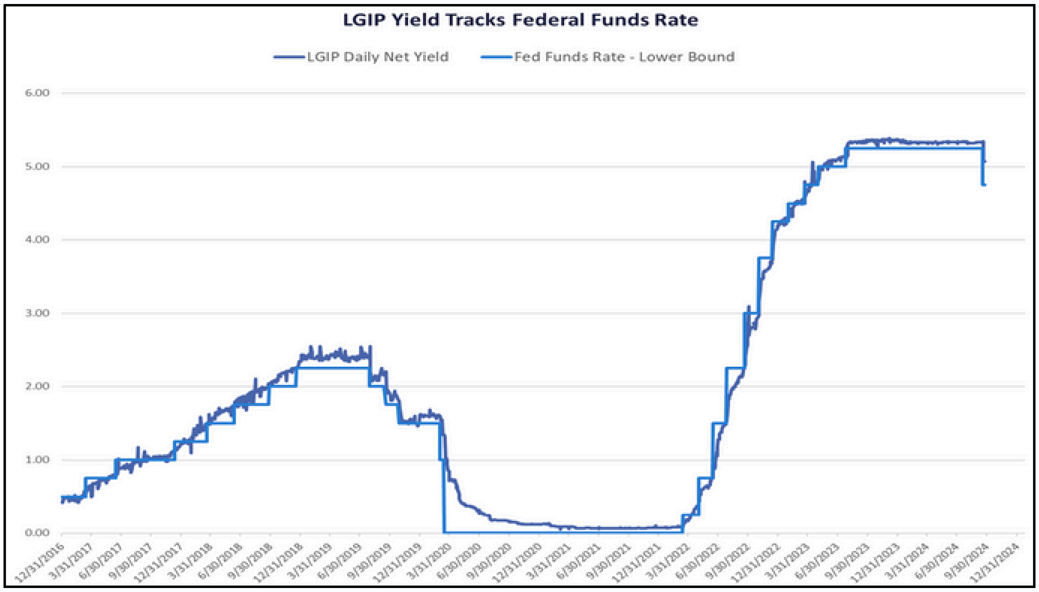
MARKET WATCH (CONT.)

a cumulative 0.50% reduction this year, lowering the Fed Funds range to 3.75%-4.00% by the end of 2025. As the Funds range decreases, so will the yield on the Pool. 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.



S&P REAFFIRMS LGIP "AAAm"

For the 18th 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 S&P profile here: https://nmsto.gov/wp-content/uploads/2024/01/NMLGIP-Fund-Profile-2024-09-30.pdf and the reaffirmation letter here: https://nmsto.gov/wp-content/uploads/2024/01/New-Mexico-State-Treasury_RL_2024NOV25.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
GDP QoQ	Q3 2024	3.10%	Q4 2024 (Advance)	2.60%	1/30/2025
PCE Core Deflator YoY	Nov-24	2.80%	Dec-24	2.80%	1/31/2025
PCE Core Deflator MoM	Nov-24	0.10%	Dec-24	0.20%	1/31/2025
ISM Manufacturing Index	Dec-24	49.2	Jan-25	48.9	2/3/2025
ISM Services Index	Dec-24	54.0	Jan-25	54.3	2/3/2025
U.S. Unemployment	Dec-24	4.10%	Jan-25	4.10%	2/7/2025
Change in Nonfarm Payrolls	Dec-24	256,000	Jan-25	150,000	2/7/2025
CPI YoY	Dec-24	2.90%	Jan-25		2/12/2025
CPI MoM	Dec-24	0.40%	Jan-25	0.30%	2/12/2025
CPI Ex Food and Energy YoY	Dec-24	3.20%	Jan-25		2/12/2025
CPI Ex Food and Energy MoM	Dec-24	0.20%	Jan-25	0.30%	2/12/2025
PPI YoY	Dec-24	3.30%	Jan-25		2/13/2025
PPI MoM	Dec-24	0.20%	Jan-25		2/13/2025
Fed Funds Target	29-Jan-25	4.25%-4.50%	19-Mar-25	4.25%-4.50%	3/19/2025
Data from Bloomberg as of 1/29/2025					

LGIP STAFF

Transaction Coordinator: Amanda Padilla
Investment Transaction Supervisor: Hannah Chavez
Portfolio Managers: Anna Murphy, CFA, and Vikki Hanges, Chief Investment Officer