
MEMORANDUM

TO: MATTHEW MUELLER, TOWN MANAGER
FROM: KELLY WILSON, CHIEF FINANCIAL OFFICER
SUBJECT: INVESTMENT REPORT FOR QUARTER ENDING MARCH 31, 2024
CC: MAYOR AND COUNCIL

Attached is the Quarterly Investment Report for the quarter ending March 31, 2024 Fiscal Year 2023-2024. This report complies with the requirements of the Town's Investment Policy and the Public Fund's Investment Act as amended. For the period ending March 31, 2024, the Town's portfolio consisted of the following investments:

Portfolio by Type	Average Yield	Total Invested	Percent of Total
Money Market - Independent Financial	5.65%	\$74,052,754.63	41.64%
TexPool/TexPool Prime/LOGIC Prime	5.45%	40,482,687.95	22.77%
Certificate of Deposit	5.04%	21,777,345.14	12.25%
US Treasury Notes	4.73%	19,578,125.00	11.25%
US Agency Bonds	5.01%	21,201,339.30	12.10%
Total Portfolio (Avg)	5.18%	\$177,092,252.02	100.00%

The Town has been actively diversifying the investment portfolio in order to minimize risk of over 50% of funds in one portfolio type as well as capturing a better yield. As interest rates are following the federal government increasing rates, the Town is actively participating in other higher yield investments. All Funds on deposit with Independent Financial are fully secured and safeguarded as well as collateralized. Total interest earned for the second quarter ending March 31, 2024 was \$2,118,411.

Total cash and investments for the period ending March 31, 2024 was \$177,092,252.02. The variance increase of \$5,789,289.73 from the last quarterly investment report is primarily due to Town's collections of property and sales tax that is received in this quarter. The cash flow is important for Finance to monitor in order to provide cash availability for expenditures while minimizing risk, preventing early redemptions of investments, and maximizing interest earnings.

The Town's current portfolio has significant resources available for same day access in order to cover normal and seasonal operational costs. The Town's investment and cash management strategy will be to maintain operational and capital needs in money market accounts and liquid asset pools but investing in other instruments in order to capitalize on interest earnings while keeping risk to a minimum. The Town's funds are swept to the above accounts and withdrawn as needed for operational cash flow requirements.

The total portfolio yield fiscal year-to-date is 5.18%. While some benchmarks to reference the US Treasury T-bill rates for 3 months is 5.23%; 1 year is 4.83%; and a 2 year is 4.12% as of the date of this report. The Town's portfolio yield at the time of this report does not exceed the 3-month benchmark but will continue to improve as we continue to invest in safe investments outlined in the Town's investment policy.

FINANCE DEPARTMENT
QUARTERLY INVESTMENT REPORT

2024 Economic Federal Reserve Rate Outlook

The big question at the January FOMC meeting was whether Fed officials would telegraph a quarter point rate cut for March. Fortunately, they were patient. Powell did acknowledge the previous six months of inflation data had been very good, but emphasized the committee would not reduce the overnight target range until it had greater confidence inflation was moving sustainably toward its +2.0% target. By the March FOMC meeting, the downtrend in inflation was on hold, confidence was waning, and committee members were tasked with revising their summary of economic projections and interest rate forecast for the first time since December.

In somewhat of a surprise given the unpleasant inflation data, the Fed's updated "dot plot" continued to show a total of 75 basis points in rate cuts in 2024, leaving the median fed funds forecast at 4.6% by yearend. The 2025 projection indicated one fewer cut, moving the yearend funds forecast up from 3.6% to 3.9% and 2026 from 2.9% to 3.1%. The committee's GDP forecast for 2024 was upped from +1.4% to +2.1%, while the 2025 growth forecast was revised from +1.8% to +2.0% and 2026 from +1.9% to +2.0%. In the Fed's mind, the likelihood of recession had faded away.

The committee acknowledged recently elevated price pressure by revising its 2024 yearend core PCE forecast higher, from +2.4% to +2.6%, although the 2025 and 2026 core inflation forecasts were unchanged at +2.2% and +2.0% respectively.

Powell was asked several questions during his March press conference about the higher than-expected inflation readings earlier this year. He responded by saying inflation was gradually coming down but repeated that the road is "bumpy," while warning that the lower base that prevailed during the second half of 2023 will make it challenging to bring the annual pace lower in late 2024.

By the end of the quarter, it was clear that the Fed would not be cutting rates in May, ... and probably not in June. Inflationary pressure had receded for a while, and then stalled. This shouldn't have been a surprise. Powell warned there would be bumps along the way. One of many upside risks to the inflation outlook is that the increase in household wealth associated with historically high home and stock market values will ignite even more consumer demand.

The monthly Bloomberg survey of economists showed a +2.4% median PCE core forecast at the end of the year, and a combined 75 basis points of rate cuts, beginning in the second quarter. This mirrors the dot plot and assumes the economy slows. The Fed's own inflation forecast indicated core PCE at +2.6% by yearend, a little less optimistic than the nation's economists, and still considerably above their +2.0% target. Given that the committee just boosted its 2024 GDP outlook, there doesn't seem to be any compelling reason to cut rates. Not yet anyway.

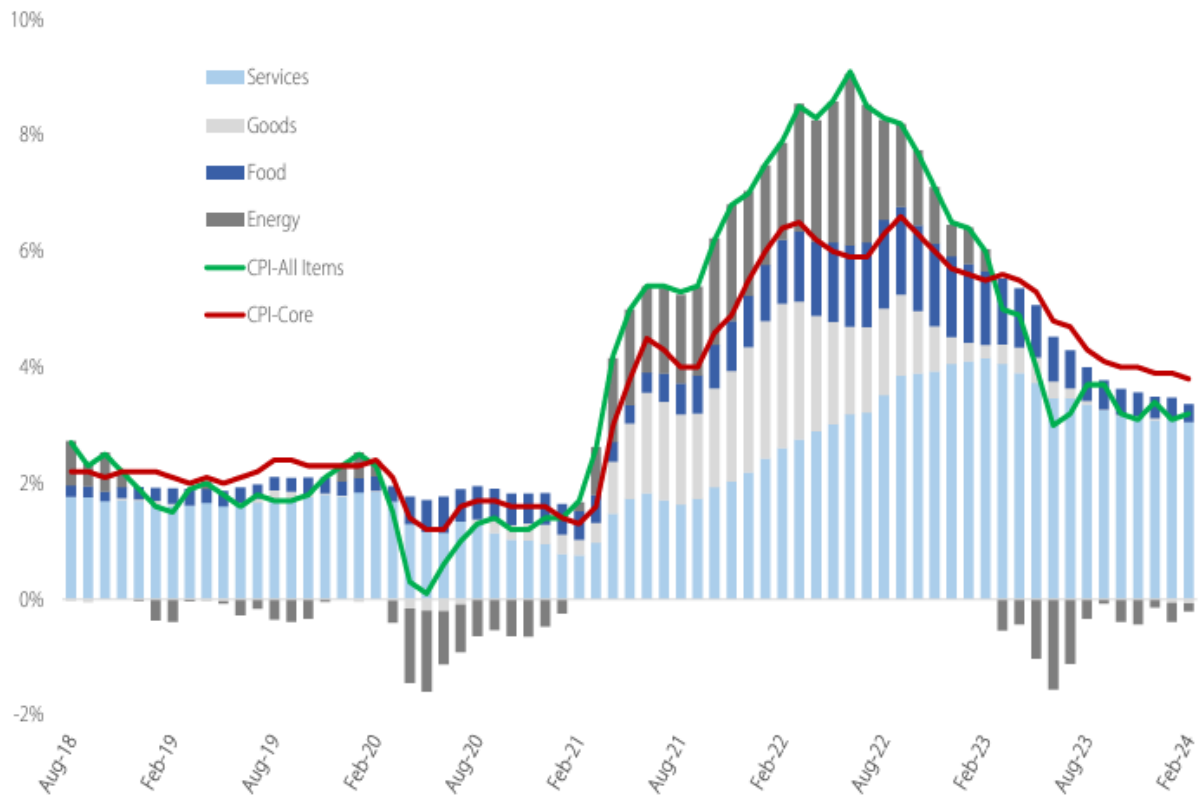
Fed Governor Chris Waller told members of the New York Economic Club in late March that he was in "no rush" to begin rate cuts. Waller pointed to "disappointing" inflation data, along with the continued strength of the U.S. economy and a resilient labor market. Nothing new there.

The concern is that Fed policymakers ease too early, inflation reemerges, and they're forced to reverse course, eroding hard-fought credibility.

FINANCE DEPARTMENT
QUARTERLY INVESTMENT REPORT

Higher pump prices and shipping costs will most certainly have increased inflationary pressure for March. With luck, shelter costs will fade enough during the month to keep the headline in check, but the Fed is likely to see at least one more uncomfortably warm CPI report.

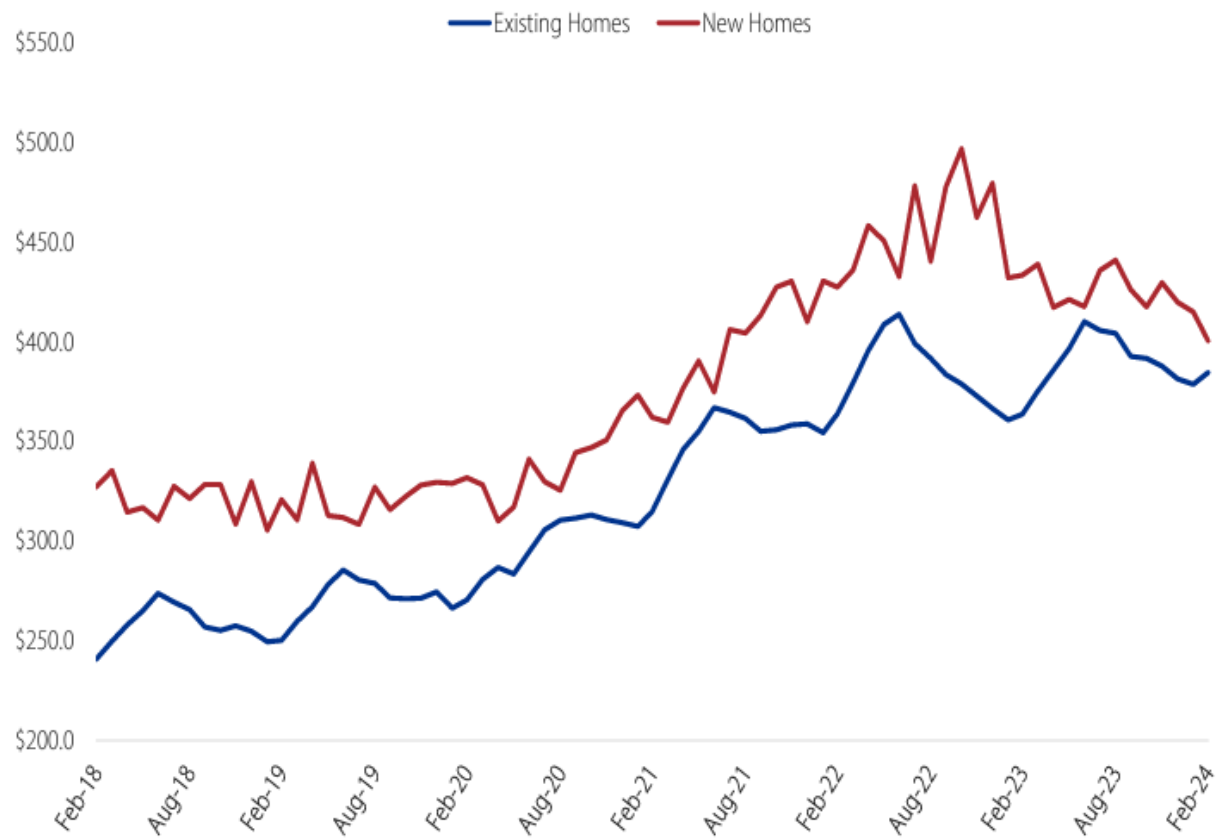
Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

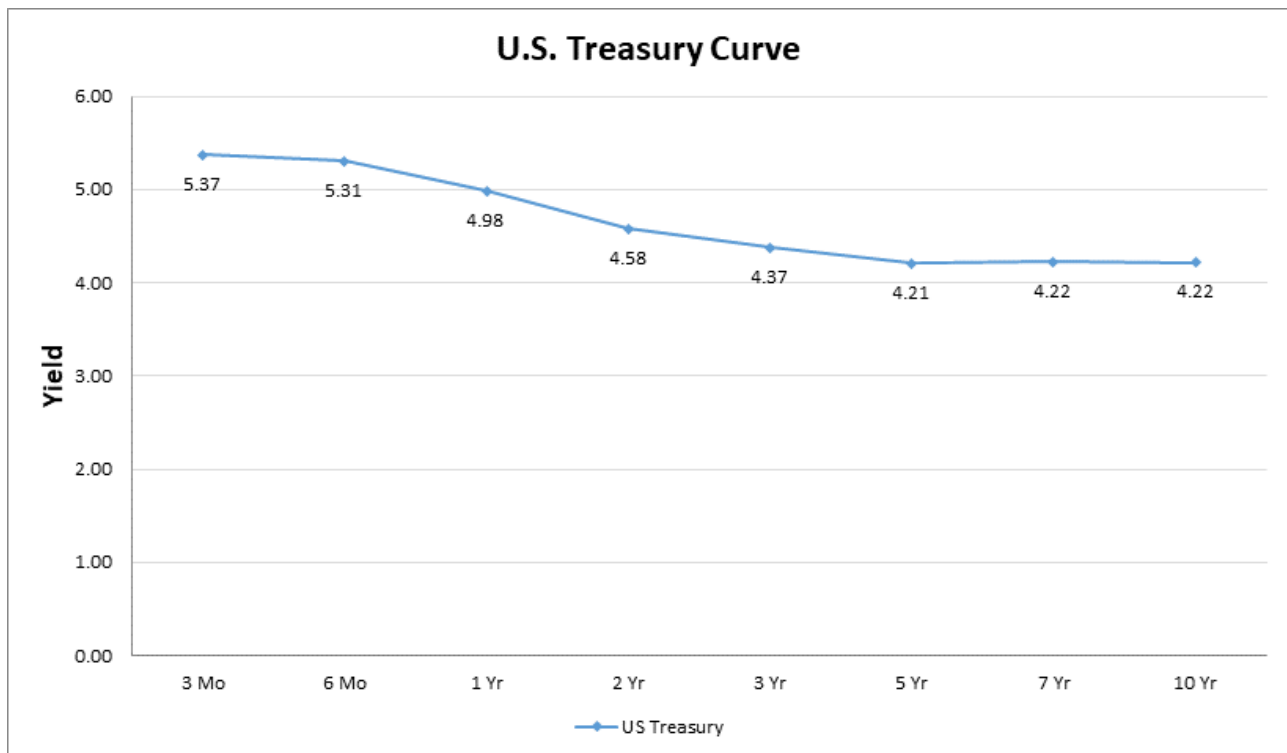
FINANCE DEPARTMENT
QUARTERLY INVESTMENT REPORT

US Home Median Sales Price (\$ Thousands)



Source: National Association of Realtors, US Census Bureau

FINANCE DEPARTMENT
QUARTERLY INVESTMENT REPORT



FINANCE DEPARTMENT
QUARTERLY INVESTMENT REPORT



Quarterly Investment Report

For the Quarter Ended

March 31, 2024

Prepared by the Town of Little Elm Finance Department

Overview of the Quarterly Investment Report

Funds on deposit with depository bank are fully collateralized.

- **YTD Cash and Investments on hand: \$177,092,252.02**
 - 41.64% in depository bank
 - 22.77% invested in Pools
 - 12.25% invested in CDs
 - 11.25% invested in US Treasury Notes
 - 12.1% invested in US Agency Bonds
- **Interest Earnings**
 - \$3,820,924 YTD
 - \$2,118,411 January-March 2024
- **Average Yield on Portfolio**
 - 5.18% YTD
 - 4.01% at end of 1st Quarter – FY 2023-2024
- **Average Yield Benchmarks**
 - 5.36% Three Month Rolling Treasury Yield
 - 5.02% One Year Rolling Treasury Yield
 - 5.45% TexPool/Logic Average Yield
- **Certification of Investment Policy (Government Treasurers' Organization of Texas)**
 - Awarded for 2-year period ending April 30, 2026

The investment portfolio of the Town of Little Elm is in compliance with the Public Funds Investment Act and the investment Policy and Strategies.

Kelly Wilson

Kelly Wilson, Chief Financial Officer

Betty Pamplin

Betty Pamplin, Assistant Director of Finance