



Loveland Municipal Building

Investment Focus

Monthly Investment Report

March 2018

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Focal Points

- * The 2018 targets for the City's portfolio are: 1) interest rate = **1.13%**; and 2) earnings = **\$2,527,729**.
- * City investments are in high-quality, low-risk securities to comply with Colorado law and the City's investment policy.
- * Interest earnings posted for the month totaled **\$254,311**. Year-to-date earnings total **\$522,162**.
- * Each 1% of market value amounts to \$2.2 million.
- * The month-end market value shows the unrealized loss is estimated to be **\$3,940,529** at the end of March.

Why Yes, The FOMC Would Like Some Inflation Overshoot Now

"The Fed claims it has a symmetric inflation target. From its 2017 and 2018 Statements, on Longer Run Goals and Monetary Policy, the FOMC states:

'The Committee reaffirms its judgment that inflation at the rate of 2 percent...is most consistent over the longer run with the Federal Reserve's statutory mandate. The Committee would be concerned if inflation were running persistently above or below this objective. Communicating this symmetric inflation goal clearly to the public helps keep longer-term inflation expectations firmly anchored...'

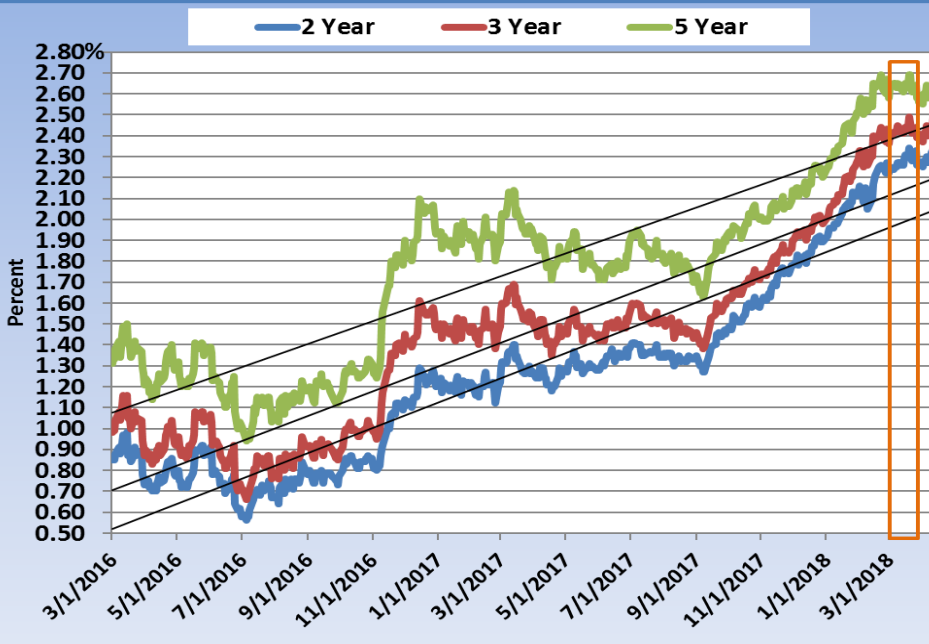
Continued on page 2.

Type of Investment	Purchase Price	Market Price	Unrealized Gain/Loss
Checking Accounts	\$ 23,398,964	\$ 23,398,964	-
Investment Pools	9,278,472	\$ 9,278,472	-
Money Markets	\$ 19,486,423	\$ 19,486,423	-
Subtotal	\$ 52,163,858	\$ 52,163,858	-
Notes, Bonds, and CDs	\$ 184,831,719	\$ 180,891,190	\$ (3,940,529)
Total Portfolio	\$ 236,995,577	\$ 233,055,048	\$ (3,940,529)
Data sources	(Morgan Stanley)	(US Bank)	3/31/2018

Due to rounding, column and row totals may not add exactly. This table includes Lease Proceeds for public improvements at the Foundry.

Monthly Investment Report

Interest Rates / Inflation



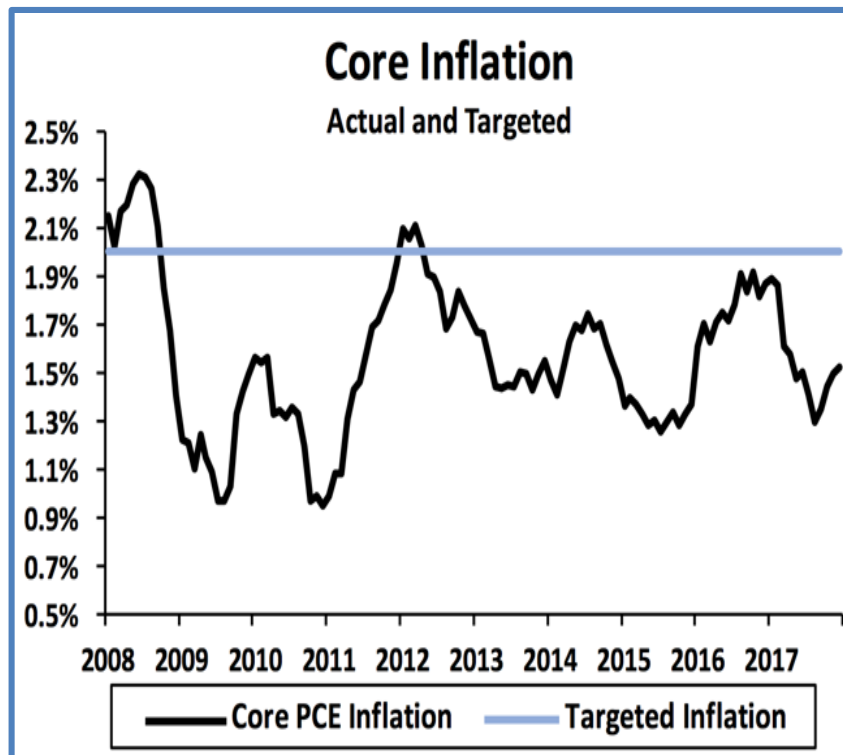
Interest rates on U.S. Treasury notes moved again in March. The 2-year Treasury note was **up** by 5 basis points, the 3-year Treasury note was **up** by 3 basis points, but the 5-year Treasury note was **down** by 2 basis points.

The net result from changes in the market at the end of March was an **increase** in the value of the City's portfolio by about \$309,546. (US BANK)

Continued from page 1.

Numerous Fed officials have repeated this point as well. They too see the inflation target as a symmetric one, an understanding that allows for an occasional inflation overshoot. Despite these claims, however, the Fed has persistently under-shot its inflation target. If one acknowledges the Fed implicitly targeted 2 per-cent long before the explicit target was adopted in 2012, then the undershooting has lasted for almost a decade. This is not a pretty picture."

"Many observers have taken this as evidence that the Fed's 2 percent target is more of a ceiling and not symmetric. This understanding has been borne out by the FOMC's own Summary of Economic Projections (SEP) forecasts for core PCE. This is a point Narayana Kocherlakota has made many times and has been a source of frustration for many Fed watchers. Ryan Avent of *The Economist*, for example, has been asking the Fed for years to 'try overshooting for once.'"



(Source: "Why Yes, The FOMC Would Like Some Inflation Overshoot Now" by David Beckworth, on the Seeking Alpha website, April 13, 2018.)

UNAUDITED Cash Balances

March 2018

Cash Balances differ from Budget Fund Reserves in that the Budget does not include monies committed to projects. The Cash Balances include committed funds.

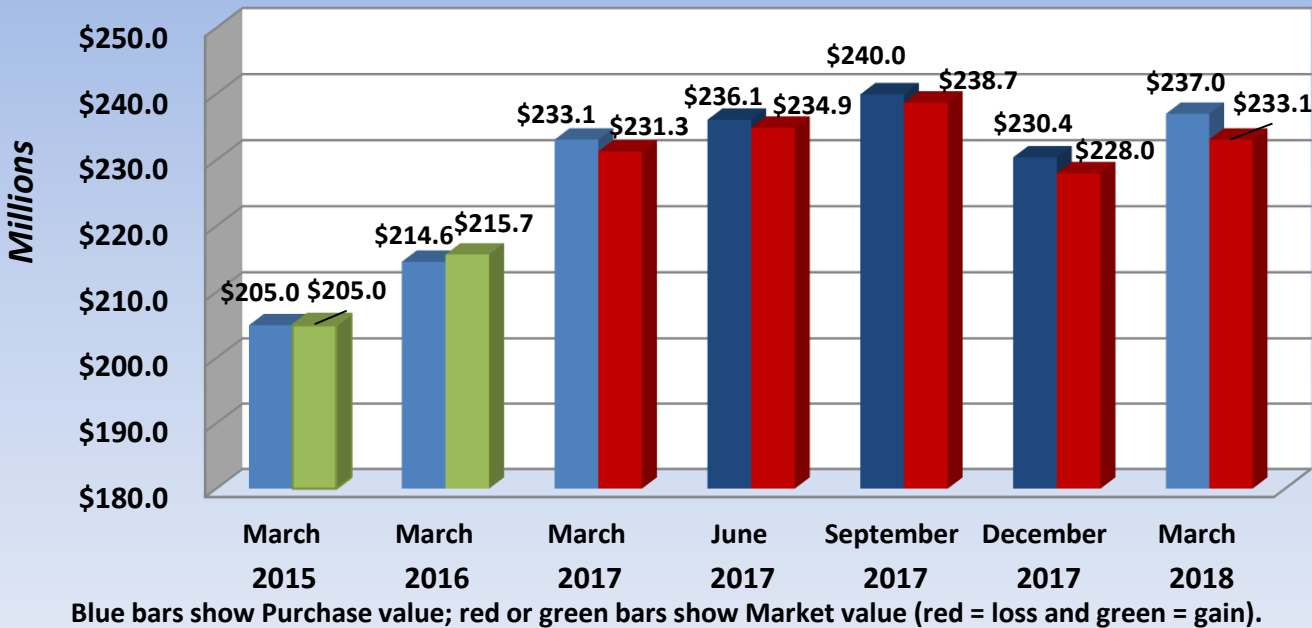
Types of Cash Balances		2018 Beginning	YTD Activity	Month End Total
Restricted Cash				
1	Capital Expansion Fees	\$ 38,577,372	\$ 781,198	\$ 39,358,570
2	Water System Improvement Fees	3,548,783	163,030	3,711,814
3	Raw Water Revenue - Windy Gap	25,991,423	(662,553)	25,328,870
4	Wastewater System Imp. Fees	8,235,894	919,324	9,155,218
5	Storm Drainage System Imp. Fees	2,794,361	68,132	2,862,493
6	Power Plant Investment Fees	3,612,266	1,421,196	5,033,462
7	Cemetery Perpetual Care	2,958,105	31,100	2,989,205
8	Other Restricted	35,889,395	(2,520,410)	33,368,985
9	Total Restricted	\$ 121,607,599	\$ 201,017	\$ 121,808,616
Committed / Assigned Cash				
10	General Fund	\$ 11,224,908	\$ 740	\$ 11,225,648
11	Enterprise Funds	5,947,235	84,304	6,031,539
12	Internal Service Funds	19,106,919	2,446,811	21,553,730
13	Total Committed / Assigned	\$ 36,279,062	\$ 2,531,854	\$ 38,810,916
14	Total Restricted/Committed/Assigned	\$ 157,886,662	\$ 2,732,871	\$ 160,619,533
Unassigned Cash Balance				
15	General Fund	\$ 25,484,239	\$ 756,222	\$ 26,240,461
16	Airport	1,746,320	495,272	2,241,592
17	Internal Service - Vehicle Maint.	143,977	165,771	309,749
18	Enterprise Funds	43,786,235	1,195,235	44,981,470
19	Total Unassigned	\$ 71,160,771	\$ 2,612,501	\$ 73,773,272
20	TOTAL CASH BALANCE 3/31/18	\$ 229,047,433	\$ 5,345,372	\$ 234,392,805

Source: City of Loveland Budget Office. This Schedule includes the Lease Certificate Proceeds for the Parking Facility at The Foundry. Due to rounding, column and row totals may not add exactly.

Monthly Investment Report

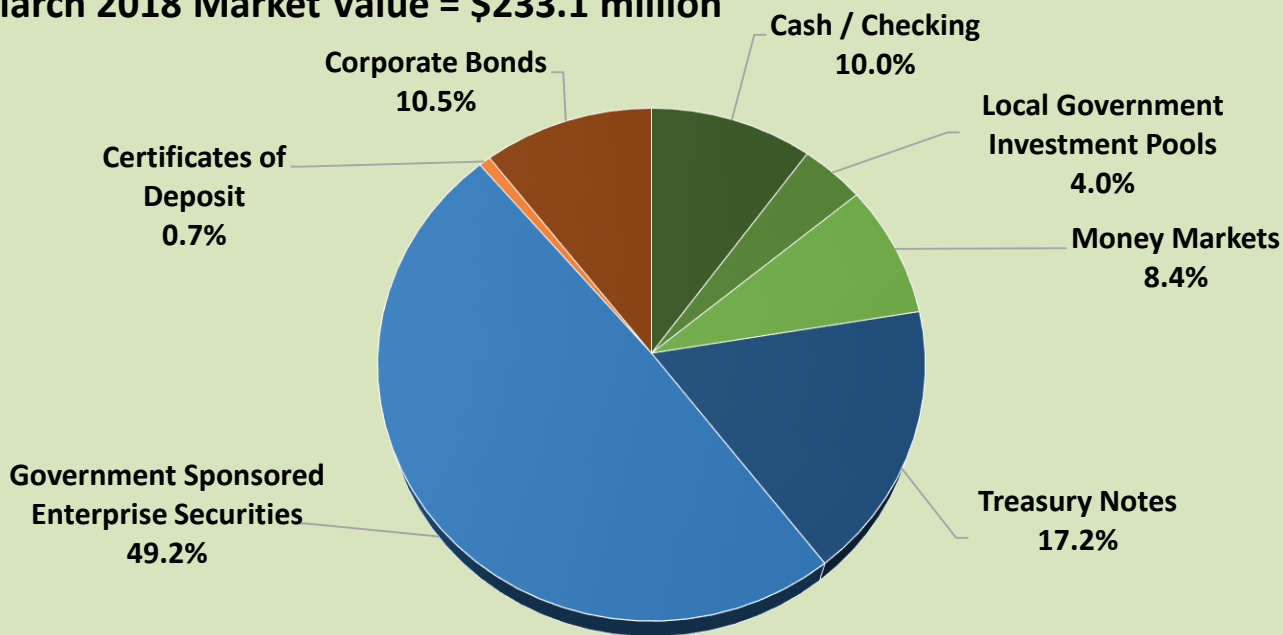
Portfolio Growth Trend / Types of Investments

Portfolio Size Since March 2015



Types of Investments in the Portfolio

March 2018 Market Value = \$233.1 million

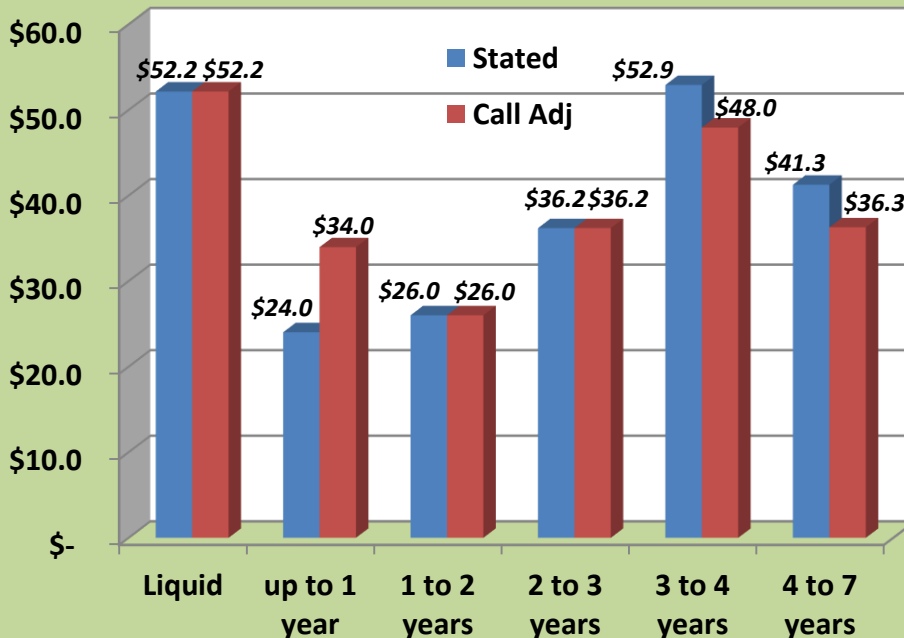


Transactions / Portfolio by Maturity

	Maturity Date	Face Value \$	Purchase \$	Rate
<u>Purchases</u>				
No securities purchases in February.				
<u>Maturities</u>				
Bank Baroda Ny Certificate of Deposit	03/08/2018	\$ 250,000.00	\$ 250,000.00	1.400%
Discover Bank Certificate of Deposit	03/13/2018	<u>250,000.00</u>	<u>250,000.00</u>	1.300%
		\$ 500,000.00	\$ 500,000.00	
<u>Called Securities</u>				
No securities called in February.				
<u>Sales</u>				
No early sales of securities this month.			<u>Sale Price</u>	

Portfolio by Estimated Maturity

(in millions - Total Market Value = \$233.1 at the end of the month)



The target interest earnings rate for 2017 is 1.13%.

Rates reached all-time lows in June of 2016. Since then, they cycled up and down with a strong upward move after the November 2016 election and an even stronger move upward for the last six months.

To support earnings, or to reposition the portfolio, bonds may be sold. No bonds have been sold through March.

Blue bars show the stated term; red bars show possible calls.

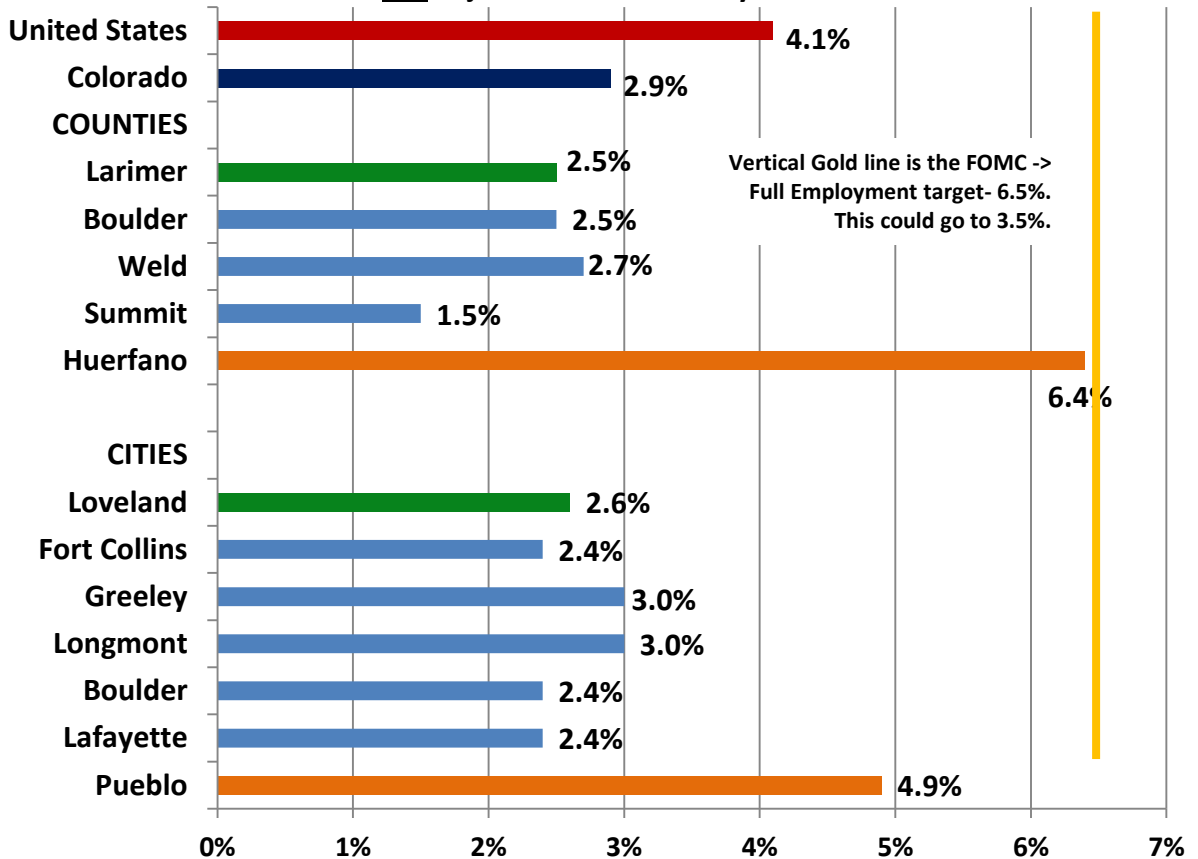
Updated Colorado Labor Data – From the Colorado Department of Labor and Employment

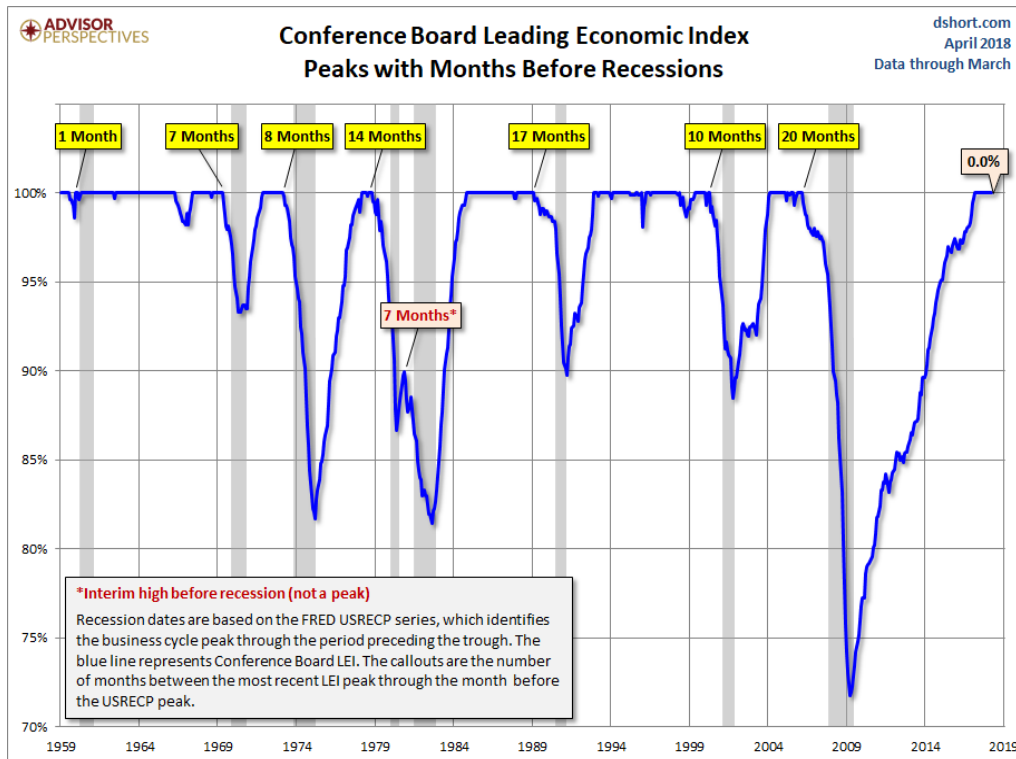
- ❑ Loveland’s employed workforce expanded in March, **up by 207 jobs** compared to February.
- ❑ Compared to last March, there are **1,583 more** jobs reported by Loveland residents.

Important note: It is a routine practice at the beginning of each year for the Bureau of Labor Statistics to revise estimates for prior years based on new information available and updated methodologies. Revisions to the unemployment rate and all related household survey based series as a result of the benchmark process this year were particularly significant due to a change to American Community Survey based inputs. All series were revised back to 1976.

Unemployment Rates

Data not adjusted for seasonality





“The latest Conference Board Leading Economic Index (LEI) for March increased to 109.0 from 108.7 in February.”

“For a better understanding of the relationship between the LEI and recessions, the chart [at the left] shows the percentage-off the previous peak for the index and the number of months between the previous peak and official recessions.”

Based on the average of the last three recessions, the LEI could be indicating the next recession is about twelve months away.

(Source: “Conference Board Leading Economic Index: Slight Increase in March” by Jill Mislinski from the Advisor Perspectives ECRI website dated April 19, 2018.)

Excerpts below from *Dash of Insight* blog, “The Indicator Snapshot,” posted April 15, 2018. Due to the stock market volatility, the short-term technical health interpretation is now bearish.

Risk Indicator	Current	Last Week	Last Month	Last Quarter	Interpretation
Economy					
C-Score	376	362	444	425	9 mo recession Probability about 18%
Leading SuperIndex*	0.77%	0.48%	0.39%	.62%	3-4 Mo Recession Probability
BCIp	83.7	88.7	85.3	100.0	No recession indicated
SLFSI	-0.898	-0.919	-1.108	-1.569	Very Low Risk
Technical Health					
Short-term	5	5	3	1	Bearish
Long-term	2	2	1	1	Bullish
Overall Outlook	Str. Bull	Str. Bull	Str. Bull	Str. Bull	

Sources: Stlouisfed.org, RecessionAlert.com, Imarket Signals, fundamentalis.com, and NewArc Investments, Inc. 2018

*SuperIndex is the public value, delayed one month



Future Scan: FOMC Confident; Headwinds; State Employment; Recession Data

❖ **Federal Open Market Committee Minutes Show Confidence in Strengthening Economy**

- The Federal Open Market Committee agreed that a strengthening economy supported “future gradual increases,” according to the minutes from the March 20-21 meeting. During the meeting, committee members decided to lift rates to 1.5 to 1.75 percent, after previously holding rates in January. They penciled in two more rate hikes in 2018 and three in 2019. The Committee will next meet in early May.
- “Committee members unanimously ‘viewed the recent data and other developments bearing on real economic activity as suggesting that the outlook for the economy beyond the current quarter had strengthened in recent months.’ As a result, the Committee strengthened their view that inflation would increase and stabilize around their stated 2 percent goal in the coming months. A tight labor market, new federal spending, tax cuts and weaker dollar should lead to greater price pressures.”
- “The Committee noted concern as the Administration’s recent tariffs on imported steel and aluminum increase the risk of retaliatory trade actions by other countries. ‘Contacts in the agricultural sector reported feeling particularly vulnerable to retaliation,’ the minutes read.”

(Source: *FOMC Minutes Suggest Confidence in Strengthening Economy and Inflation*, by Stephen Newton in the ABA Banking Journal, April 11, 2018.)

❖ **Business Cycle Risk Report – 20 April 2018**

- “Headwinds tied to growth may be a bigger threat in the months ahead. With the US economic expansion in its ninth year, the Federal Reserve remains on track to push interest rates higher. It remains to be seen if tighter monetary policy will choke off growth, but the case is still solid for expecting output to rise in the foreseeable future.”
- “Next week’s preliminary estimate of first quarter GDP growth, however, is set to decelerate to 2.1%, according to this month’s survey of economists via *The Wall Street Journal*. That’s well below the 2.9% gain in the previous quarter.”
- “Growth may be on track to downshift, but the projections published to date are still strong enough to keep the economy from falling off the business-cycle cliff. Meanwhile, the Capital Spectator’s estimate of recession risk for the US equates with a near-zero chance that a new downturn started last month, based on a diversified set of economic indicators.”

(Source: *U.S. Business Cycle Risk Report – 20 April 2018* by James Picerno posted on Seeking Alpha blog, April 20, 2018.)

❖ **The Colorado Employment Situation for March 2018** was released April 20th. Total nonfarm payroll jobs increased by 5,400 from February to March. Over the last 12 months, nonfarm payroll jobs increased by 62,200. The latest household survey shows Loveland’s unemployment rate to be 2.6%, a drop of 6/10^{ths} from February. The survey-based statistics show Loveland had **207 more jobs** compared to last month and **1,583 more jobs** since March 2017. Most of the other cities and counties showed decreases in their unemployment rates compared to the prior month. The detailed chart is on page 6. (Next update May 18, 2018.)

(Source: Colorado Department of Labor and Employment *Colorado Employment Situation March 2017*, April 20, 2018.)

❖ **Recession Indicators:** Four indicators (Industrial Production, Nonfarm Employment, Real Personal Income, and Real Retail Sales) are the basis for determining a recession. Based on March monthly data, Employment **was up just 0.07%**, Industrial Production **was up 0.51%**, Real Retail Sales **were up 0.62%**, and February Real Income was up 0.29%. “The US economy was slow in recovering from the Great Recession. Employment and Income have been relatively strong. Real Retail Sales have been rising but below trend. Industrial Production has taken much longer to rebound since 2009.”

(Source: *Advisor Perspectives* Updates, edited by Jill Misilinski, April 17, 2018.)

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