



Loveland Municipal Building

# Investment Focus

Monthly Investment Report

June 2018

## What's in here?

Focal Points / Yield Curve	1
Interest Rates	2
Cash Reserves	3
Portfolio Size / Investment Types	4
Transactions / Maturity	5
Jobs Data	6
Leading Indicators / Recession	7
Future Scan	8

## 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 **\$121,766**. Year-to-date earnings total **\$1,472,440**.
- \* Each 1% of market value amounts to **\$2.35 million**.
- \* The month-end market value shows the unrealized loss is estimated to be **\$4,270,699** at the end of June.

## Is the yield curve signaling a recession?

"The difference between the 10-year and 2-year Treasury yield—otherwise known as the yield curve—has narrowed to a very low level of 27 basis points (bps) vs. a long-term average of about 100 bps. We expect it to narrow further as the Federal Reserve continues to raise interest rates.

But the swift yield curve flattening to such a low level is not an automatic signal of an imminent recession. As the lower chart shows, the curve was very flat for five years in the late 1990s. There was no recession during that period. Instead, the U.S. economy grew by more than 4% annualized and the stock market surged."

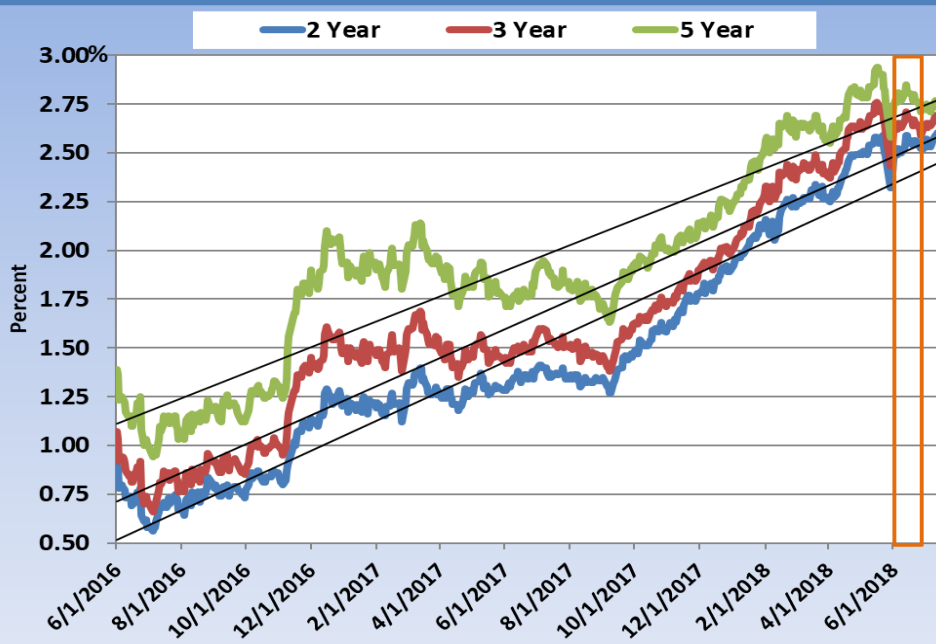
*Continued on page 2.*

Type of Investment	Adjusted Price	Market Price	Unrealized Gain/Loss
Checking Accounts	\$ 22,367,943	\$ 22,367,943	-
Investment Pools	9,322,901	\$ 9,322,901	-
Money Markets	\$ 13,165,425	\$ 13,165,425	-
Subtotal	\$ 44,856,268	\$ 44,856,268	-
Notes, Bonds, and CDs	\$ 191,867,256	\$ 187,596,557	\$ (4,270,699)
Total Portfolio	\$ 236,723,524	\$ 232,452,825	\$ (4,270,699)
Data sources	(Morgan Stanley)	(US Bank)	6/30/2018

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 / Yield Curve



Interest rates on U.S. Treasury notes shifted back up in June. The 2-year Treasury note was **up by 12** basis points. The 3-year Treasury note was up 9 basis points and the 5-year Treasury note was up by 5 basis points. The net result from changes in the market at the end of June was a **decrease** in the value of the City's portfolio by about \$276,660.

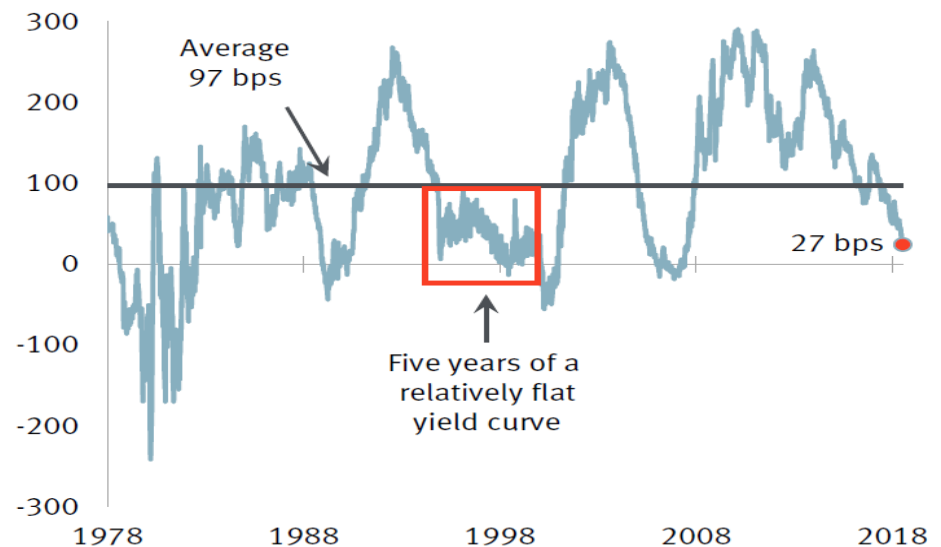
(US BANK)

Continued from page 1.

“When the curve does become negative (invert) with the 2-year yield exceeding the 10-year yield, it typically signals a recession is coming, but it can take many months or more than a year for it to materialize. During much of this time, the market can deliver healthy gains. In the last cycle, for example, this yield curve initially inverted in February 2006. The S&P 500 didn't peak until October 2007, and the recession began two months later.”

### Yield curve limbo: How low can it go?

Yield difference between 10-year and 2-year Treasuries in basis points (bps)



Source - RBC Wealth Management, Bloomberg; daily data through 7/19/18

(Source: “Focusing on the other ‘Big 3’” by Kelly Bogdanova, in RBC Wealth Management **Global Insight Weekly**, on July 19, 2018.)

# UNAUDITED Cash Balances

June 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.

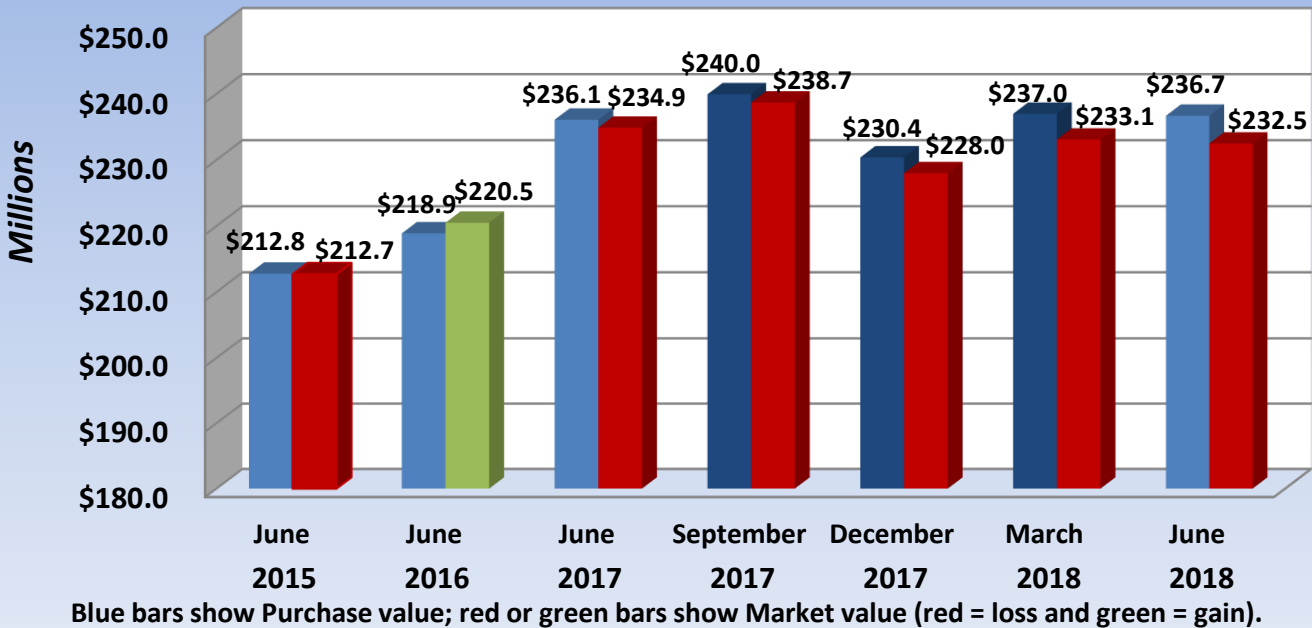
Types of Cash Balances		2018 Beginning	YTD Activity	Month End Total
<b>Restricted Cash</b>				
1	Capital Expansion Fees	\$ 38,577,372	\$ (653,116)	\$ 37,924,256
2	Other Special Revenue	16,567,129	(6,486,373)	10,080,756
3	Capital Projects	13,616,935	(6,113,755)	7,503,180
4	Water System Improvement Fees	3,548,783	228,983	3,777,766
5	Water Debt Service	349,753	312,875	662,628
6	Raw Water	25,641,671	311,843	25,953,513
7	Wastewater System Improvement Fees	8,227,315	(945,089)	7,282,227
8	Wastewater Debt Service	8,578	98,434	107,012
9	Storm Drainage System Imp. Fees	2,794,361	129,491	2,923,853
10	Power Plant Investment Fees	3,612,266	1,766,508	5,378,773
11	Cemetery Perpetual Care	2,958,105	54,646	3,012,752
12	Other Restricted	5,705,331	7,685,752	13,391,083
13	<b>Total Restricted</b>	<b>\$ 121,607,599</b>	<b>\$ (3,609,801)</b>	<b>\$ 117,997,798</b>
<b>Committed / Assigned Cash</b>				
14	General Fund	\$ 11,224,908	\$ 1,856	\$ 11,226,764
15	Enterprise Funds	5,947,235	(102,351)	5,844,884
16	Internal Service Funds	19,106,919	4,283,014	23,389,933
17	<b>Total Committed / Assigned</b>	<b>\$ 36,279,062</b>	<b>\$ 4,182,518</b>	<b>\$ 40,461,581</b>
<b>Total Restricted/Committed/Assigned</b>		<b>\$ 157,886,662</b>	<b>\$ 572,717</b>	<b>\$ 158,459,379</b>
<b>Unassigned Cash Balance</b>				
18	General Fund	\$ 25,484,239	\$ 5,499,468	\$ 30,983,707
19	Airport	1,746,320	780,615	2,526,935
20	Internal Service - Vehicle Maint.	143,977	172,742	316,719
21	Enterprise Funds	43,786,235	187,493	43,973,727
22	<b>Total Unassigned</b>	<b>\$ 71,160,771</b>	<b>\$ 6,640,317</b>	<b>\$ 77,801,088</b>
23	<b>TOTAL CASH BALANCE 6/30/18</b>	<b>\$ 229,047,433</b>	<b>\$ 7,213,034</b>	<b>\$ 236,260,467</b>

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

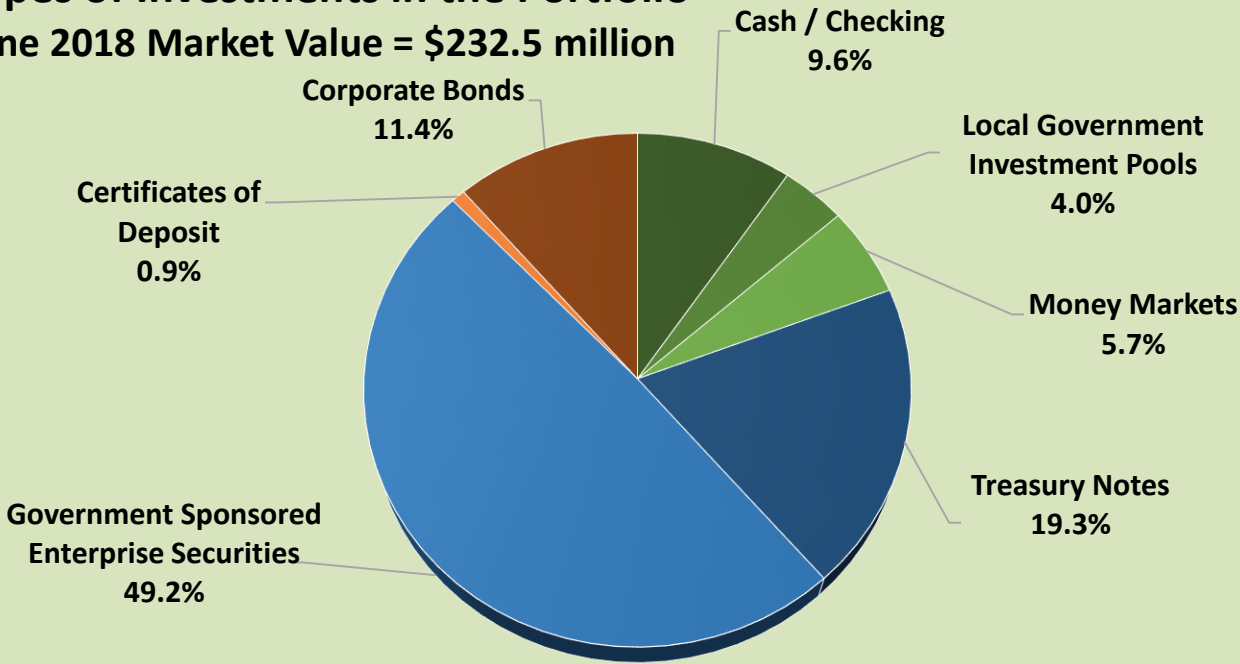
## Portfolio Growth Trend / Types of Investments

### Portfolio Size Since June 2015



### Types of Investments in the Portfolio

June 2018 Market Value = \$232.5 million

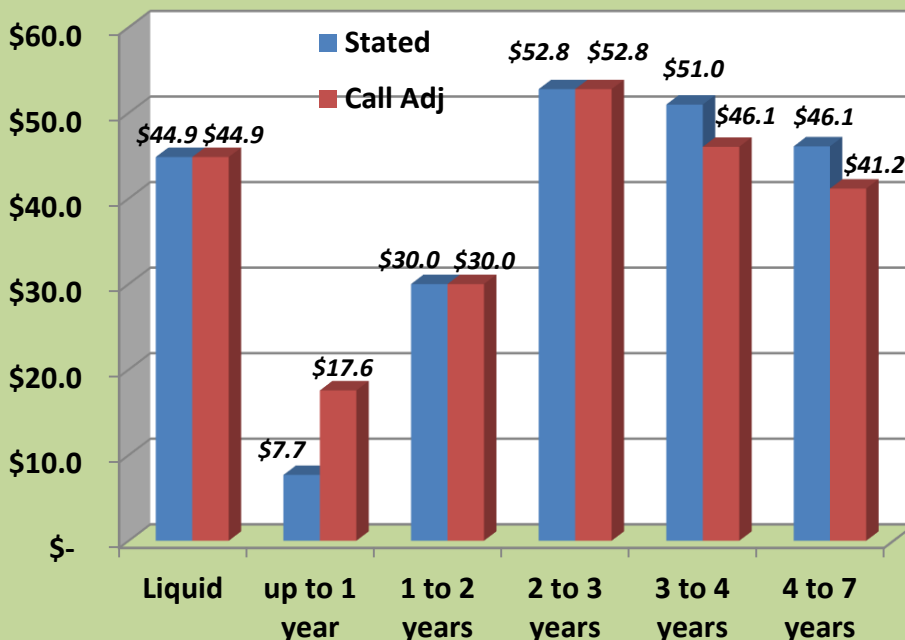


# Transactions / Portfolio by Maturity

	Maturity Date	Face Value \$	Purchase \$	Rate
<b>Purchases</b>				
Ally Bank Midvale Cert. of Deposit	06/28/2021	\$ 250,000.00	\$ 250,000.00	3.0000%
American Express Cert. of Deposit	06/28/2021	250,000.00	250,000.00	3.0000%
Comenity Capital Cert. of Deposit	06/29/2021	250,000.00	250,000.00	3.0000%
Discover Bank Certificate of Deposit	06/28/2021	250,000.00	250,000.00	3.0000%
Walmart Inc Corporate Note	06/23/2021	2,000,000.00	2,004,040.00	3.1250%
Virginia St Cmwlth Taxable Bond	05/15/2021	2,000,000.00	2,074,320.00	4.3500%
U.S. Treasury Note	05/31/2023	5,000,000.00	4,988,281.25	2.7500%
Federal Home Loan Mort. Corp. Note	06/19/2023	5,000,000.00	4,973,600.00	2.7500%
Federal Home Loan Mort. Corp. Note	01/13/2022	<u>5,000,000.00</u>	<u>4,937,800.00</u>	2.3750%
		\$20,000,000.00	\$ 19,978,041.25	
<b>Maturities</b>				
Barclays Bank Certificate of Deposit	06/28/2018	\$236,000.00	\$ 236,000.00	1.3463%
American Express Cert. of Deposit	06/28/2018	250,000.00	250,000.00	1.5000%
Met Life Global Medium Term Note	06/22/2018	<u>2,000,000.00</u>	<u>2,000,000.00</u>	1.8750%
		\$ 2,486,000.00	\$ 2,486,000.00	
<b>Sales and Called Securities</b>				
No securities sold or called in June.				

## Portfolio by Estimated Maturity

(in millions - Total Market Value = \$232.5 at the end of the month)



The target interest earnings rate for 2018 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 ten months.

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

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

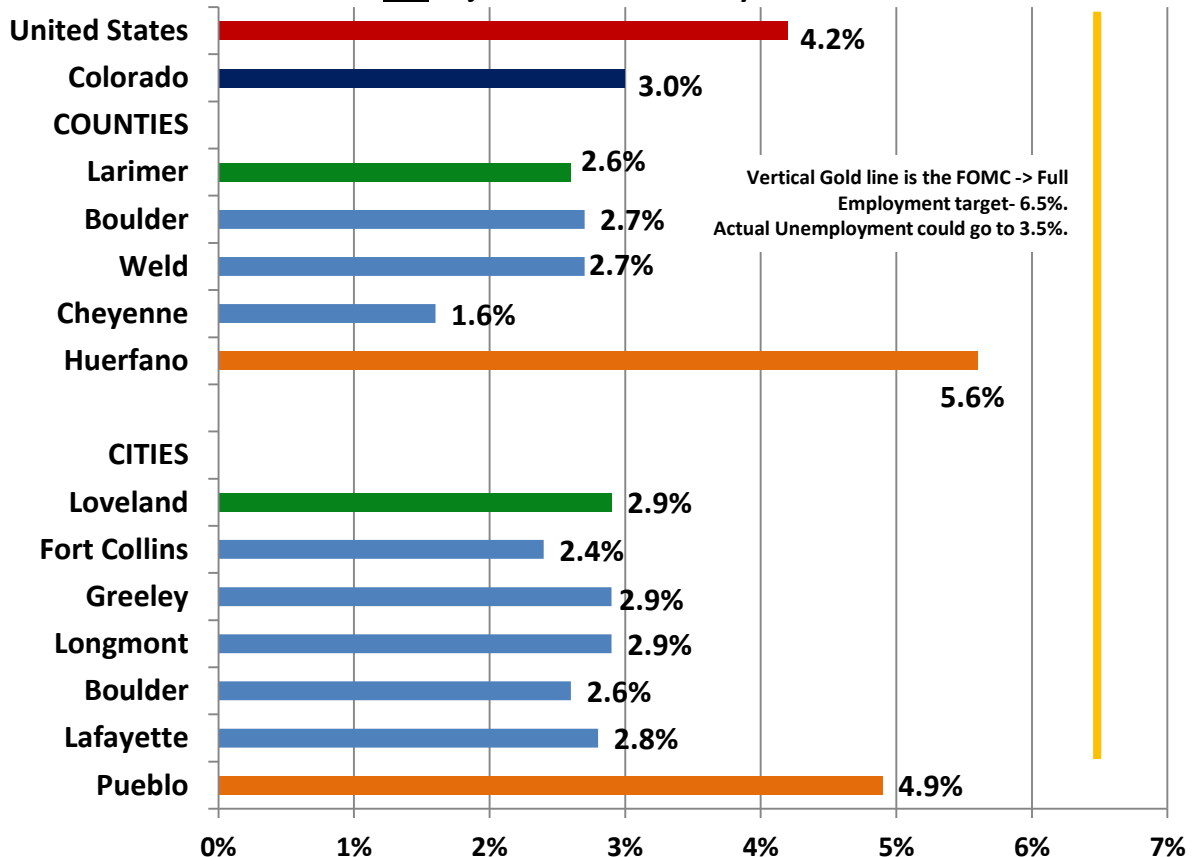
# Updated Colorado Labor Data – From the Colorado Department of Labor and Employment

- ❑ Loveland’s employed workforce contracted in June, **down by 218 jobs**, compared to May.
- ❑ Compared to June 2017, there are **1,778 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

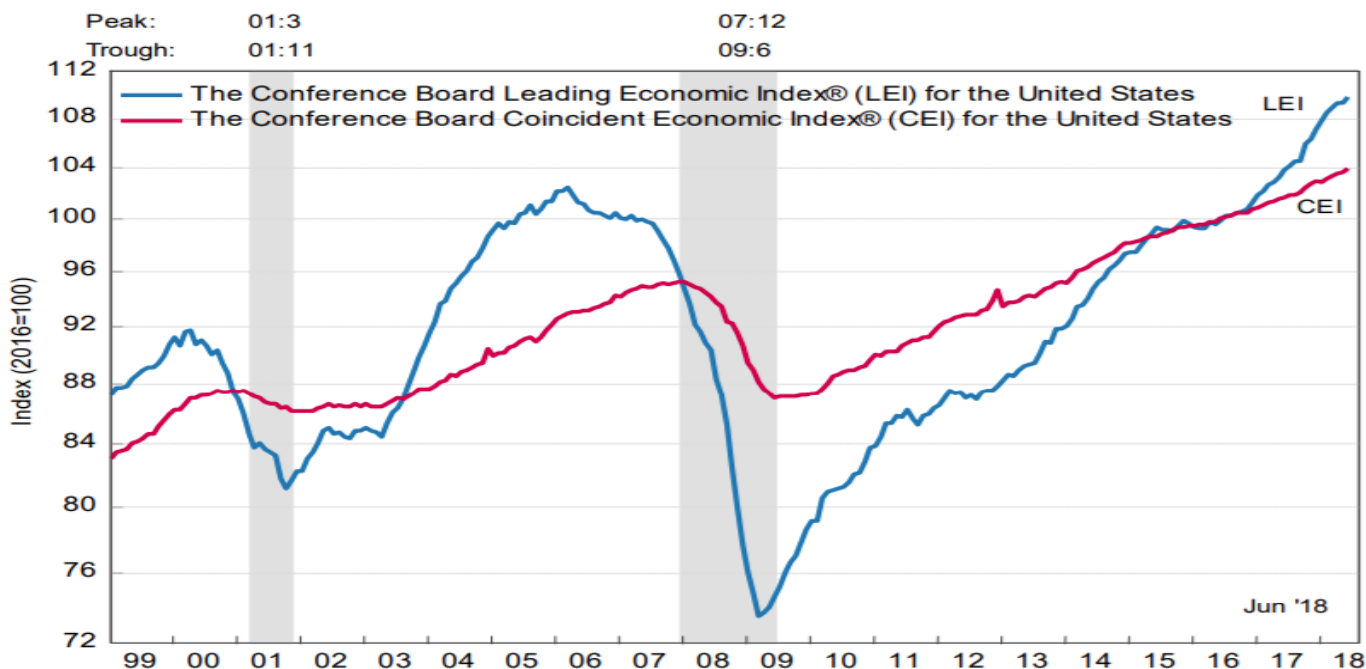




# Conference Board Leading Indicators / June 2018

## Recession Risk Indicators

### The Conference Board Leading Economic Index® (LEI) for the U.S. Increased in June



Latest LEI Trough March 2009, Latest CEI Trough June 2009

Shaded areas represent recessions as determined by the NBER Business Cycle Dating Committee.

Source: The Conference Board

Excerpts below from “The Indicator Snapshot” on the *Dash of Insight* blog posted July 21, 2018. Due to less stock market volatility, the short-term technical health interpretation is now Bullish.

Risk Indicator	Current	Last Week	Last Month	Last Quarter	Interpretation
<b>Economy</b>					
<i>C-Score</i>	270	276	290	368	9 Month Recession Probability about 24%
<i>Leading SuperIndex*</i>	1.22%	1.00%	0.86%	0.70%	3-4 Month Recession Probability
<i>BCIp</i>	100.0	100.0	99.5	86.8	No recession indicated
<i>SL Financial Stress Index</i>	-1.181	-1.118	-1.149	-0.970	Very Low Risk
<b>Technical Health</b>					
<i>Short-term</i>	2	2	1	3.5	Bullish
<i>Long-term</i>	1	1	1	1	Strongly Bullish
<b>Overall Outlook</b>	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: Fed Chair Testifies; Global Growth Threatened; State Update; Key Indicators

### ❖ Fed walks careful line on trade, but downside risks emerging

- “Federal Reserve Chairman Jerome Powell’s official line on U.S. trade policy is one of careful deference to the Trump administration, acknowledging it is outside the Fed’s responsibility and that it might all turn out for the best.”
- “But in two days of congressional testimony and a broadcast interview last week the central banker also hinted the Fed may be more concerned about current trade tensions than it is letting on, as uncertainty reshapes business investment in ways that could alter the course of the economy and thus Fed policy.”
- “‘Lots and lots of individual companies have been harmed by this. We don’t see it in the aggregate numbers yet because it is a \$20 trillion dollar economy and these things take time to show up,’ Powell told lawmakers on Wednesday, one of a series of cautionary statements that he has made about trade once prompted by questions. If the trade spats cause a more protectionist economy, ‘we don’t know where it would lead.’”

(Source: “Fed Walks Careful Line on Trade, but Downside Risks Emerging” posted on the *Reuters Moneycontrol* website on July 19, 2018.)

### ❖ World Economy Feeling the Bite From the Trade War

- “Protectionism is slowly starting to weigh on the global economy. From demand at factories to company profits and prices consumers are paying, the tit-for-tat trade battle U.S. President Donald Trump started with China and the European Union is starting to show up in numbers. And it’s still early days, with Trump saying Tuesday that ‘tariffs are the greatest,’ a warning that he may not let up until he gets what he wants.”
- “The latest signs of the fallout came in activity reports from Japan, Europe and the U.S., as well as anxious words from companies facing an additional uncertainty and having to decide between taking a hit to their profit margins or jacking up prices. Many manufacturers are also facing higher raw-material costs, another squeeze on earnings.”
- “For the global economy, which was enjoying its best spell in years, there’s a sense that the period of synchronized global growth is at an end. The U.S. has got a temporary shot in the arm from tax cuts, but growth is cooling in China, a number of emerging markets are dealing with a currency sell-off, and Europe has been slow to recover from a winter-battered start to the year.”
- “According to Abby Joseph Cohen, advisory director at Goldman Sachs, global growth will continue into 2019, but it’s moving into a slower phase. A trade war on top of that would be a further weight.”

(Source: “It’s Getting Real: World Economy Feels the Bite From Trade War” by Alessandro Speciale and Fergal O’Brien on the *Bloomberg Markets* website, posted July 24, 2018.)

### ❖ The Colorado Employment Situation for June 2018 was released July 20<sup>th</sup>. Total nonfarm payroll jobs increased by 4,200 from May to June. Over the last 12 months, nonfarm payroll jobs increased by 74,600. The latest household survey shows Loveland’s unemployment rate to be 2.9%, a rise of 7/10<sup>ths</sup> from May. The survey-based statistics show Loveland residents had 218 fewer jobs compared to last month, and **1,778 more jobs** since June 2017. Most of the other cities and counties showed similar increases in their unemployment rates compared to the prior month. The detailed chart is on page 6. (Next update August 17, 2018.)

(Source: Colorado Department of Labor and Employment *Colorado Employment Situation June 2018*, July 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 June monthly data, Employment was up 0.14%, Industrial Production was up 0.62%, Real Retail Sales were up 0.32%, and May Real Income was up 0.18%. “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 Mislinski, July 17, 2018.)

For more information about this report please contact: Alan Krmarik, Executive Fiscal Advisor (970)962-2625  
Alan.Krmarik@cityofloveland.org