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Investments Overview

1 message

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Wed, Mar 2, 2022 at 2:32 PM

Good afternoon, Michael,

Below, please find public funds investment information prepared for the City of Glen Rose:

The Fed is going to begin raising the Federal Funds Rate this year, likely starting this month. The only question is how much....

During their last projections in December, Fed members forecasted *three* rate hikes in 2022:

Numbers below from dark blue + green boxes

9

5

3

10

0.125 18

Target Rate	2021	2022	2023	2024	Longer Run
3.250					
3.125				1	
3.000					2
2.875				4	
2.750					
2.625					
2.500					5
2.375				2	1
2.250				1	4
2.125			3	5	
2.000					1
1.875			5	5	
1.750					
1.625			3		
1.500					
1.375			5		
1.250					
1.125		2	2		
1.000					
0.875		10			
0.750					
0.625		5			
0.500					
0.375		1			
0.250					
0.125	18				
0.000					

CONSENSUS ON RATE HIKES

However, futures markets are pricing in up to six rate hikes in 2022:

MEETING PROBABILITIES													
MEETING DATE	0-25	25-50	50-75	75-100	100-125	125-150	150-175	175-200	200-225	225-250	250-275	275-300	300-325
3/16/2022	2.2%	97.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
5/4/2022	0.0%	1.6%	74.9%	23.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
6/15/2022	0.0%	0.0%	1.4%	63.4%	31.6%	3.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
7/27/2022	0.0%	0.0%	0.4%	20.5%	53.6%	23.0%	2.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
9/21/2022	0.0%	0.0%	0.0%	7.9%	32.7%	42.2%	15.4%	1.6%	0.0%	0.0%	0.0%	0.0%	0.0%
11/2/2022	0.0%	0.0%	0.1%	3.9%	19.9%	37.3%	29.3%	8.7%	0.8%	0.0%	0.0%	0.0%	0.0%
12/14/2022	0.0%	0.0%	0.0%	1.5%	9.9%	26.5%	34.3%	21.5%	5.7%	0.5%	0.0%	0.0%	0.0%
2/1/2023	0.0%	0.0%	0.0%	1.0%	7.2%	21.0%	31.7%	25.7%	10.9%	2.2%	0.2%	0.0%	0.0%
3/15/2023	0.0%	0.0%	0.0%	0.5%	3.8%	13.4%	25.8%	29.0%	19.1%	7.1%	1.3%	0.1%	0.0%
5/3/2023	0.0%	0.0%	0.0%	0.4%	3.1%	11.3%	23.1%	28.3%	21.2%	9.6%	2.5%	0.4%	0.0%
6/14/2023	0.0%	0.0%	0.0%	0.2%	2.0%	8.1%	18.5%	26.3%	24.0%	14.2%	5.3%	1.2%	0.2%
7/26/2023	0.0%	0.0%	0.0%	0.2%	1.7%	6.9%	16.4%	24.7%	24.5%	16.1%	7.1%	2.0%	0.4%

<https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html>

The likeliest outcome is that it will end up somewhere in the middle, as just as of today, the Fed said they would approach rate hikes with caution:

yahoo/finance

Powell: Fed to 'proceed carefully' on raising rates amid Ukraine conflict



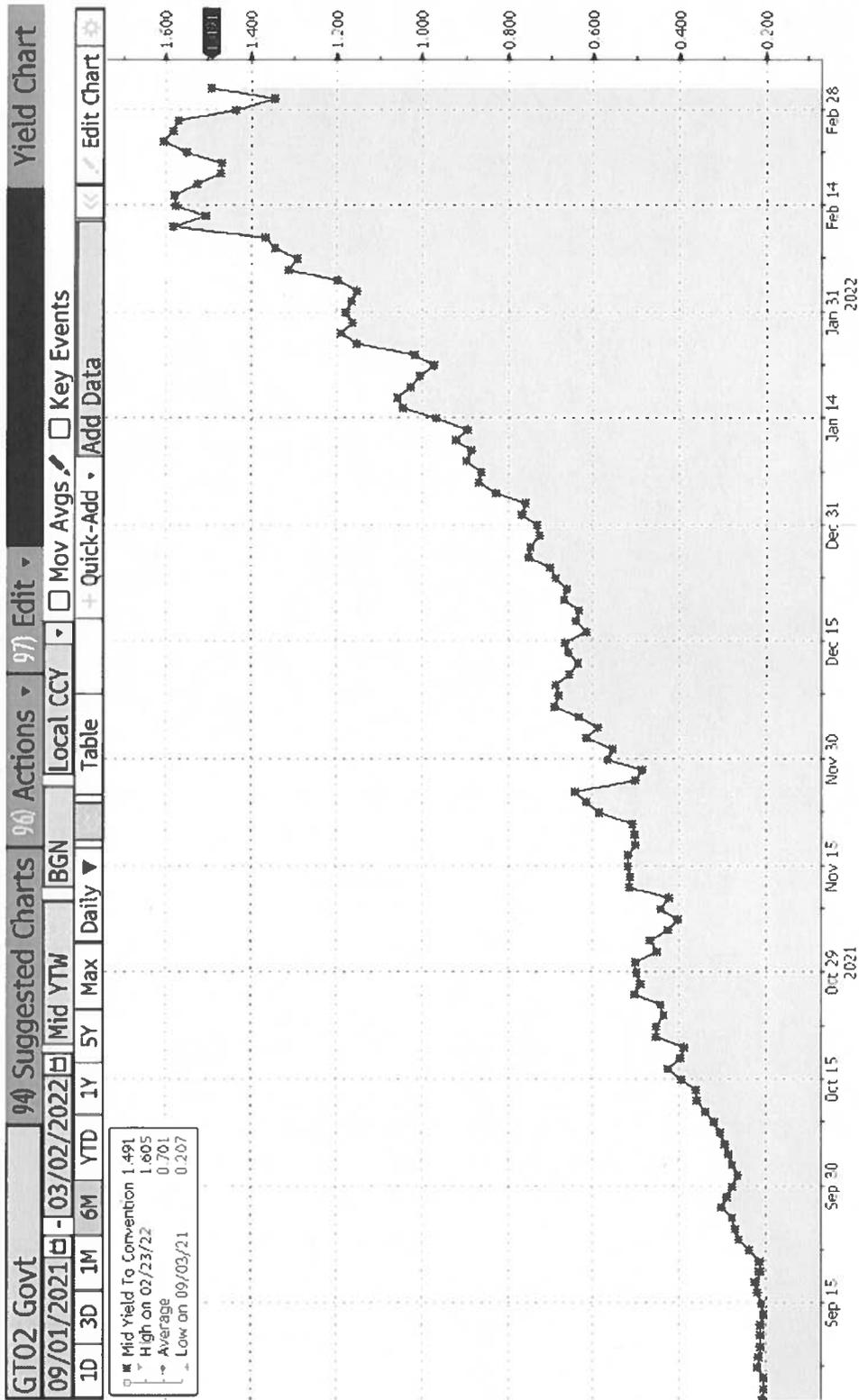
Brian Cheung · Reporter

Wed, March 2, 2022, 9:09 AM · 3 min read

<https://finance.yahoo.com/news/powell-fed-to-proceed-carefully-on-raising-rates-amid-ukraine-conflict-170926834.html>

As a public entity, the most optimized investment programs include both short term investments (Texpool, etc) and longer term investments to diversify.

Longer term interest rates have been climbing over the past 6 months:



Here are some current longer term investments the City could purchase:

CUSIP Asset	Mdy / S&P (Underlying)	Curr Face	Issue Description	Coupon Maturity	Price Duration	Px To	Date	Yield
9128282W9 Treas	Aaa-	500	UNITED STATES TREAS NOTE	1.875% 09/30/2022	100.70407000 0.570	Maturity	09/30/2022	0.850% (w)
Semi-Annual Pay								
9128282Q29 Treas	Aaa-	500	UNITED STATES TREAS NT	1.500% 03/31/2023	100.42879000 1.080	Maturity	03/31/2023	1.100% (w)
Semi-Annual Pay								
91282CDA6 Treas	Aaa-	500	UNITED STATES TREAS NTS	0.250% 09/30/2023	98.28937000 1.563	Maturity	09/30/2023	1.350% (w)
Long First-Coupon Semi-Annual Pay								
3133ENQX1 Agg	-/-	500	FEDERAL FARM CR BKS	0.000% 03/08/2024	98.729000 1.983	Maturity	03/08/2024	1.670% (w)
Callable FFCB Semi-Annual Pay								

Here is how these bonds would look like in a portfolio for the City:

Portfolio Details - Sorted by Maturity															
#	CUSIP/Sec-ID	Sec Desc 1	Weight	Par Value	Coupon*	Settle Dt	Mat Dt	Next Call Dt	Rating***	YTM**	YTW**	Duration	Call Type	Estimated Days to Call	Estimated Redem. Date
1	9128282W9	TREAS NTS 1	25.0%	500,000	1.875	3/3/2022	9/30/2022		AAA	0.65	0.65	0.57			9/30/2022
2	9128282Q29	TREAS NTS 1	25.0%	500,000	1.500	3/3/2022	3/31/2023		AAA	1.10	1.10	1.06			3/31/2023
3	91282CDA6	UNITED STS TREAS NTS 1	25.0%	500,000	0.250	3/3/2022	9/30/2023		AAA	1.35	1.35	1.56			9/30/2023
4	3133ENQX1	FFCB	25.0%	500,000	1.670	3/8/2022	3/8/2024	3/8/2023	AA+	1.67	1.67	0.99	Anytime	53	3/8/2023
TOTAL and AVERAGES			100.0%	2,000,000			1.32 yrs	1.06 yrs		1.19	1.19	1.05			

* Semi-Annual interest payment

** Yields calculated using cost price, at settlement date

*** Ratings Shown Are: Lowest Rating in S&P format, NR AGY = Non-Rated U.S. Government Agency

Thanks,

Harrison

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