



What (or who) is the Federal Reserve

Dylana Gross- Director, Investment Services

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Overview

- 🏛️ Principles of Public Funds Investing
- 🏛️ State Statutes/Permissible Investments
- 🏛️ Investment Policy Best Practices
- 🏛️ The History of the Federal Reserve
- 🏛️ Interest Rate Environment Drivers
- 🏛️ Economic Update
- 🏛️ Conclusion

Principles of Public Funds Investing

In priority order, the objectives are as follows:

Safety

- Interest Rate Risk - risk of market value of securities in a portfolio deviating due to changes in market interest rates
- Credit Risk - The risk that the issuer (or credit enhancer) is unable to make coupon and/or principal payments

Liquidity

- Maintaining sufficient liquidity in the portfolio, allowing for all reasonably anticipated operating requirements to be met

Yield

- Attainment of a market rate of return throughout budgetary and economic cycles

State Statutes/Permissible Investments

C.R.S 24-75-601.1 Legal Investments of Public Funds

- U.S. Treasury Obligations
- Federal Agency and Instrumentality Securities
- Time Certificates of Deposit (CDs)
- Negotiable Certificates of Deposit
- Corporate Bonds
- Municipal Bonds
- Commercial Paper
- Eligible Bankers Acceptances
- Local Government Investment Pools (LGIP)
- Money Market Mutual Funds
- Repurchase Agreements

State Statutes/Permissible Investments

Permissible investments need to meet strict minimum credit quality standards based on Nationally Recognized Statistical Rating Organizations (NRSROs) opinions

This chart displays the high investment grade ratings requirements:

S&P Global Ratings	Moody's Investor Services	Fitch Ratings
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
AAAm	Aaa	AAAmmf
A-1+	P-1	F1+
A-1	P-1	F1

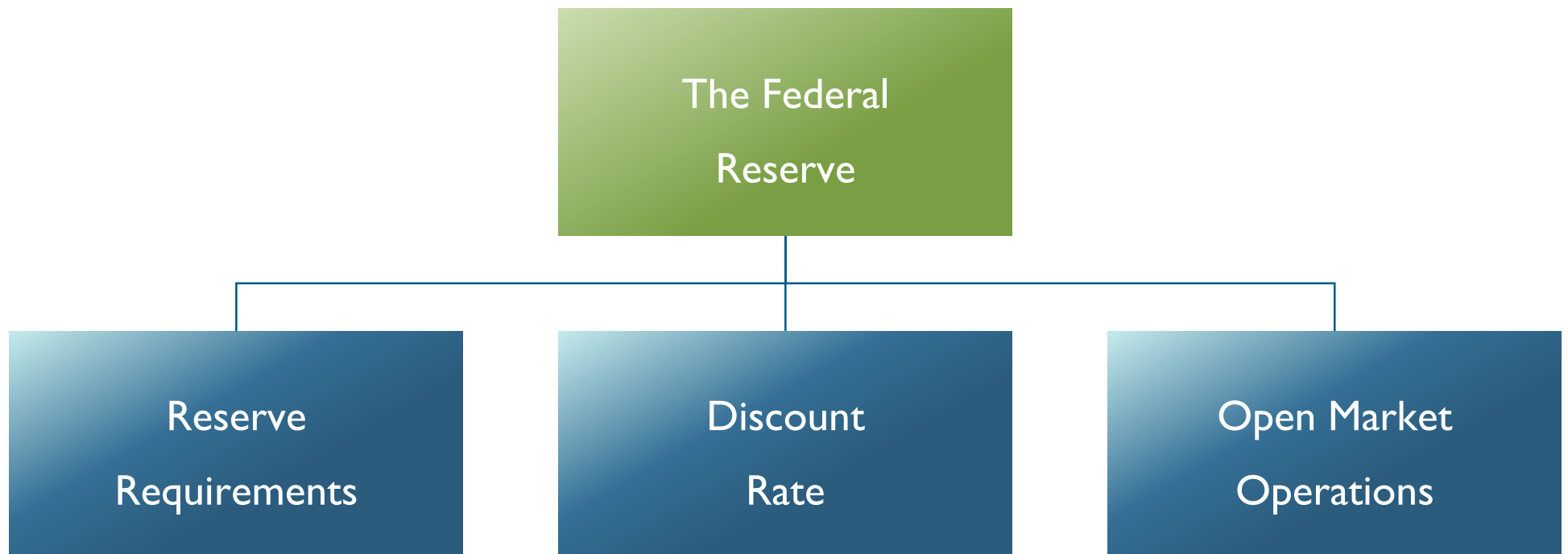
Investment Policy Best Practices

The Rule Book



The Fed and Monetary Policy

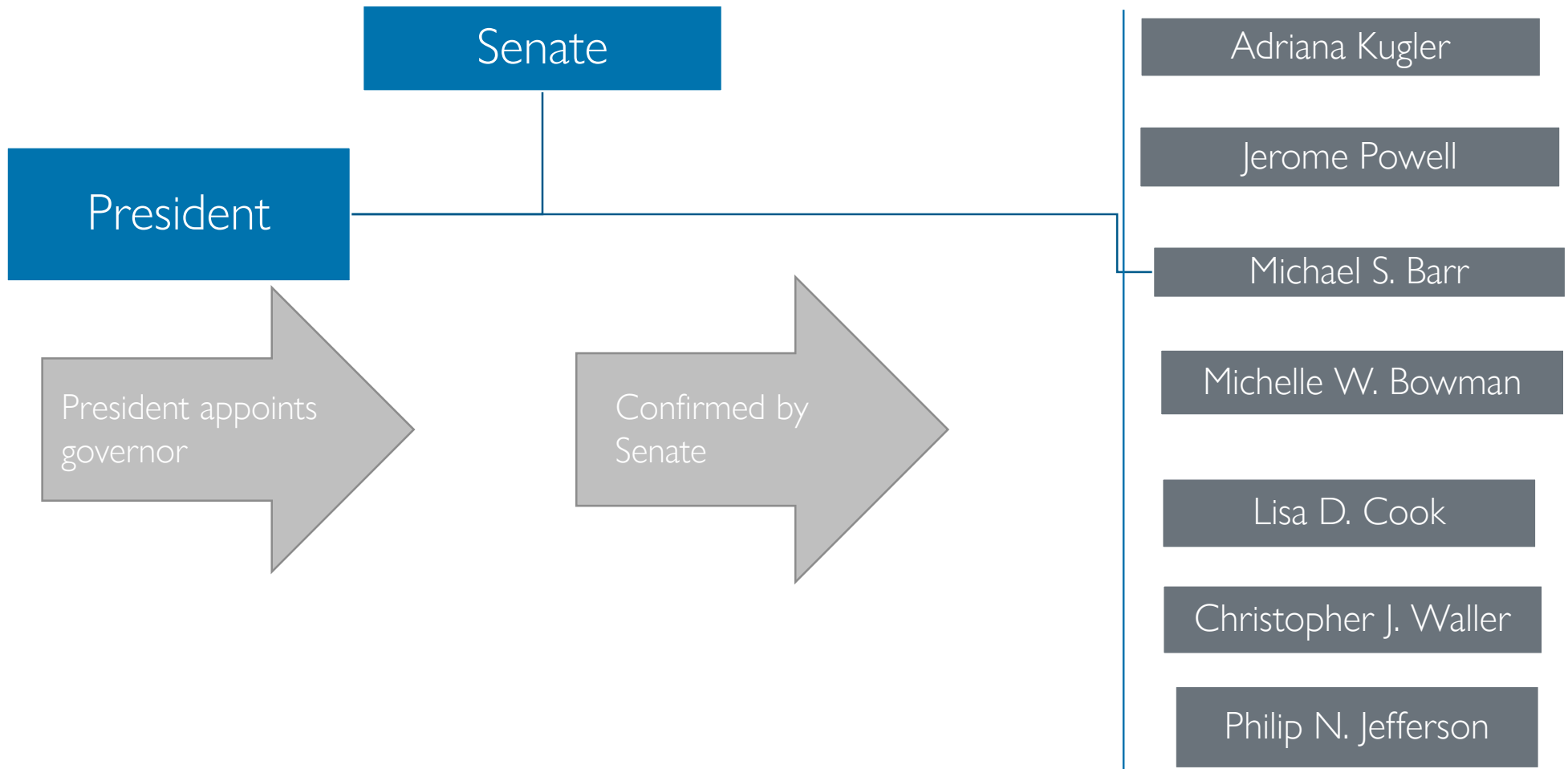
Three pillars of the Federal Reserve



Interest Rate Environment Drivers

The Federal Reserve

Passed in 1913, the Federal Reserve Act was established to maintain economic stability, creating what we now know the Central Bank of the U.S. to be the Federal Reserve



Interest Rate Environment Drivers

The Federal Reserve Continued

Reserve Requirements

The amount of cash banks must have on hand, either in their vault or at the nearest Federal Reserve Bank

Reserve requirements set forth by the Federal Reserve; the amount is determined by applying reserve ratio to an institutions reserve liabilities

March 26, 2020
The board set reserve requirements to zero percent, eliminating requirements for all depository institutions

Interest Rate Environment Drivers

The Federal Reserve Continued

Discount Rate

The discount rate is the rate charged by the Federal Reserve to commercial banks and other financial institutions for short term loans

The discount rate can be adjusted up or down as a tool of monetary policy

Raised discount rate is designed to retract investment activity

Decrease in the discount rate is designed to stimulate investment activity

Current discount rate:
5.25%-5.50%





Interest Rate Environment Drivers

The Federal Reserve Continued

- 🏛️ **Open Market Operations-** Body within the Federal Reserve that sets monetary policy
- 🏛️ Consists of twelve members – seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining eleven Reserve Bank presidents who serve one-year terms on a rotating basis



Polling Question: Who is the current Fed Chairman?

-  Janet Yellen
-  Jerome Powell
-  Alan Greenspan
-  Ben Bernanke

The Fed Chairman



Federal Funds Market



Borrowing and lending of bank reserves on deposit with the Federal Reserve

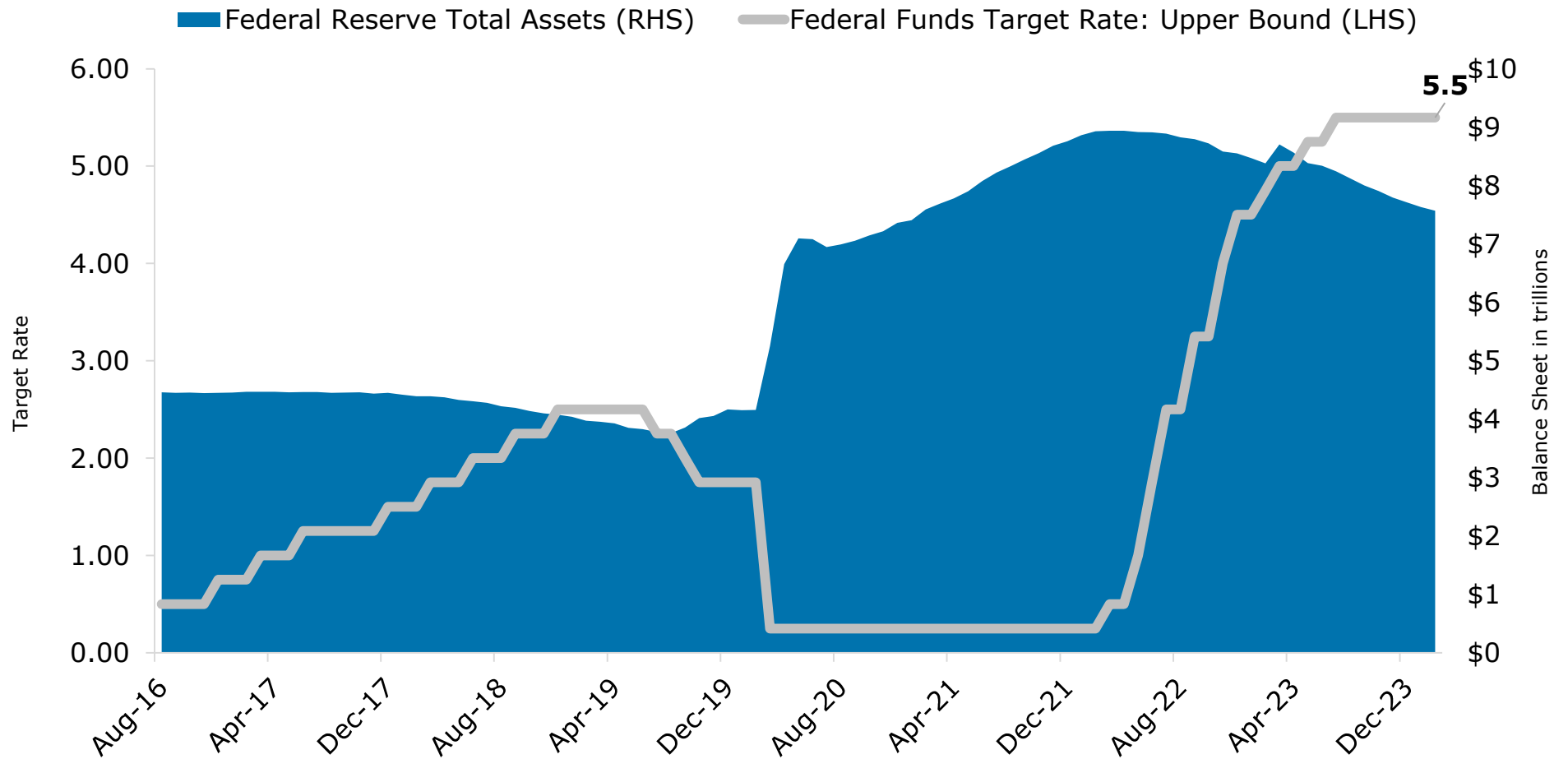
FOMC does not actually *set* the Federal Funds rate

Fed only sets a target range and uses tools to influence the rate

Pre 2008 open market operations used to add or drain reserves

Post 2008 administered rates utilized as reserve are ample

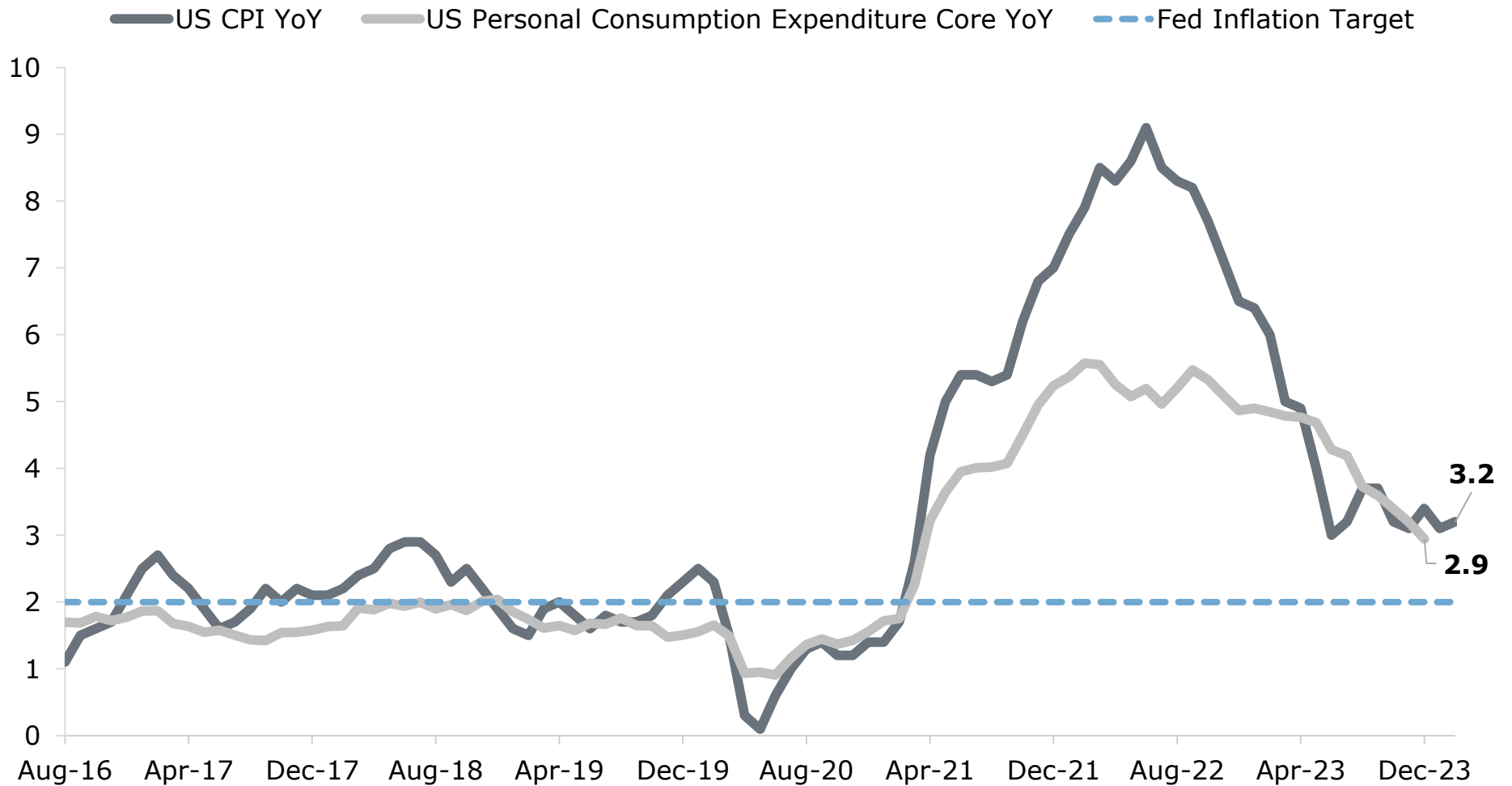
Federal Reserve Balance Sheet and Fed Funds Target Rate



- The Federal Funds Target Rate is the short-term interest rate targeted by the Fed as part of its monetary policy. The target Fed Funds level was replaced by a “target range” in December 2008. The grey line represents the upper bound of the range while the shaded blue area illustrates the change in total assets held on the Fed’s balance sheet over time.

Interest Rate Environment Drivers

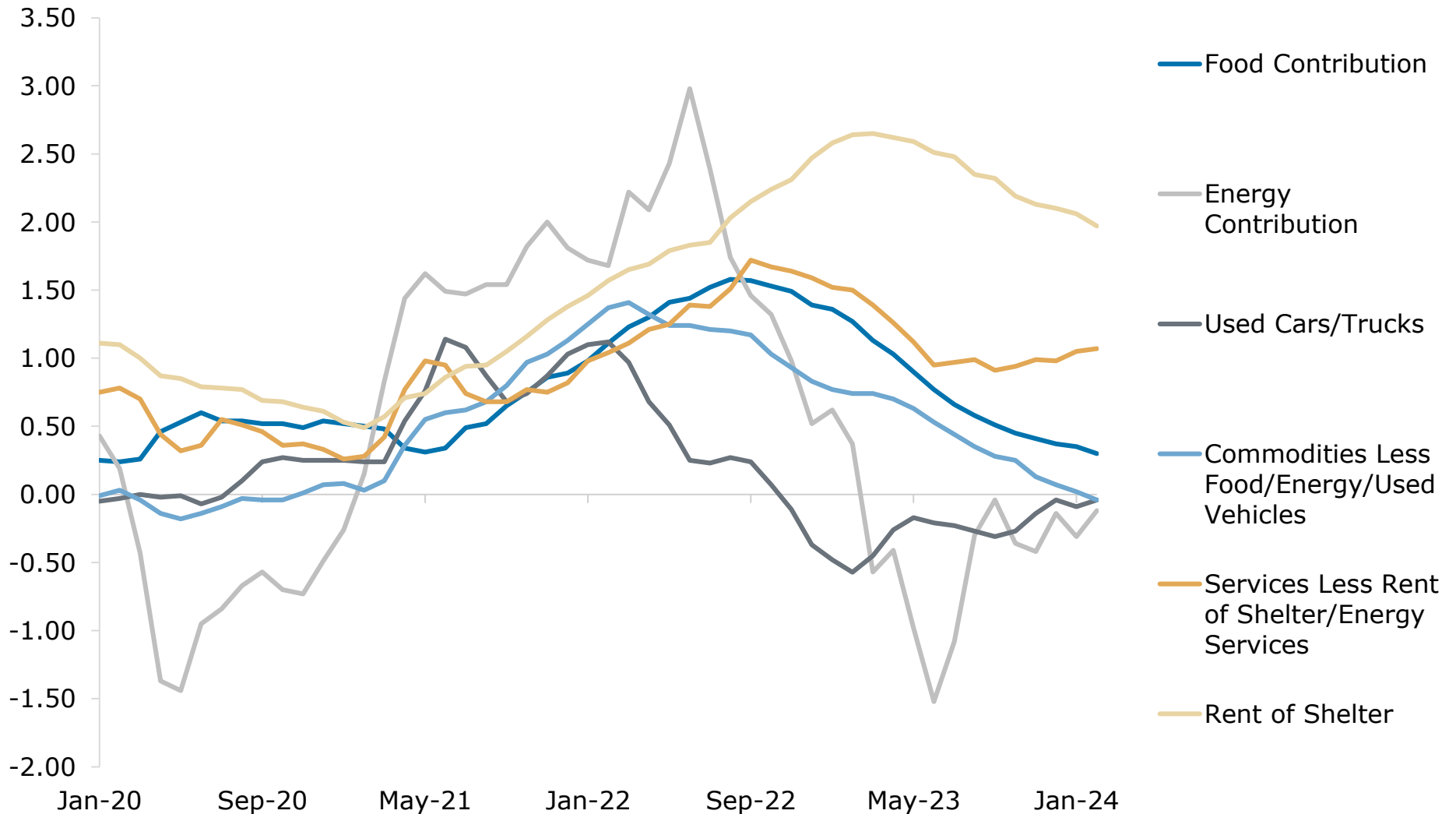
Inflation



Source: Bloomberg, data as of January 31, 2024 (PCE) / February 29, 2024 (CPI)

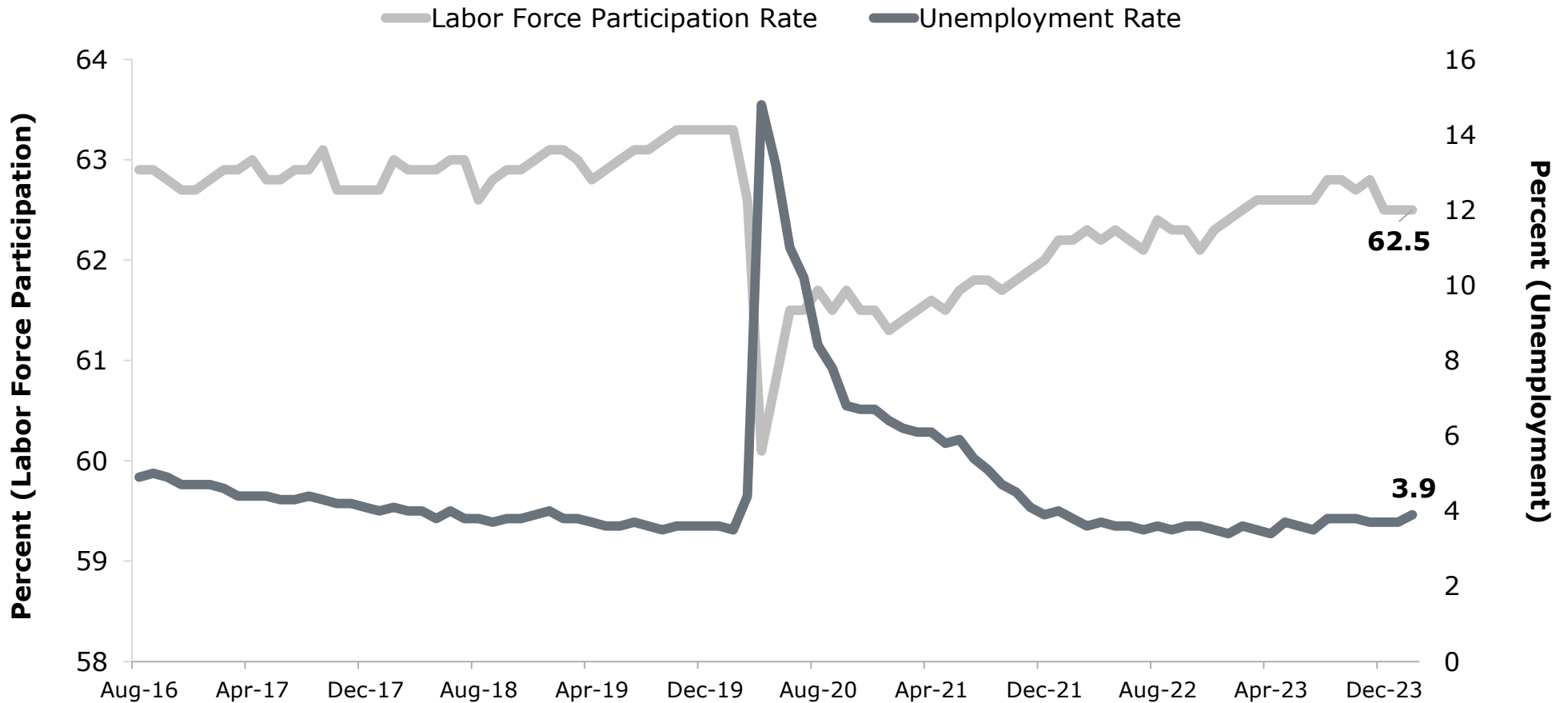
Please refer to the disclosure slide for additional information.

Monthly Net Contributions to Headline Inflation



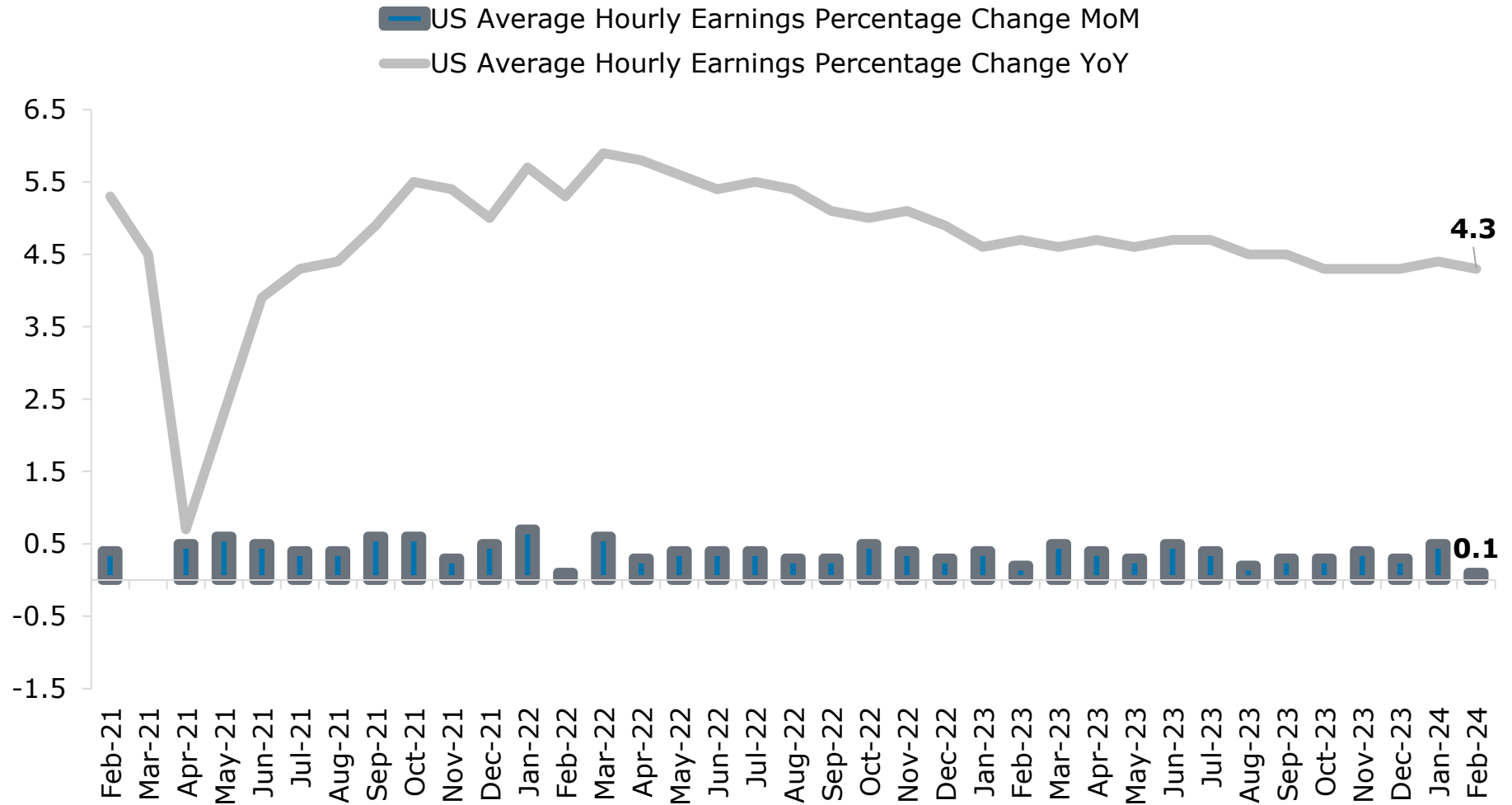
- In the above chart, the monthly CPI headline inflation number is broken out by each category's net contribution.

Unemployment



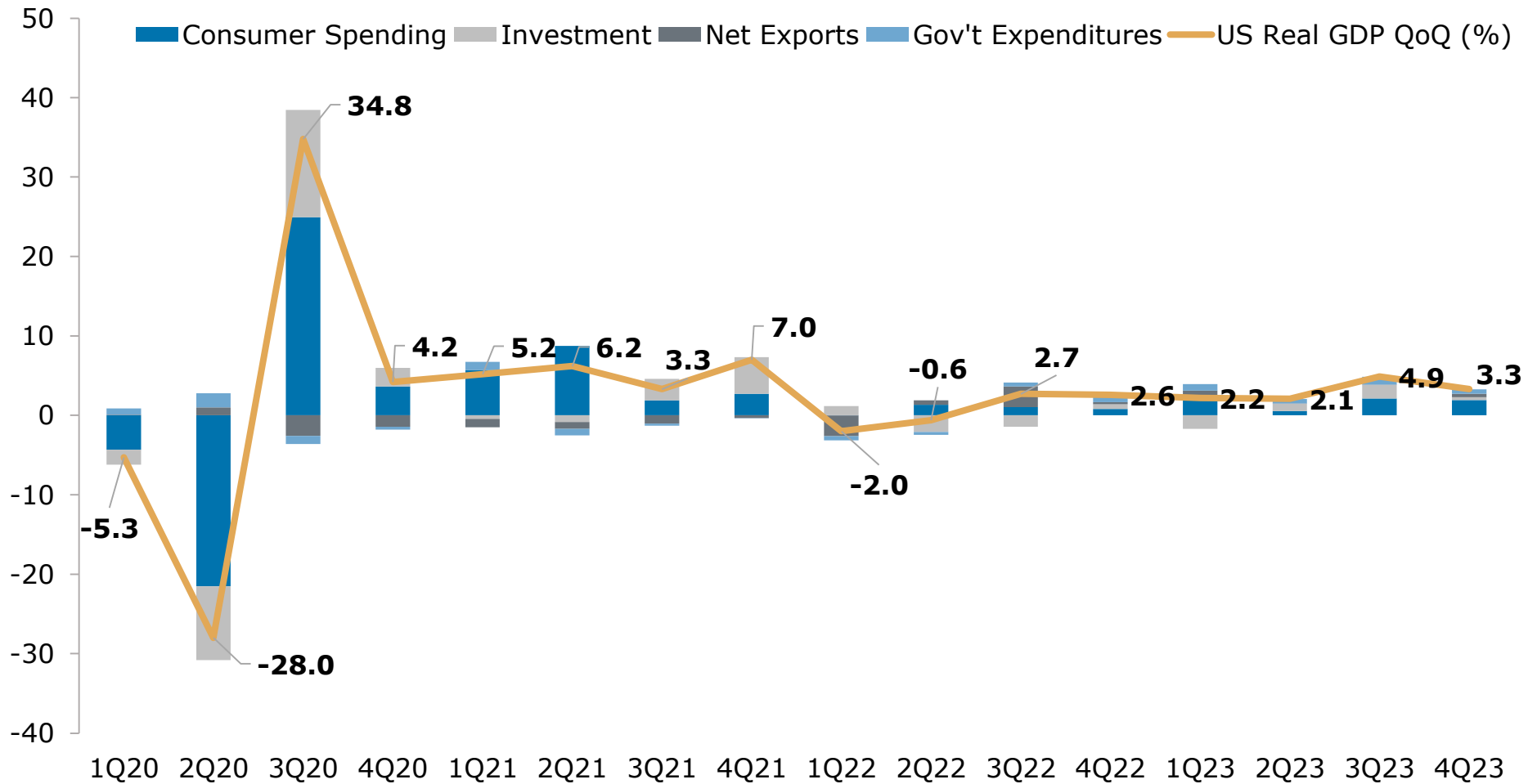
- The unemployment rate tracks the number of unemployed persons as a percentage of the labor force (total number of employed plus unemployed). The labor force participation rate is an estimate of the economy's active workforce. Full employment along with stable prices is one of the Fed's dual mandates with respect to monetary policy.

US Wage Growth



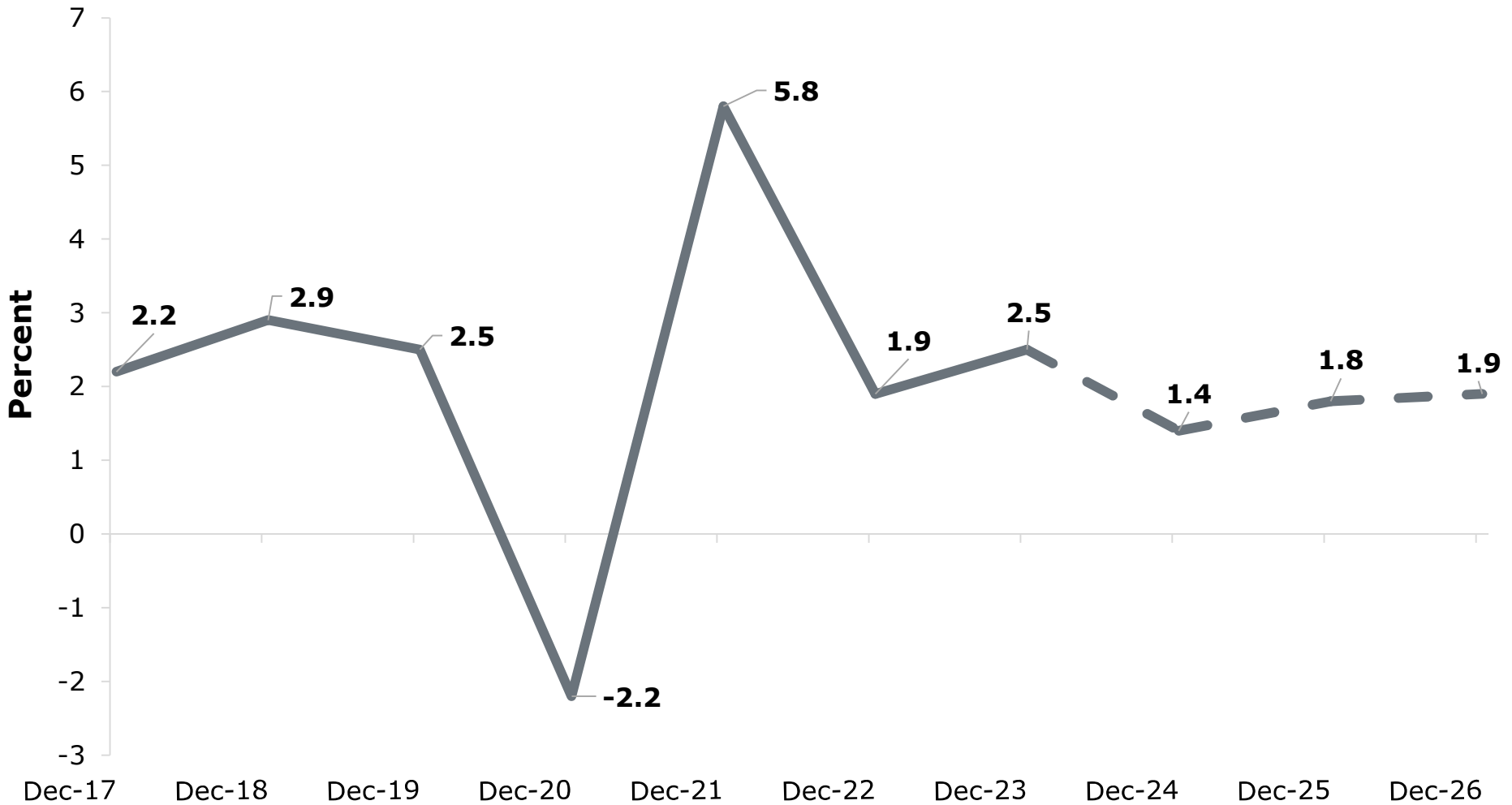
- Average hourly earnings tracks total hourly remuneration (in cash or in kind) paid to employees in return for work done (or paid leave).

Contributions to Real GDP % Growth



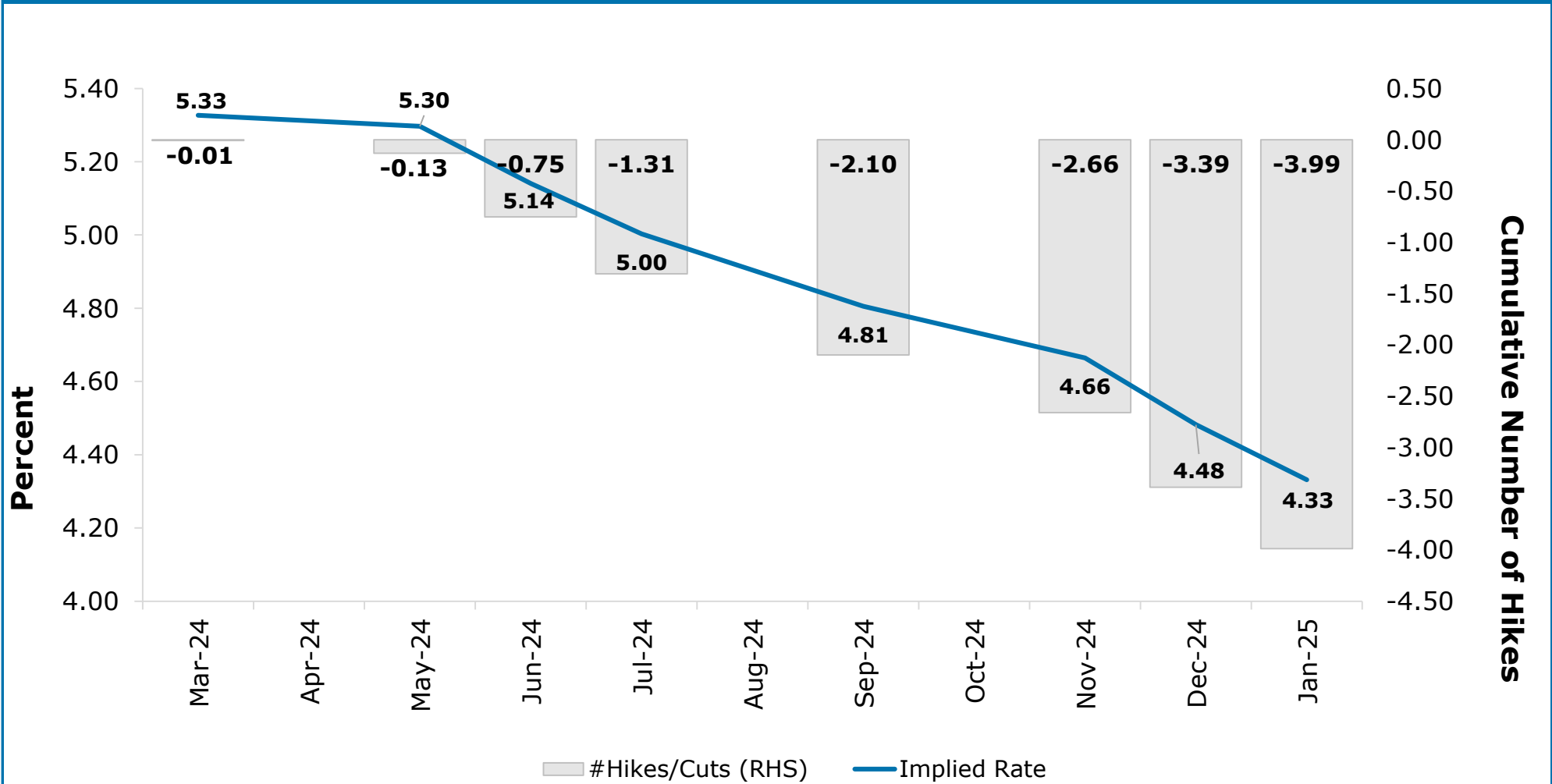
- The four major components of GDP are 1) **consumer spending** (personal consumption expenditures); 2) **investment** (private housing and business purchase of nonresidential structures, durable equipment, and computer software); 3) **net exports** (the value of exports minus the value of imports); and 4) **government spending**.

Federal Reserve Economic Forecast (GDP Growth YoY)



- Gross Domestic Product (GDP) represents the total market value of all final goods and services produced by the U.S. during a given calendar year. Strong economic growth is conducive to tighter monetary policy.

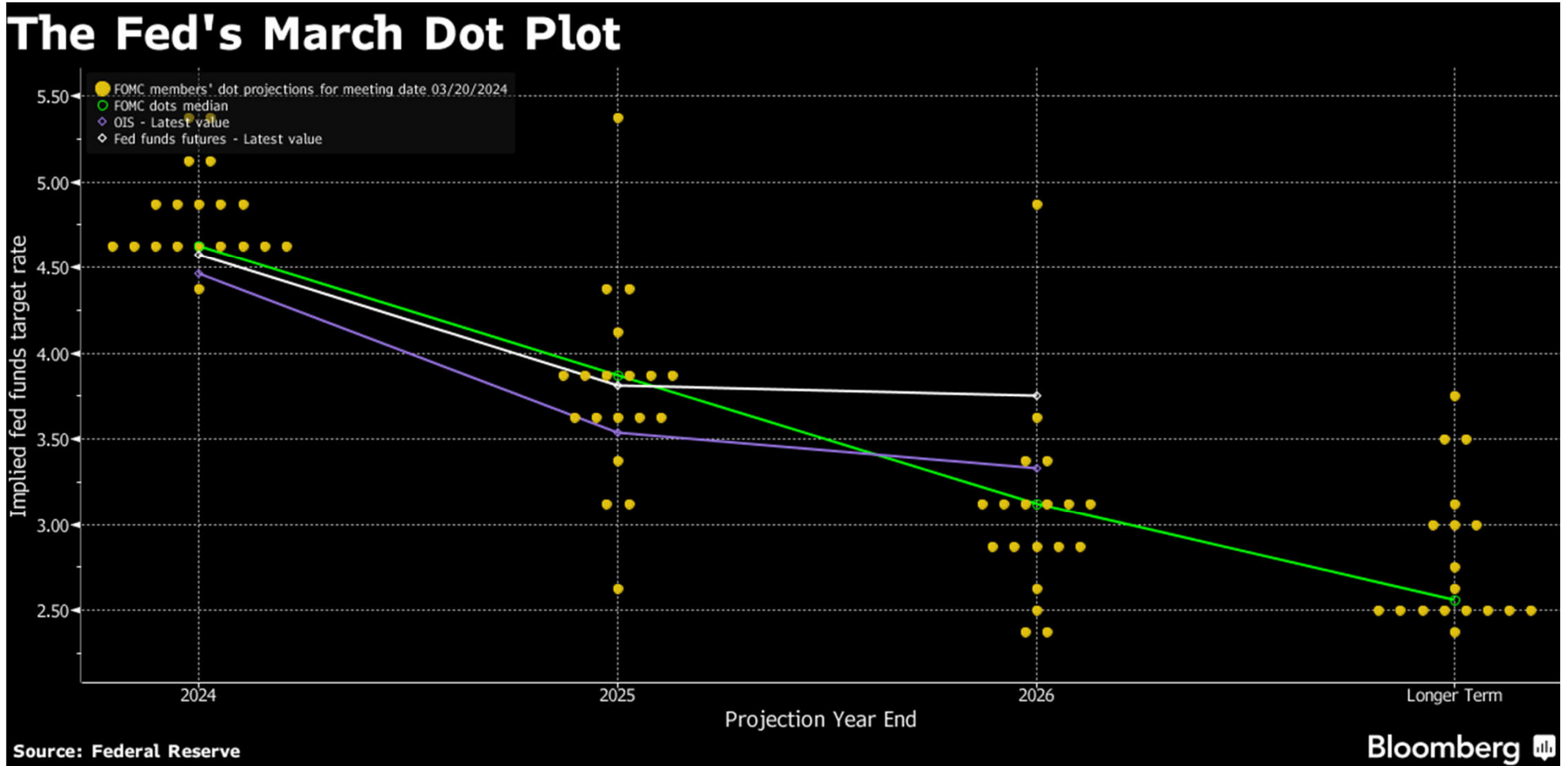
Market Based Probability of a Rate Hike



- Each data point along the blue line represents the market-implied overnight rate after the corresponding FOMC meeting date. These rates are implied by the Federal Funds Futures contracts. The grey bars represent the number of 25 basis point rate hikes that are currently priced in.

Interest Rate Environment Drivers

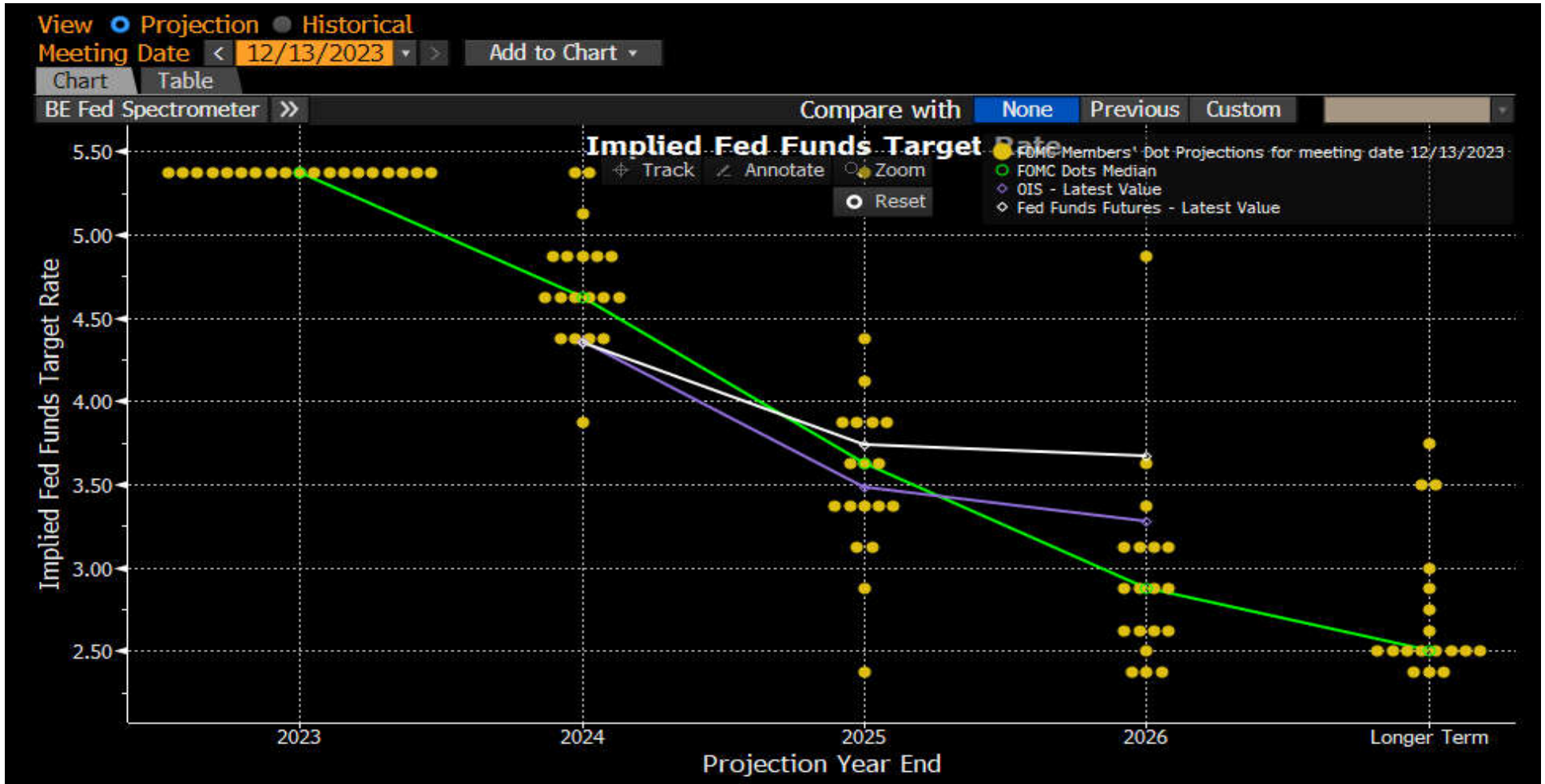
FOMC Dot Plot March 20, 2024



Please refer to the disclosure slide for additional information.

Interest Rate Environment Drivers

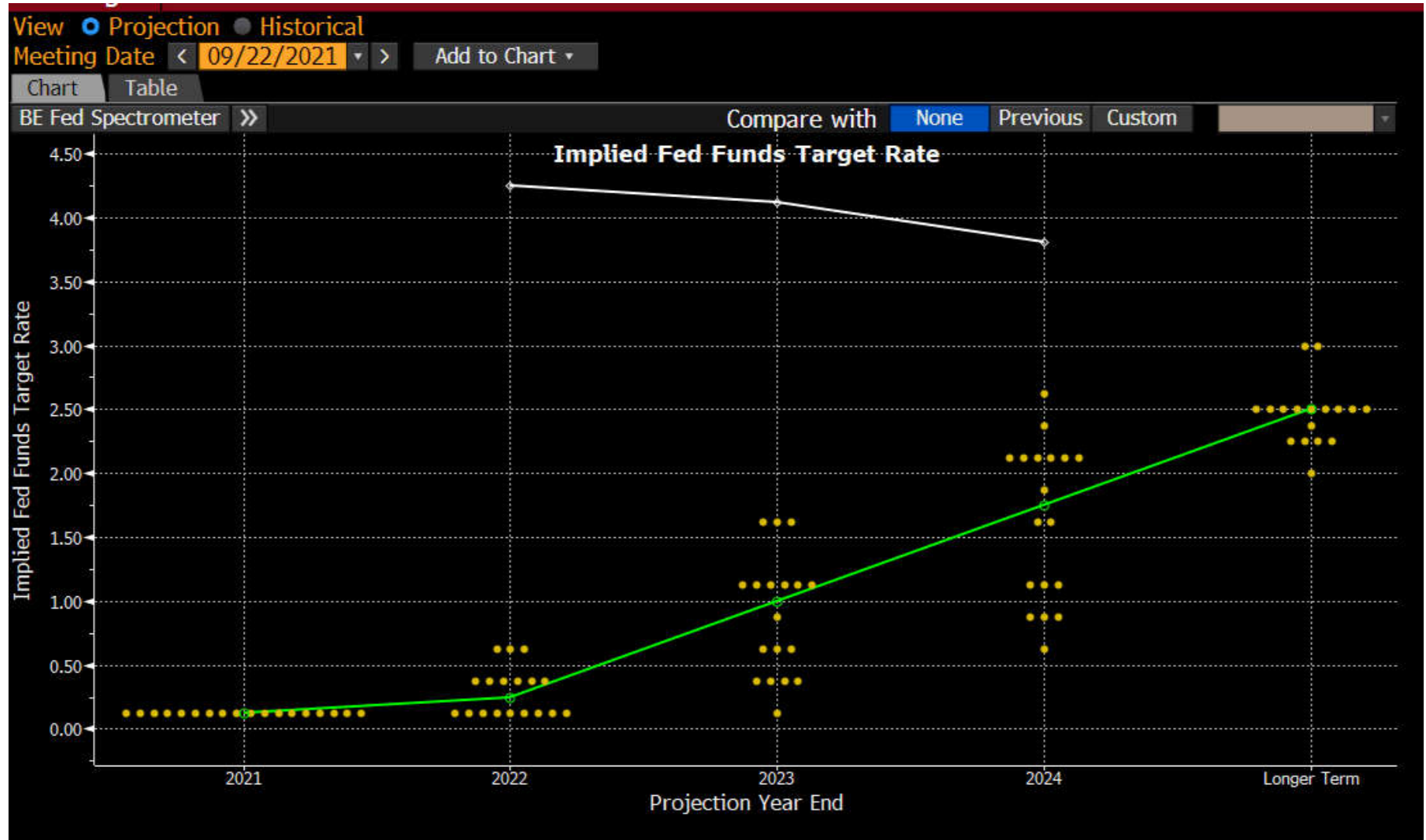
FOMC Dot Plot December 13, 2023



Please refer to the disclosure slide for additional information.

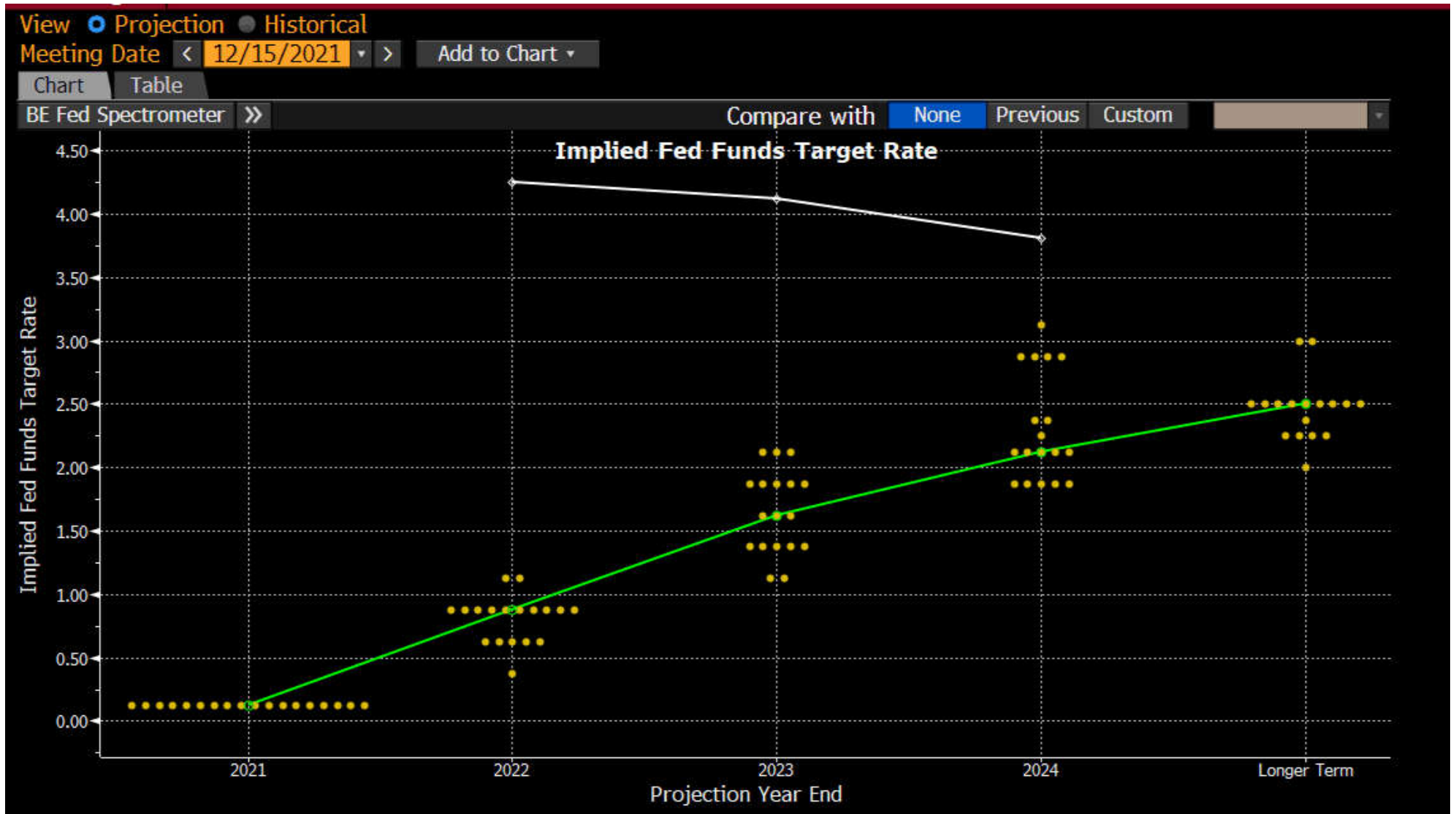
Interest Rate Environment Drivers

FOMC Dot Plot September 22, 2021



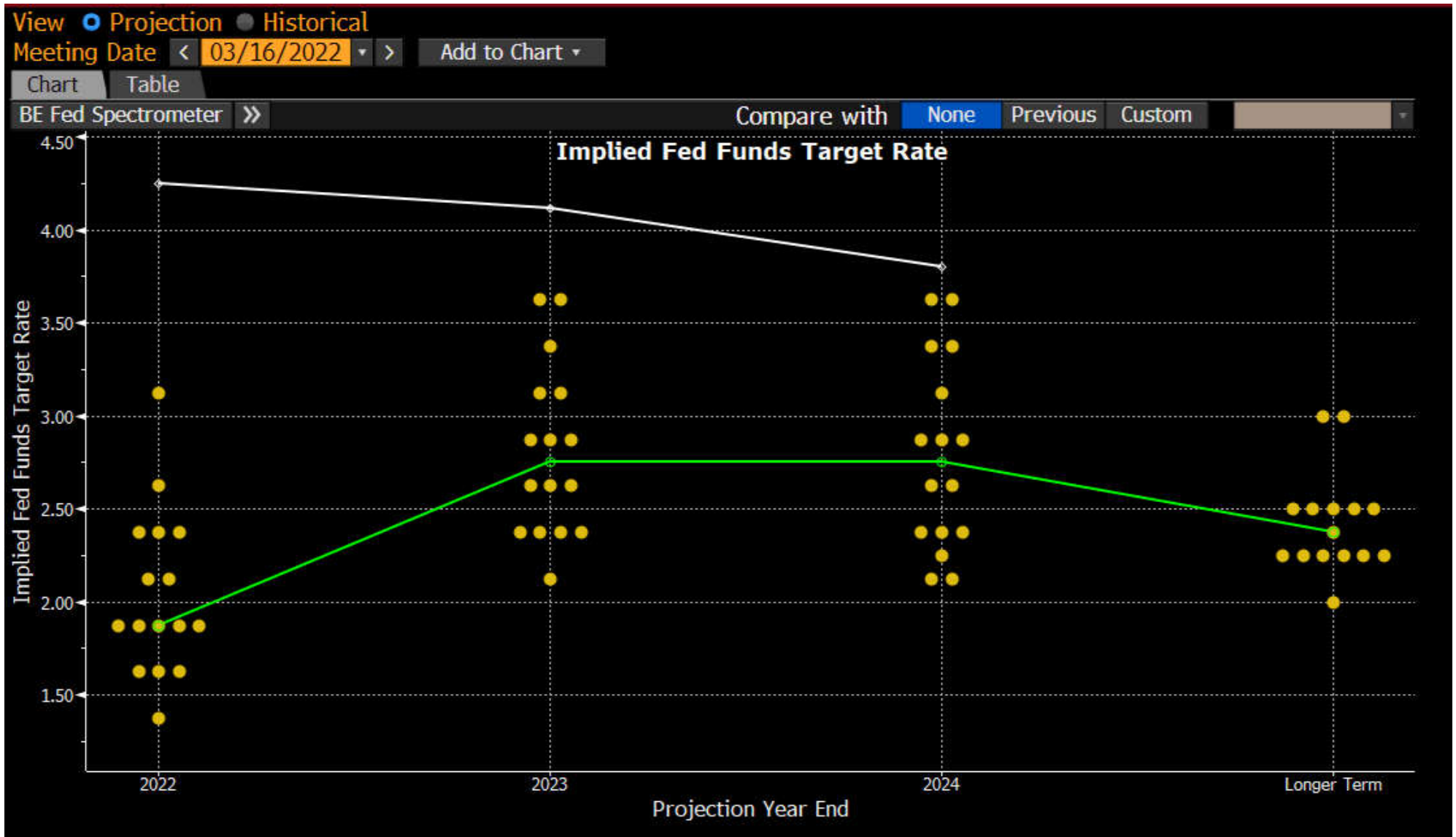
Interest Rate Environment Drivers

FOMC Dot Plot December 15, 2021



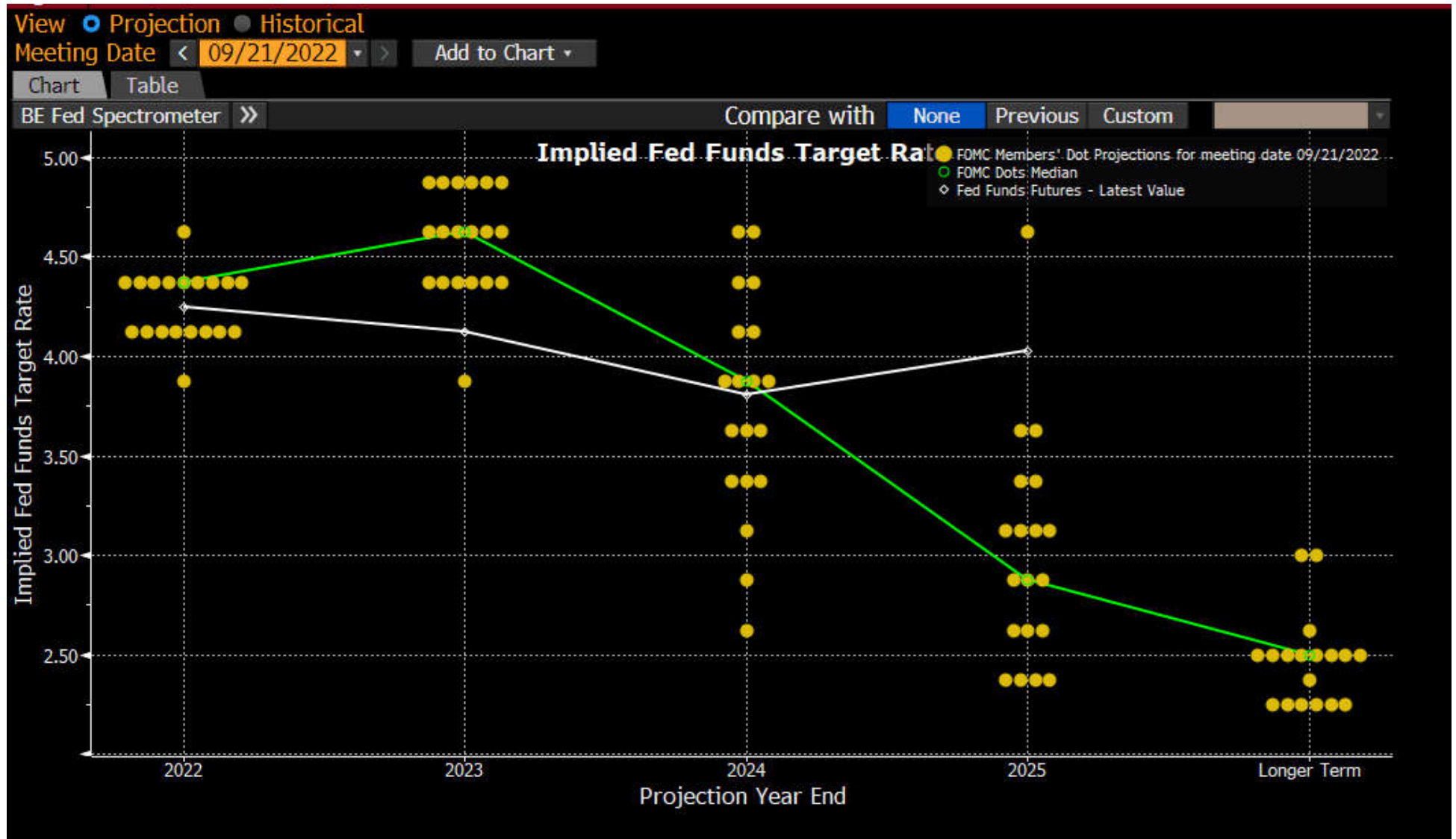
Interest Rate Environment Drivers

FOMC Dot Plot March 16, 2022



Interest Rate Environment Drivers

FOMC Dot Plot September 21, 2022



Managing Your Entity's Funds

🏛️ Diversification

- Maturity
- Security type
- Geographic Locations
- Industries
- Issuers



Managing Your Entity's Funds

Review

Comprehensive review of the portfolio throughout the year, economic conditions, any new opportunities presented throughout the year, potential new projects, unexpected movement in revenue, etc.

Update

Update the investment plan based on findings throughout the year; include any changes to future projections

Questions?

