

# Consolidated Investment Report

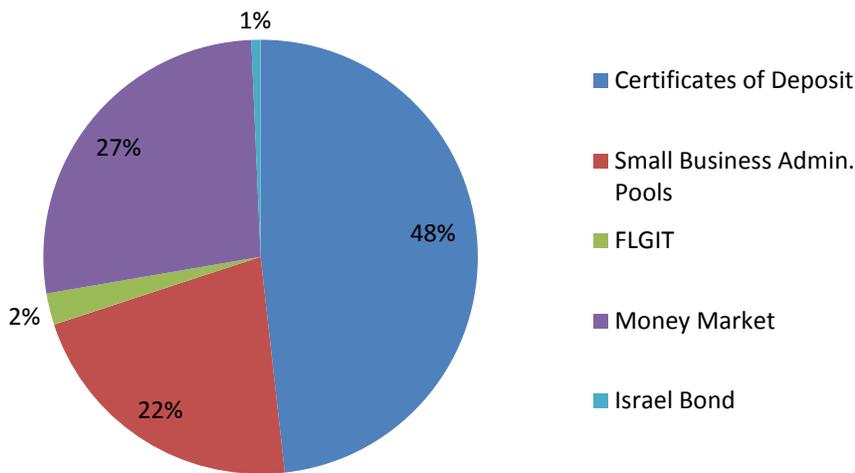
November 2014



As Palm Beach County's Chief Financial Officer, the Clerk & Comptroller is charged with safeguarding and investing all County funds. The Clerk's management of the fixed income portfolio is in accordance with regulations set forth in Palm Beach County's Investment Policy. The County Investment Policy is very specific in terms of its stated investment objectives. The primary objective of the policy is to prevent any loss of principal and, secondarily, to meet the County's expenditures. After meeting these two objectives, the Clerk actively seeks opportunities to maximize investment income.

**SHARON R. BOCK**  
Clerk & Comptroller  
Palm Beach County

## Portfolio Allocation November 30, 2014



## Performance

### Total Return

Fiscal Year to Date	0.264%
Prior Month	0.10%
Prior Quarter	0.34%
Prior Year	1.24%*
Prior 3 Years	1.05%*
Prior 5 Years	2.31%*
Prior 8 Years	3.65%*

\*figures annualized

## Portfolio Statistics

	November '14	October '14	September '14	August '14	July '14	June '14
Month-end Market Value	\$1,303,169,332	\$961,971,610	\$1,278,599,856	\$1,381,513,545	\$1,448,983,379	\$1,504,439,977
Book Value	\$1,293,315,158	\$952,080,011	\$1,270,263,723	\$1,372,700,798	\$1,440,522,439	\$1,495,483,830
Unrealized Gain/Loss	\$9,854,174	\$9,891,600	\$8,336,134	\$8,812,747	\$8,460,940	\$8,956,146
Book Yield	1.661%	2.28%	2.27%	2.09%	2.03%	1.97%
Market Yield	1.427%	1.94%	1.77%	1.62%	1.57%	1.50%
Effective Duration	.421 years	.60 years	.78 years	.73 years	.75 years	.69 years
Convexity	0.14	0.31	0.22	0.16	0.13	0.05
Average Credit Rating	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+

[www.mypalmbeachclerk.com/investments](http://www.mypalmbeachclerk.com/investments)



## Portfolio Income

	November '14	October '14	September '14	August '14	July '14	June '14
Interest Income (FYTD)	\$3,235,483	\$1,327,684	\$31,079,376	\$28,564,907	\$25,970,586	\$22,961,154
Investment Income (FYTD)	\$2,714,296	\$1,112,084	\$19,061,741	\$18,243,297	\$15,937,366	\$13,871,043
Interest Income (current month)	\$1,907,799	\$1,327,684	\$ 2,514,470	\$2,594,321	\$3,009,431	\$2,604,280

## The Economy – Moderate Growth, Low Inflation

- **Consumers**

October payroll jobs increased 214,000, softer than expected but still the ninth month of gains above 200,000. The unemployment rate fell to 5.8%, labor force participation rose to 62.8%, and average hourly earnings rose 0.1%. The Labor Market Conditions Index (LMCI) rose 4.0% in October for the 27<sup>th</sup> month of positive gains in the index indicating an expanding labor market. October retail sales rebounded rising 0.3% after falling 0.3% in September. Gasoline station sales fell 1.5% in October. Excluding gasoline, retail sales rose 0.5% in October. Personal income rose 0.2% in October, for the second consecutive month. Year-on-year personal income is up 4.1% relative to a 1.8% increase at this time last year. Personal spending also rose 0.2% in October, and 3.6% over the past 12 months. The savings rate was steady at 5.0%. The Personal Consumption Expenditures deflator, a measure of inflation that automatically adjusts to changing spending patterns, rose 0.1% in October, the same annual 1.4% rate as the prior month. The October Core PCE, ex-food and energy, rose 0.2% pushing the annual rate up to 1.6% vs. 1.5% in September. The final November University of Michigan Consumer Confidence Sentiment Survey rose to 88.8 vs. 86.9 in September. Early indications suggest Black Friday spending was weak again this year with sales over the entire Thanksgiving weekend down 11%. The National Retail Federation expects a 4.1% rise in holiday sales through the end of the year.

- **Housing**

October housing starts fell 2.8% due to a 15.4% fall in multi-family starts. Multi-family starts have been volatile. Single family starts rose 4.2% in October after a similar rise in September and are up 15.4% year-on-year. October permits for future homes also rose 4.8% to a six year high. October existing home sales rose 1.5% to the highest annual pace since September 2013.

- **Inflation**

The Personal Consumption Expenditures Deflator, a measure that adjusts for the mix of consumer spending, rose 0.1% in October, holding the annual rate unchanged at 1.4%. The Core PCE deflator, excluding food and energy, rose 0.2% in October pushing the annual rate to 1.6% vs. 1.5% in September. The Consumer Price Index (CPI) was unchanged in October, following a 0.1% rise the prior month. Year-on-year, headline inflation was 1.7%. Excluding food and energy, the core CPI rose 0.2% in October and 1.8% year-on-year. Gasoline prices continued to drop throughout November with the average monthly price per gallon down to \$2.91, the lowest since the end of 2010.

- **Business**



The October U.S. ISM manufacturing index rose to 59.0, matching August's three-year high vs. 56.6 in September. The ISM Non-Manufacturing Index fell to 57.1 in October vs. 58.6 in September. Construction spending decreased for the second consecutive month, down 0.4% in October after a 0.5% drop in September. The U.S. third quarter GDP was unexpectedly revised to 3.9% from the 3.5% advance reading and was led higher by revisions in inventories, consumption, and business equipment investment. Vehicle sales were little changed, increasing by 10,000 to a 16.35 million annual unit pace in total sales in October. October industrial production dropped 0.1% vs. a 0.8% rise in the prior month. October durable goods orders rose 0.4%, stronger than expected, after a 0.9% September decline. Capital goods orders, excluding aircraft and defense orders, (a proxy for business spending) fell 1.3% after a similar decline the prior month.

- **News**

The October Fed minutes said concerns over falling oil prices, weak global growth and a strengthening dollar are temporary factors. The Fed seemed committed to increasing the Fed Funds Target Rate next year. At an ECB press conference, Mario Draghi said the committee is unanimously in favor of quantitative easing for Europe. China's manufacturing PMI fell to 50.8 and the Eurozone manufacturing index fell to 50.6. Eurozone consumer prices rose 0.3% in November year-on-year, matching September's level which was a five year low. China's October PPI fell 2.2% year-on-year, the 32<sup>nd</sup> consecutive decline. China's annual CPI was up 1.6%, the same as September. Ukraine's cease-fire frayed as Russian tanks and military personnel carriers crossed the border to support eastern Ukraine rebels. In the mid-term elections, Republicans increased their majority in the Senate and expanded control of the House.

- **Bottom Line**

The moderate overall economic growth and inflation numbers, despite the news backdrop, suggest no change in Fed monetary policy for the foreseeable future. The Fed's October 29, 2014 FOMC meeting statement retained the "considerable time" language to describe when short rates would be increased after the Quantitative Easing 4 bond-buying program ended in October. With restrained consumer spending (high debt and low income growth), moderate business investment spending and hiring due to unreliable sales growth visibility, uneven government spending trends, and declining global growth along with mounting deflation risks, there is little chance that a booming economy and rising inflation will force the Fed to increase short rates any time soon.



## U.S. Treasury Yield Curve

