

# Consolidated Investment Report

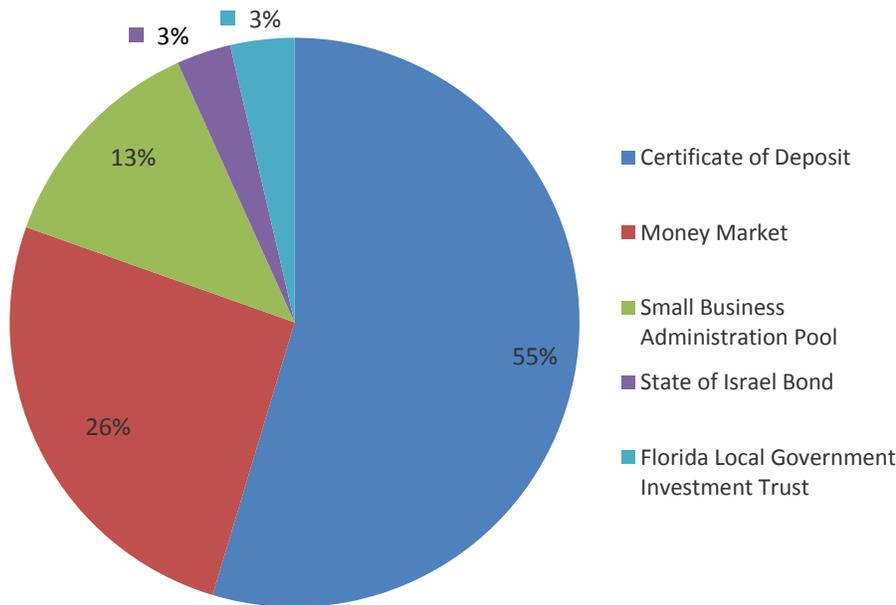
## July 2015



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 July 31, 2015



### Performance

#### Total Return

Fiscal Year to Date	1.12%
Prior Month	0.09%
Prior Quarter	0.33%
Prior Year	1.24%*
Prior 3 Years	1.05%*
Prior 5 Years	2.31%*
Prior 8 Years	3.65%*

\*figures annualized

### Portfolio Statistics

	July '15	June '15	May '15	April '15	March '15	February '15
Month-end Market Value	\$1,401,979,723	\$1,270,204,407	\$1,264,390,651	\$1,455,368,328	\$1,448,424,468	\$1,517,753,272
Book Value	\$1,390,604,872	\$1,259,351,800	\$1,252,990,552	\$1,444,152,728	\$1,437,201,347	\$1,507,367,601
Unrealized Gain/Loss	\$11,374,850	\$10,852,607	\$11,400,099	\$11,215,600	\$11,223,121	\$11,090,489
Book Yield	1.650%	1.801%	1.798%	1.612%	1.602%	1.543%
Market Yield	1.497%	1.596%	1.588%	1.455%	1.446%	1.394%
Effective Duration	.44 years	.47 years	.47 years	.42 years	.44 years	.44 years
Convexity	.103	0.245	0.296	.271	.248	.16
Average Credit Rating	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+



## Portfolio Income

	July '15	June '15	May '15	April '15	March '15	February '15
<b>Interest Income (FYTD)</b>	\$19,499,761	\$17,397,840	\$15,251,102	\$13,879,668	\$11,881,271	\$9,075,314
<b>Investment Income (FYTD)</b>	\$15,867,924	\$14,489,773	\$13,189,725	\$11,522,333	\$9,877,258	\$7,927,532
<b>Interest Income (current month)</b>	\$2,101,920	\$2,146,738	\$2,061,434	\$1,998,397	\$2,115,957	\$1,938,274

## Economic Overview

### Consumers:

The increase in nonfarm payroll jobs was 223,000 in June, short of the 233,000 gain expected. May payroll jobs were revised down from a rise of 221,000 to 187,000, totaling a net revision loss of 60,000 jobs. The unemployment rate declined to 5.3% vs. 5.5% in May. The June reading was the lowest since 2008. The labor force participation rate fell to 62.6%, the lowest since 1977. The augmented unemployment rate (a broader unemployment measure that includes part-time and discouraged workers) fell from to 10.5% vs. 10.8%. Average hourly earnings on an annual basis fell to 2.0% vs. 2.3% in May, in line with the trend rate since the end of the recession. Initial jobless claims rose to 281,000 in the week ending June 27 with the four week average at 271,000, near a 15 year low.

Consumer credit increased \$16.09 billion in May after a \$21.40 billion rise in April. Retail sales fell 0.3% in June vs, expectations for a 0.3% increase. May was revised to 1.0% gain vs. the originally reported 1.2% increase and April was revised down to zero vs. 0.2% originally. Year-over-year, retail sales were up just 1.4% compared to a 4.4% annual pace in June 2014. Auto sales fell 1.1% in June. Excluding auto sales, retail sales fell 0.1%, the fourth month of decline in the past six. Ward's Automotive reported that total vehicle sales fell to 17.20 million annualized in June, a two-month low vs. 17.71 million in May.

The Conference Board's Consumer Confidence fell to 90.9 in July vs. 99.8 in June, the lowest reading since September 2014. Consumer views on current and future conditions were both down. The University of Michigan's Consumer Sentiment Index was lower in July falling to 93.3 vs. 96.1 in June. Views on current conditions rose while expectations fell.

### Housing:

The NAHB Housing Market Index remained unchanged in July at a reading of 60, the highest level since late 2005. Building permits rose 7.4% in June from 1.25 million to 1.343 million, the highest annualized pace since 2007. Multi-family permits rose 15.3% at the end of the second quarter compared with a 0.9% rise in single-family permits. Year-over-year permits are up 30% due to a 70% increase in multi-family activity. Single-family permits are up 6% over the past year.



Housing starts rose almost 10% at the end of the second quarter, rising from 1.069 million annualized to 1.1174 million, a two-month high. Multifamily starts were up 29.4% in June but single-family starts fell 0.9% after a 6% decline the month before. Year-over-year housing starts were up 26.6% led by a 48.2% gain in multifamily starts. Single-family starts were up 14.7% year-over-year.

The FHFA Home Price Index rose 0.4% in May after a similar increase the month before. Existing home sales rose 3.2% in June, more than expected, to an annual sales pace of 5.49 million vs. 5.32 million in May. It was the highest annual sales rate in eight years. New home sales unexpectedly fell a huge 6.8% in June, falling to 482,000 annualized vs. 512,000 in May. The May gain was reduced to 1.1% vs. the original 2.2% increase. The S&P 20 City Home Price Index fell 0.18% in May for the first monthly decline since August. On an annualized basis, prices were up 4.94%.

Second quarter GDP rose 2.3%, slightly less than the consensus, but a big improvement from the 0.6% rise at the start of 2015. The first quarter was revised to a 0.6% increase vs. the originally reported 0.2% decline which produced a 1.5% growth rate for the first half of 2015, the weakest since 2011. The annual benchmark revisions indicated that the expansion has been even weaker than initially reported. From 2011 thru 2014, economic growth expanded at a 2.1% pace vs. the originally reported 2.4%. For 2013, growth was reduced to 1.5% vs. the original 2.2% for the weakest growth rate since the recession.

### **Business:**

The ISM Manufacturing Index rose to 53.5 in June vs. 52.8 in May to hit a five-month high. New export orders fell and import orders slowed. Total new orders rose while employment increased. The June ISM Non-Manufacturing Index was little changed at 56.0 vs. 55.7 in May, but remained below the 57.8 reading at the start of the second quarter. Wholesale inventories grew 0.8% in May, the fastest pace of growth since November, after a 0.4% rise in the April report.

The NFIB Small Business Optimism Index fell to 94.1 in June vs. 98.3 in May, the lowest reading since March 2014. May business inventories rose 0.3% in May, the fourth consecutive month of growth. June Industrial Production grew 0.3%, the highest rate of growth since November. Capacity utilization improved to 78.4% in June vs. 77.7% the prior month. June durable goods orders rose 3.4%. However, with three negative months in the past six, durable goods orders were firmly in the red, down 0.6% over the past year.

On an annualized basis, business investment continued to trend down. U.S. labor costs rose at the slowest pace in at least 30 years due to sluggish wage growth. The Employment Cost Index, a broad measure of works' wages and benefits, increased to a seasonally adjusted 0.2% in the second quarter from the first quarter.



### **International News/Trade:**

The U.S. trade deficit widened to \$41.87 billion in May from \$40.7 billion in April. Exports fell 0.8% after a 1.0% increase in the prior month. Imports fell 0.1% in May after a 3.3% decline in April.

The U.S. and Cuba will reopen embassies for the first time since 1961. Greece became the first developed country to default on a payment to the IMF. Greek voters said no to a bailout and austerity on July 5, 2015. China's government began a program to support its falling stock market. Russia's central bank lowered its key rate to 11%, down 0.50%, to spark growth as the oil dependent country continued to suffer from lower oil prices.

### **Inflation:**

The June Core Personal Consumption Expenditures Deflator, the Fed's favorite inflation gauge which excludes food and energy and adjusts for changing spending patterns, rose 1.3% year-over-year. It has been below the Fed's 2% target for over 3 years. The Producer Price Index rose 0.4% in June, but year-over-year the price index was still down 0.7%. Core prices, excluding food and energy, were up 0.8% over the last year. The June Consumer Price Index rose 0.3% producing a year-over-year gain of 0.1%. The annual core CPI was up 1.8% in June vs. 1.7% in May.

### **Federal Reserve:**

Throughout the month Fed officials continued to suggest that a September Fed Funds Target Rate increase is likely. At the same time the Fed maintained that it is data dependent and any monetary policy change will require improvement in the job market and higher inflation.



# U.S. Treasury Yield Curve

