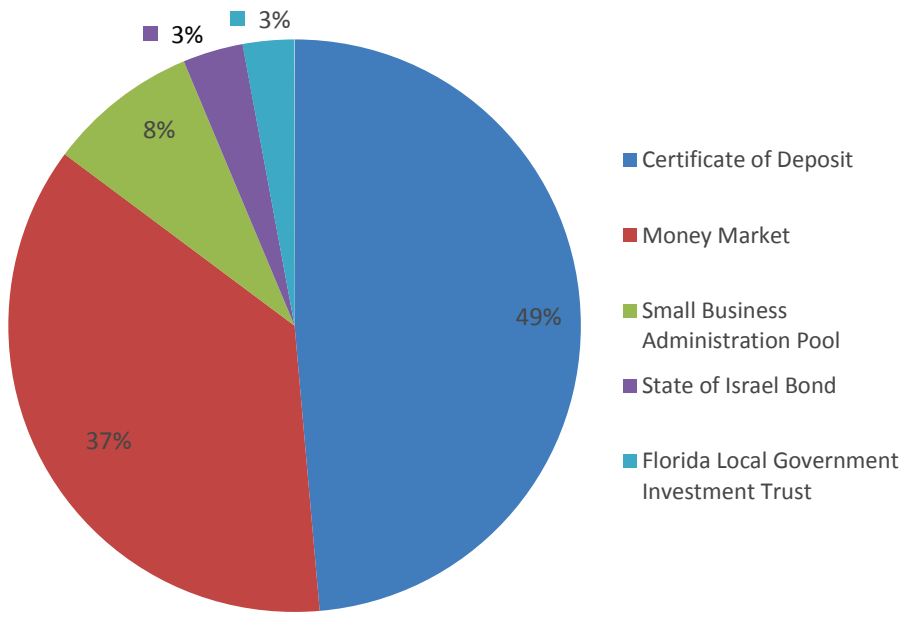
Consolidated Investment Report

January 2016

SHARON R. BOCK
Clerk & Comptroller
Palm Beach County

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.

Portfolio Allocation
January 31, 2016



Performance
Total Return

Fiscal Year to Date	0.41%
Prior Month	0.12%
Prior Quarter	0.31%
Prior Year	1.43%*
Prior 3 Years	0.85%*
Prior 5 Years	1.60%*
Prior 8 Years	3.17%*

*figures annualized

Portfolio Statistics

	January '16	December '15	November '15	October '15	September '15	August '15
Month-end Market Value	$1,747,832,261.62	$2,052,652,752	$1,306,295,440	$1,312,665,707	$1,381,695,231	$1,390,388,579
Book Value	$1,736,050,951.75	$2,040,841,376	$1,294,496,641	$1,300,104,818	$1,368,802,182	$1,378,098,505
Unrealized Gain/Loss	$11,781,309.87	$11,811,376	$11,798,799	$12,560,889	$12,893,048	$12,290,074
Book Yield	1.467%	1.297%	1.751%	1.675%	1.627%	1.612%
Market Yield	1.369%	1.227%	1.551%	1.417%	1.489%	1.470%
Effective Duration	.38 years	.29 years	.55 years	.44 years	.40 years	.41 years
Convexity	.133	.080	.258	.154	.095	.192
Average Credit Rating	AA/Aa2/AA	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+

Portfolio Income						
	January '16	December '15	November '15	October '15	September '15	August '15
Interest Income (FYTD)	$8,760,420.63	$6,290,047	$3,937,417	$1,993,495	$23,502,677	$21,546,383
Investment Income (FYTD)	$6,700,930.31	$4,597,562	$2,507,287	$1,515,138	$20,191,741	$17,864,436
Interest Income (current month)	$2,369,429.40	$2,352,630	$1,944,207	$1,993,495	$1,956,294	$2,046,622

Economic Overview

Market Activity

Stocks had the worst start to a year in history. The Dow fell 5.5% ending at 16,466 while the S&P 500 dropped 5.1% to 1940. Treasury yields fell steadily through the month on fears of developing weakness in the global economy and declining U.S. economic growth momentum. The 10- year Treasury note fell to 1.92% and the 2-year Treasury dropped to 0.77%.

Consumers:

Nonfarm payrolls rose 292,000 in December, much more than expected. November was revised up to 252,000 (originally 211,000), and October was revised up to 307,000 (originally 298,000) for the first reading over 300,000 since December 2014. The participation rate improved slightly to 62.6% vs. 62.5% in November. The December unemployment rate was unchanged at 5.0% and average hourly earnings were flat in December. On an annual basis, average hourly earnings rose to 2.5% vs. 2.3% in November.

December total vehicle sales fell to a 17.22 million annualized pace vs. 18.05 million in November. Consumer credit increased $13.95 billion in November, a ten-month low gain after a $15.61 billion rise in October. December retail sales fell 0.1%, as expected. However, retail sales rose 2.2% year-over-year in December vs. a 1.6% November year-over-year gain. The Conference Board's January Consumer Confidence Index rose more than expected to 98.1, a three-month high, vs. 96.3 in December. The University of Michigan January Consumer Sentiment Index fell to 92.0, a two-month low.

The U.S. economy grew 0.7% in the fourth quarter of 2015 after a 2.0% rise in the third quarter. On an annual basis, the U.S. economy grew at a 2.4% pace in 2015, modestly improved from the trend pace of 2.1% since the end of the Great Recession. Personal spending rose 2.2% at the end of the year, the second consecutive quarter of slowing consumption after reaching a 3.6% pace in the second quarter The December leading economic indicator index fell 0.2%, the weakest pace of growth since February, vs. a 0.5% gain in November.

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Housing:

Construction spending fell 0.4%, the strongest contraction in activity since June 2014. October construction spending was revised down to a 0.3% monthly gain (originally a 1.0% increase). December housing starts fell 2.5% to a 1.149 million annualized pace vs. 1.179 million in November. Starts were up 6.4% year-over-year which was lower than the year-over-year peak of 17.6% in September. December permits fell 3.9%. Existing home sales rose 14.7% in December, a three-month high, offsetting the 10.5% November decline due to the imposition of "Know-Before-You-Owe" regulations. The S&P/Case-Shiller 20 City Home Price Index was up 5.35% year-over-year. December new home sales rose 10.8%, more than the 2.0% forecast. Sales increased to a 544,000 annualized pace, the fastest since February 2015, vs. 491,000 in November. December pending home sales rose 0.1%, less than expected, for a 3.1% year-over-year increase.

Business:

The December ISM manufacturing index fell to 48.2 vs. 48.6 in November. The reading was the weakest since June 2009 and the second consecutive month of contraction. The December ISM non-manufacturing index unexpectedly fell to 55.3 vs. 55.9 in November, the weakest number since April 2014. November factory orders fell 0.2% after a 1.3% increase the month before. November wholesale inventories fell 0.3%, a four- month low and the second month of decline following a similar sized fall the prior month. November business inventories fell for the second month in a row, down 0.2%, a four year low. December industrial production fell for the fourth consecutive month, down 0.4% after a 0.9% decline in November. December capacity utilization fell to 76.5%, vs. 76.9% in November, the lowest level in more than two years. December durable goods orders unexpectedly plunged 5.1%, the largest decline since August 2014. Year-over-year, durable goods orders were down 0.6%, the weakest pace since September.

International Trade:

Measured by the Fed's trade-weighted broad index, the U.S. dollar rose 1.9% in January and was up 9.7% over last year. The Chinese yuan fell 1.2% against the dollar during January and was down 5% on a year-over-year basis. Chinese equity market volatility and signs of an extended Chinese economic slowdown caused the yuan weakness. The November U.S. trade deficit narrowed to $42.37 billion vs. October's $44.58 billion. Imports fell 1.7% while exports fell 0.9% in November. Exports fell 2.5% in the fourth quarter, the weakest quarter since a 6.0% drop at the start of 2015.

Inflation:

The December PPI fell 0.2% and the year-over-year PPI was down 1.0% vs. a 1.1% annual decline in November. Excluding food and energy, the Core PPI rose 0.1% for a year-over-year decline of 0.3% vs. November annual fall of 0.5%. The December CPI fell 0.1% with a 0.7% annual gain compared with Novembers 0.7% rise. Excluding food and energy, the Core CPI rose 0.1% in December for a 2.1% year-over-year gain, the largest increase since July 2012. The December import price index fell 1.2%, a four-month low. Year-over-year, import prices were down 8.2%, the 17th consecutive month of annual declines.

Federal Reserve:

The December 16 FOMC meeting minutes said the rate hike was a close call, there were several reasons for a gradual path for more rate increases, there was considerable risk to the inflation outlook including the stronger dollar and falling energy prices, and the Fed would monitor actual and expected inflation. The Fed's Beige Book said economic activity had expanded since the prior report in nine of the 12 districts. The other three had moderate or flat growth. The January 27 FOMC statement said the labor market had improved further, the housing market was a sector of strength, and inflation continued to run below expectations. Future rate hikes would depend on how the economic data affected the Fed's economic forecast for growth and inflation.

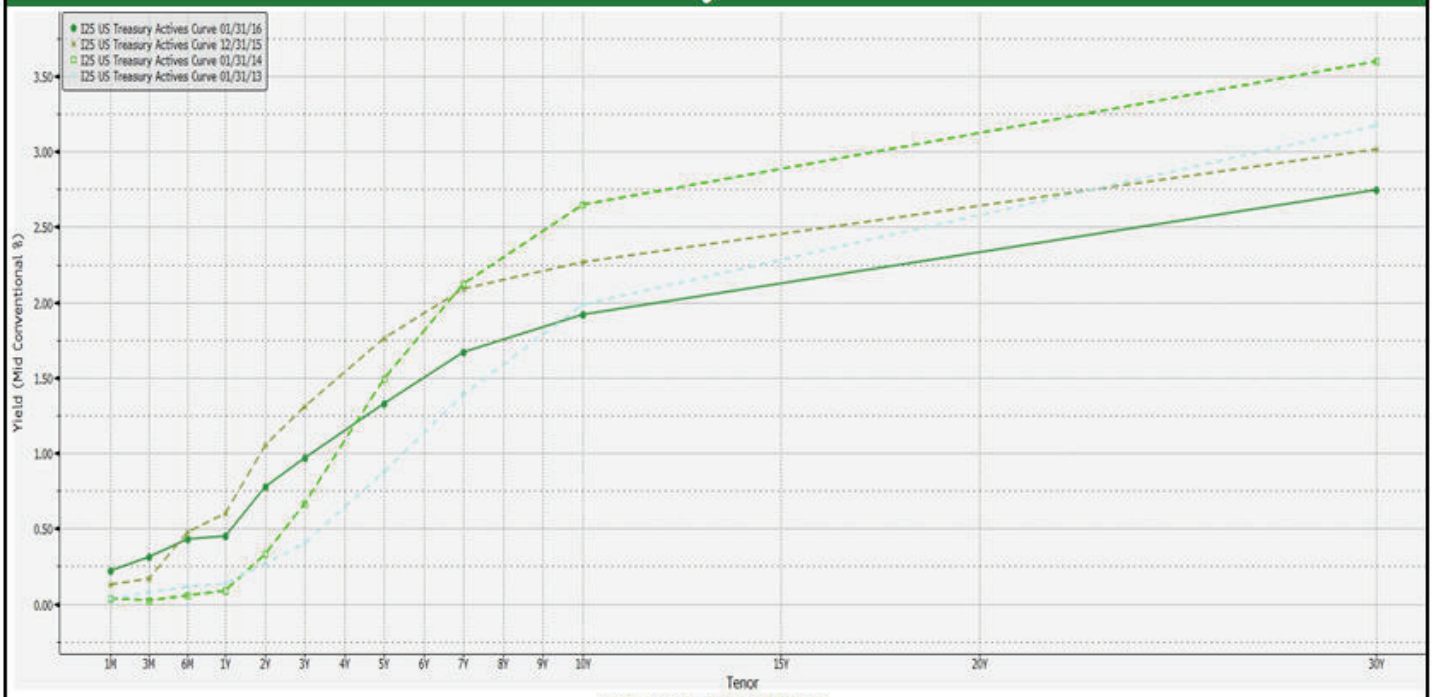
News:

The Bank of Japan stunned the world when they joined the European Central Bank, Sweden, Denmark, and Switzerland setting negative rates to spur economic growth. The Saudi government announced plans to offer public shares in the country's state-owned oil company, Saudi Aramco. North Korea detonated a bomb that might have been its first hydrogen bomb.

Bottom Line:

Although Fed monetary policy seemed locked into a path of gradual rate increases at the end of January, the solid trends of lower bond yields and lower stock prices was voting against even gradual rate increases.

U.S. Treasury Yield Curve



>>>MATURITY>>>