

# Consolidated Investment Report

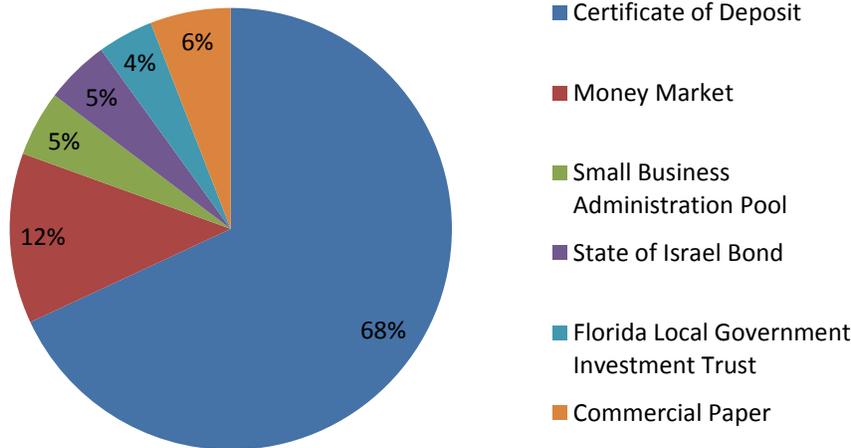
October 2016



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 October 31, 2016



## Performance

### Total Return

Fiscal Year to Date	0.14%
Prior Month	0.15%
Prior Quarter	0.42%
Prior Year	1.42%*
Prior 3 Years	1.36%*
Prior 5 Years	1.20%*
Prior 8 Years	2.67%*
*figures annualized	

## Portfolio Statistics

	October '16	September '16	August '16	July '16	June '16	May '16
Month-end Market Value	\$1,266,464,758.64	\$1,279,023,005.35	\$1,279,471,291.20	\$1,413,382,671.70	\$1,523,458,493.77	\$1,601,321,071.45
Book Value	\$1,251,711,474.81	\$1,264,867,240.41	\$1,265,499,927.49	\$1,400,314,928.85	\$1,510,376,786.18	\$1,589,729,061.37
Unrealized Gain/Loss	\$14,753,283.83	\$14,155,764.94	\$13,971,363.71	\$13,067,742.85	\$13,081,707.59	\$11,592,010.08
Book Yield	1.765%	1.769%	1.737%	1.661%	1.585%	1.568%
Market Yield	1.767%	1.730%	1.697%	1.604%	1.541%	1.466%
Effective Duration	.96 years	.95 years	.80 years	.88 years	.82 years	.40 years
Convexity	.516	.514	.377	.290	.157	.163
Average Credit Rating	AA-/Aa3/AA-	AA-/Aa3/AA-	AA/Aa2/AA	AA/Aa2/AA	AA/Aa2/AA	AA/Aa2/AA



## Portfolio Income

	October '16	September '16	August '16	July '16	June '16	May '16
Interest Income (FYTD)	\$1,920,455.39	\$25,963,746.50	\$24,058,875.54	\$21,890,519.79	\$19,797,937.55	\$17,678,705.19
Investment Income (FYTD)	\$1,843,722.85	\$22,394,637.82	\$20,467,151.20	\$18,519,121.75	\$16,539,415.31	\$14,848,078.60
Interest Income (current month)	\$1,920,455.39	\$1,885,440.76	\$2,187,785.95	\$2,092,582.24	\$2,120,006.19	\$2,243,267.66

## Economic Overview

In October, financial markets experienced higher short rates and bond yields and lower stock prices in anticipation of a Federal Reserve rate increase on December 14, 2016, after the last Federal Reserve Open Market Committee meeting of the year. The last Fed rate increase occurred almost a year ago on December 16, 2015. The new target range for the Fed Funds rate would be 0.50% to 0.75% vs. the current range of 0.25% to 0.50%.

### Consumers:

Personal income rose 0.3% during September, up from a 0.2% increase in August, but slightly less than the 0.4% expected. When adjusted for inflation, personal income was flat during the last two months. Personal spending increased 0.5% in September, a solid gain from the 0.1% decline in August. Back-to-school retail sales increased in September, up 0.6%, as did gasoline sales. Even excluding autos and gasoline, sales increased 0.3%. The online retail shift continued, up 10.6% year-over-year. The Job Openings and Labor Turnover Survey showed August job openings fell by 388,000 to 5.44 million, the lowest level since last December, while hiring slipped 0.9% to 5.21 million. Nonfarm payrolls added 156,000 in September, missing the consensus estimates, while revisions to July and August subtracted 7,000 from the previous reports. The unemployment rate rose to 5.0%. September total vehicle sales were at a 17.65 million units annualized pace as sales incentives hit a record \$3,888 per vehicle.

### Inflation:

The overall September PCE Deflator, a measure of inflation that automatically adjusts for changing consumer spending patterns, rose 1.2% vs. the August year-over-year increase of 1.0%. The Year-over-year September Core PCE Deflator, excluding food and energy, the Fed's preferred inflation gauge, increased 1.7% vs. the 1.7% annual gain in August. The inflation measure has not hit the Fed's 2.0% annual target in 53 months. The Consumer Price Index rose 0.3% in September (energy jumped 2.9%), producing a CPI increase of 1.5% year-over-year. Excluding food & energy, the core CPI increased 0.1% and 2.2% from a year ago. The Producer Price index, which measures wholesale prices, rose 0.3% in September and 0.7% from a year ago. Although energy increased 2.5%, the core PPI, less food & energy, rose 0.3% for the month and 1.5% year-over-year.



## **Housing:**

Housing data were mixed. Existing home sales jumped 3.2% in September, the largest monthly rise since March, to 5.47 million units annualized. Building permits rose 6.3% to 1.225 million annualized. However, housing starts fell sharply in September, down 9% to 1.047 million annualized pace after a 5.6% decline in August. Construction spending fell 0.7% to \$1.1 trillion annualized. Year-to-date, spending was 4.9% ahead of 2015.

## **Macro-Economic Data:**

U.S. third-quarter gross domestic product (GDP) growth surged. It increased at a 2.9% annualized rate producing the strongest quarter in two years. Second-quarter growth was 1.4%. Consumer spending was the largest contributor but slowed from the second quarter. There was a large swing to positive business inventories, government spending, and a large gain in net exports (soybean exports) which could be reversed in the future. The September Conference Board Leading Economic Indicators Index rose 0.2%.

## **Business:**

New durable goods orders slipped 0.1% in September due to a 44% decline in military aircraft orders. Excluding defense, new orders rose 0.7%, but excluding transportation, new orders rose 0.2%. Wholesale inventories increased 0.2% in September, the first gain after two straight down months. September industrial production rose 0.1%, while capacity utilization edged up to 75.4%. Business inventories increased 0.2% in August, mostly driven by excess motor vehicles. The NFIB Small Business Index fell to 94.1, while the uncertainty component remained high. The ISM Manufacturing Index rose to 51.5 in September after contracting in August. Factory orders rose 0.2% in August, more than expected, after a revised 1.4% jump during July.

## **International:**

The U.K.'s third-quarter GDP grew 0.5% on a quarter-over-quarter basis, better than expected. Canada and the European Union signed an historic trade pact to eliminate about 98% of tariffs. China's third-quarter GDP grew 6.7% year-over-year, in line with the official 6.5% to 7% growth target. The European Central Bank (ECB) left rates and its stimulus program unchanged at its October meeting. The U.K. Prime Minister confirmed at the European Summit that there is no stopping the Brexit.



## Federal Reserve:

The Fed's September minutes showed the vote to raise rates was a close call, with several members feeling that a move was need "relatively" soon if the economy stayed on its current course. Fed officials have made speeches and statements to prepare the financial markets for a rate hike soon.

## Bottom Line:

Based on the Federal Reserve's evaluation of the economy's growth, employment, and inflation, it seems that the Fed is likely to increase its Federal Funds Target Range to 0.50% to 0.75%, up 0.25%, on December 14, 2016, the first increase this year. Long term financial market trends are likely to remain: higher bond yields, higher short rates, and higher stocks. Significant financial market instability and U.S. economic weakness could slow the Fed's plan to normalize interest rates at higher levels.

