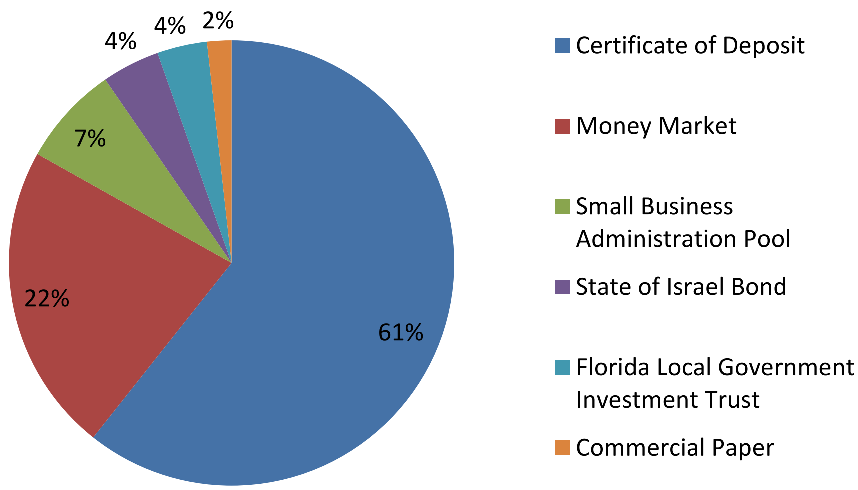
# Consolidated Investment Report

*July, 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
*July 30, 2016*




## Performance
*Total Return*

| | |
|---|---|
| Fiscal Year to Date | 1.13% |
| Prior Month | 0.11% |
| Prior Quarter | 0.33% |
| Prior Year | 1.43%* |
| Prior 3 Years | 0.85%* |
| Prior 5 Years | 1.60%* |
| Prior 8 Years | 3.17%* |

*figures annualized

## Portfolio Statistics

| | July '16 | June '16 | May '16 | April '16 | March '16 | February '16 |
|---|---|---|---|---|---|---|
| Month-end Market Value | $1,413,382,671.70 | $1,523,458,493.77 | $1,601,321,071.45 | $1,708,691,793.53 | $1,713,169,857.41 | $1,772,937,179.75 |
| Book Value | $1,400,314,928.85 | $1,510,376,786.18 | $1,589,729,061.37 | $1,696,954,628.61 | $1,701,019,168.67 | $1,760,820,605.36 |
| Unrealized Gain/Loss | $13,067,742.85 | $13,081,707.59 | $11,592,010.08 | $11,737,164.92 | $12,150,688.74 | $12,116,574.40 |
| Book Yield | 1.661% | 1.585% | 1.568% | 1.508% | 1.508% | 1.462% |
| Market Yield | 1.604% | 1.541% | 1.466% | 1.411% | 1.411% | 1.367% |
| Effective Duration | .88 years | .82 years | .40 years | .39 years | .37 years | .37 years |
| Convexity | .290 | .157 | .163 | .143 | .106 | .117 |
| Average Credit Rating | AA/Aa2/AA | AA/Aa2/AA | AA/Aa2/AA | AA/Aa2/AA | AA/Aa2/AA | AA/Aa2/AA |

| Portfolio Income | July '16 | June '16 | May '16 | April '16 | March '16 | February '16 |
|---|---|---|---|---|---|---|
| Interest Income (FYTD) | $21,890,519.79 | $19,797,937.55 | $17,678,705.19 | $15,437,581.22 | $13,231,413.13 | $10,918,521.32 |
| Investment Income (FYTD) | $18,519,121.75 | $16,539,415.31 | $14,848,078.60 | $12,934,856.90 | $11,244,825.37 | $8,987,290.23 |
| Interest Income (current month) | $2,092,582.24 | $2,120,006.19 | $2,243,267.66 | $2,208,496.05 | $2,278,979.70 | $2,126,733.28 |

# Economic Overview

### Market Activity:

The financial market reaction to the British decision to leave the EU took the 10-year Treasury note yield to 1.32% on 7/6/16. The strong June jobs report on July 8 produced a week-long rise in rates that took the 10-year Treasury yield back to 1.60%. After Japan's July 10th election suggested possible new stimulus, higher U.S. yields suggested expectations that the Fed would signal higher rates at the July 27, 2016 FOMC meeting. But GDP in the second quarter grew at a weak 1.2%, below the 2.5% expected, with the first quarter revised to 0.8% growth which pushed yields down again.

### Consumers:

U.S. second quarter gross domestic product (GDP) grew at a 1.2% annualized pace, which was less than half of the 2.5% rate the consensus expected. It was reduced by weak business spending and shrinking inventories, which offset a strong consumer that had the best spending quarter since 2014. In fact, one analyst said the U.S. would be in a recession without strong consumer spending (Janus bond maven Bill Gross). Retail sales increased 0.6% in June as seasonal building materials and gardening sales surged 3.9%. June nonfarm payroll jobs surged by 287,000, the largest gain in 10 months, but April and May were revised down by a combined 6,000. The three-month average was 147,000. The unemployment rate rose to 4.9% vs. May's 4.7%. Average Hourly Earnings edged up 0.1% in June and increased 2.6% year-over-year. The July Conference Board's Consumer Confidence Index was little changed, near a five-year high as Americans remained positive about the job market and business environment. The July index slipped to 97.3 vs. 97.4 in June with expectations falling slightly.

### Inflation:

The Consumer Price Index rose 0.2% in June, driven by energy. It rose just 1.0% from a year ago. The Producer Price Index rose 0.5% in June, the largest monthly increase in over a year. The year-over-year PPI was up 0.3%, the largest annual gain since December 2014. Import prices increased 0.2% in June, down from

the 1.4% increase in May. The decline was in spite of a 6.4% rise in energy prices and produced a year-over-year decline of 4.8% in import prices.

**Housing:**

New home sales surged 3.5% in June to an annualized pace of 592,000 single-family homes, the highest level since 2007. Pending home sales edged up 0.2% in June and rose 1.0% year-over-year. Housing starts reached an annualized pace of 1.19 million units in June, or up 1.1%, which was their fourth straight monthly gain and the highest level in more than nine years. The May S&P S&P/Case-Shiller 20-City Home Price Index increased 5.24% year-over-year vs. April's 5.44% year-over-year gain.

**Business:**

The Conference Board's Leading Economic Indicators Index rose 0.3% in June to its highest level in a decade. The Markit Manufacturing Purchasing Manager's Index increased to 52.9 in June as the new orders component of the survey hit its highest reading since October 2015. Industrial production increased 0.6% in June, its largest monthly rise since 2014, while capacity utilization edged up to 75.4% as oil and gas drilling activity stabilized after declining for months.

Two service sector surveys showed solid increases for June with both hitting their highest levels since November. The ISM Services Index rose to 56.5 vs. May's 52.9, while the Markit Services Index increased to 51.4. U.S. factory orders were soft in May, falling 1.0% for the month after two sharp increases in April and March of 1.8% and 1.7%, respectively. Over the past year, orders have increased 1.2%. New durable goods orders fell 4.0% in June, although much of the drag was a massive 58.8% decline in new commercial aircraft orders. New orders for core capital goods increased 0.2%.

**Government:**

Second quarter 2016 government spending showed little growth and provided slight economic stimulus.

**International:**

The U.S. trade deficit for goods grew to $63.3 billion in June as imports increased more than exports. The U.K.'s second quarter GDP grew 0.6% vs. 0.4% in the first quarter. Almost all of the quarter occurred before the 6/23/16 vote to leave the EU. China's second-quarter GDP grew 6.7% due to increased monetary and fiscal policy stimulus. The Bank of England said it would take the necessary action to stabilize the economy and the financial markets after the vote to leave the EU.

**Federal Reserve:**

While the Federal Reserve left rates unchanged in July, the post-meeting statement said that near-term risks to the economy had diminished which suggested a possible rate move at future meetings.  The Fed's Beige Book indicated economic growth has been fairly steady throughout all twelve districts.  The outlook remained positive for sectors including retail sales, manufacturing, and real estate.

**Bottom Line:**

The economic and monetary policy evidence suggested 2% real GDP growth and low inflation for the next year.  In the current environment, Fed rate hikes are likely to be infrequent with Fed officials placing considerable weight on economic data (employment and inflation) and global political/economic conditions. The trends of higher stocks, lower bond yields, and flat short-term interest rates are likely to persist.