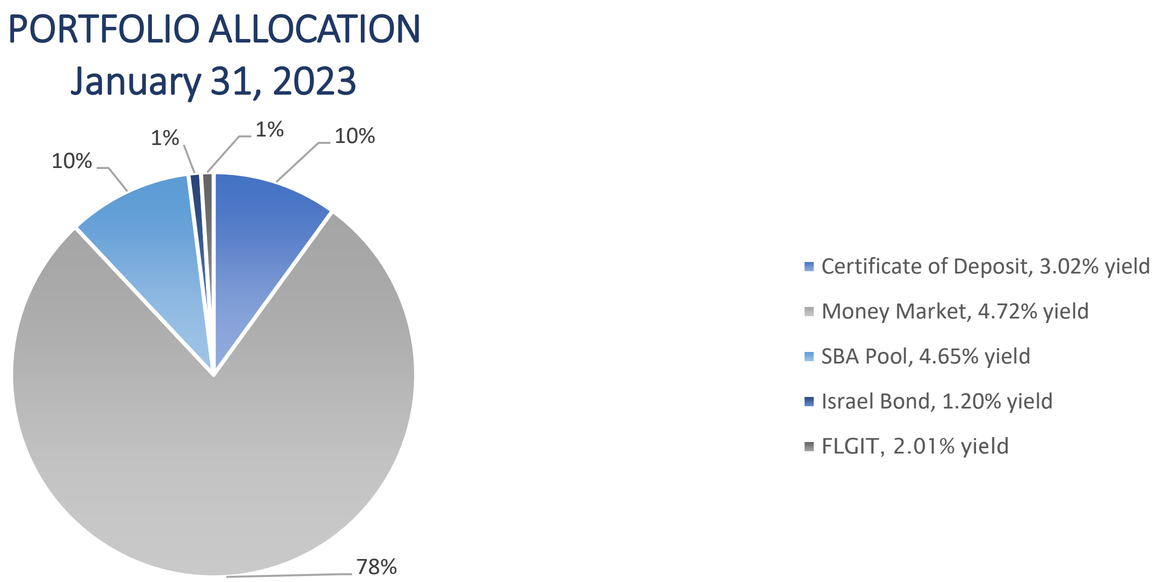
Investment Report

January 31, 2023

JOSEPH ABRUZZO
CLERK OF THE CIRCUIT COURT & COMPTROLLER
PALM BEACH COUNTY

As Palm Beach County's Chief Financial Officer, the Clerk is charged with safeguarding and investing all County funds. The County Investment Policy is specific in its stated investment objectives. The primary objective is to prevent any loss of principal and meet the County's expenditures. After meeting these two objectives, the Clerk seeks opportunities to maximize investment income.



Portfolio Statistics

Month	January '23	December '22	November '22
Month-end Market Value	$4,006,296,849	$4,046,177,500	$3,407,110,015
Book Value	$4,003,318,695	$4,043,275,514	$3,404,332,857
Unrealized Gain/Loss	$2,978,154	$2,901,986	$2,777,158
Book Yield	4.30%	4.14%	3.72%
Market Yield	4.29%	4.13%	3.72%
Effective Duration	0.2 years	0.2 years	0.5 years
Average Credit Rating	AA+/Aa2/AA+	AA+/Aa2/AA+	AA+/Aa2/AA+

Investment Report

January 31, 2023

JOSEPH ABRUZZO
CLERK OF THE CIRCUIT COURT & COMPTROLLER
PALM BEACH COUNTY

Portfolio Income

	Jan. '22	Dec. '22	Nov. '22
Interest Income (FYTD)	$44,123,856	$29,469,580	$16,855,359
Investment Income (FYTD)	$43,488,886	$28,786,130	$16,057,904
Interest Income (current month)	$14,654,306	$12,614,221	$8,900,893

January 2023 Economic & Market Overview

Treasury yields fell in January after closing higher in December. The 10-year Treasury note yield fell to 3.51% at the end of January vs. the 3.88% close at the end of December, while the 2-year Treasury note yield fell to 4.20% at the end of January vs. the 4.43% close at end of December.

Stocks rose in January after ending lower in December. Beginning at 3839.50 at the end of December, the S&P 500 rose 6.18% to 4076.6 at the end of January, above its 200-day moving average of 3954.

Consumer

December nonfarm payrolls increased by 223,000 workers, beating expectations (est. 200,000). The unemployment rate fell to 3.5% and average hourly earnings increased 4.6% y/y (est. 5.0%). Wage growth is trending lower.

Consumer spending fell 0.2% in December vs. The 0.1% decline in November. Year-over-year, consumer spending increased 7.4% and personal income rose 4.7%.

The January University of Michigan Consumer Sentiment Index increased more than expected to 64.6 (est. 60.7) vs. 59.7. Indexes for current and future conditions increased.

The January Conference Board Consumer Confidence Index fell to 107.1, a two-month low, (est. 109.0) vs. 109.0 (revised from 108.3) in December.

Retail sales dropped 1.1% in December (est. down 0.9%). Year-over-year, retail sales rose 6.0% in December, following a similar rise in November.

Total vehicle sales dropped to a 13.31 million annualized sales pace in December (est. 13.40 million) vs. the 14.14 million sales rate in November. Over the past 12 months, however, vehicle sales rose 4.7%, down from an 8.5% annual gain in November and the weakest annual growth rate since August.

This sector is strong enough to keep the Fed on a rate-hike path.

Business

The January ISM Manufacturing Index dropped to 48.7 (est. 48.5) vs. 49.0 in December, the second consecutive reading in contractionary territory and the lowest level since May 2020. For the year, the ISM Manufacturing index dropped 10.4 points, the largest drop since the Great Recession.

The December ISM Services Index unexpectedly dropped into contractionary territory (reading below 50), declining to 49.6 (est. 55.0), lowest since May 2020, vs. 56.5 in November.

The December Conference Board Leading Economic Indicators Index fell 1.0% (est. down 0.7%) vs. a 1.1% decline in November for the ninth straight monthly decline.

Durable goods rose 5.6% in December (est. up 2.5%), the largest increase since July 2020. Year-over-year, headline orders rose 11.1% in December up from the 6.3% annual gain in November.

Year-over-year nondefense capital goods orders ex-aircraft, a proxy for business investment, increased 3.3%.

December industrial production fell 0.7%, more than the 0.1% decline expected and compared to a 0.6% decrease in November.

Fourth quarter real GDP revised up to 2.9% (est. 2.6%) vs. 3.2% in the third quarter.

International

Chinese GDP grew 2.9% in the fourth quarter and 3% for the year. The annualized pace is the second-slowest growth rate in four decades. Near-term numbers suggest that the Chinese economy may be able to recover faster than expected as it continues to roll back Covid safety protocols and restrictions.

The Bank of Canada, as expected, raised rates 0.25% to 4.50% in what may be its final rate hike before a projected pause.

The U.S. trade deficit narrowed 21% to $61.5 billion in November vs. $78.9 billion in October, the narrowest since September 2020. Imports fell 6.4% while exports fell 2%. Consumer spending slowed in November and December.

A European Central Bank official said, "rates will still have to rise significantly at a steady pace."

Inflation

The December Consumer Price Index was softer than expected; headline CPI rose 6.5% year-over-year vs. the annual gain of 7.1% in November. Core, ex-food & energy, CPI rose 5.7% year-over-year vs. the annual increase of 6.0% in November.

The December Core, ex-food & energy, Personal Consumption Expenditure Deflation fell to 4.4% year-over-year vs. the annual increase of 4.7% in November. This is the Fed's preferred inflation gauge.

Elevated inflation measures provide evidence for more Fed rate hikes even as they decline.

Government

According to the USDA, the unfavorable growing conditions in 2022 could lead to a sizable increase in food costs later in 2023.

The debt ceiling must be increased by early June to avoid a debt default for the U.S. Treasury. It has been increased 78 times since 1960. The ceiling is currently at $31.4 trillion.

As the Ukraine War nears its one-year anniversary, President Zelensky continued to press for more funds and military equipment.

Wars are economically stimulative and inherently inflationary.

Housing

The January NAHB Home Builder Confidence Index unexpectedly rose to 35, a three-month high, (est. 31) vs. 31 in December.

JOSEPH ABRUZZO
CLERK OF THE CIRCUIT COURT & COMPTROLLER
PALM BEACH COUNTY

December existing home sales fell 1.5% (est. down 3.4%) to a 4.02 million annualized pace, lowest since May 2020 vs. a 4.08 million annual rate in November. December's drop was the eleventh consecutive month of decline and the slowest pace of sales since 2008.

The November S&P Case-Shiller 20-City Home Price index fell 0.54%, less than the 0.65% decline expected and the fifth consecutive month of decline. Over the past 12 months, the 20-City Index rose 6.77%, the smallest gain in over two years and down from the 8.64% increase the prior month.

December housing starts dropped 1.4% (est. down 4.8%) to a 1.382 million annualized pace, a five-month low, vs. 1.401 million annual starts rate, a four-month low. Year-over-year, housing starts fell 21.8% in December, the eighth consecutive month of decline.

The interest-rate-sensitive housing sector seems to be in a recession.

Monetary Policy

Fed officials unanimously indicated that a rate hike is coming in February. They also suggested that the pace of hikes would slow to give the central bank time to evaluate the economic impact of the past program of hikes.

Bottom Line

At the end of January, the S&P 500 Index was above its 200-day average (3958) putting stocks into a long-term uptrend. The stocks market is anticipating a mild recession and a Fed pivot to lower rates.

The 2-year Treasury note yield remained above its 200-day average of 3.60% to stay in a long-term uptrend. The 10-year Treasury note yield stayed above its 200-day average of 3.33% on the prospect of more Fed rate hikes and higher inflation. The fixed income market is anticipating reduced monetary stimulus and higher rates ahead. High short term interest rates usually lead to a recession.

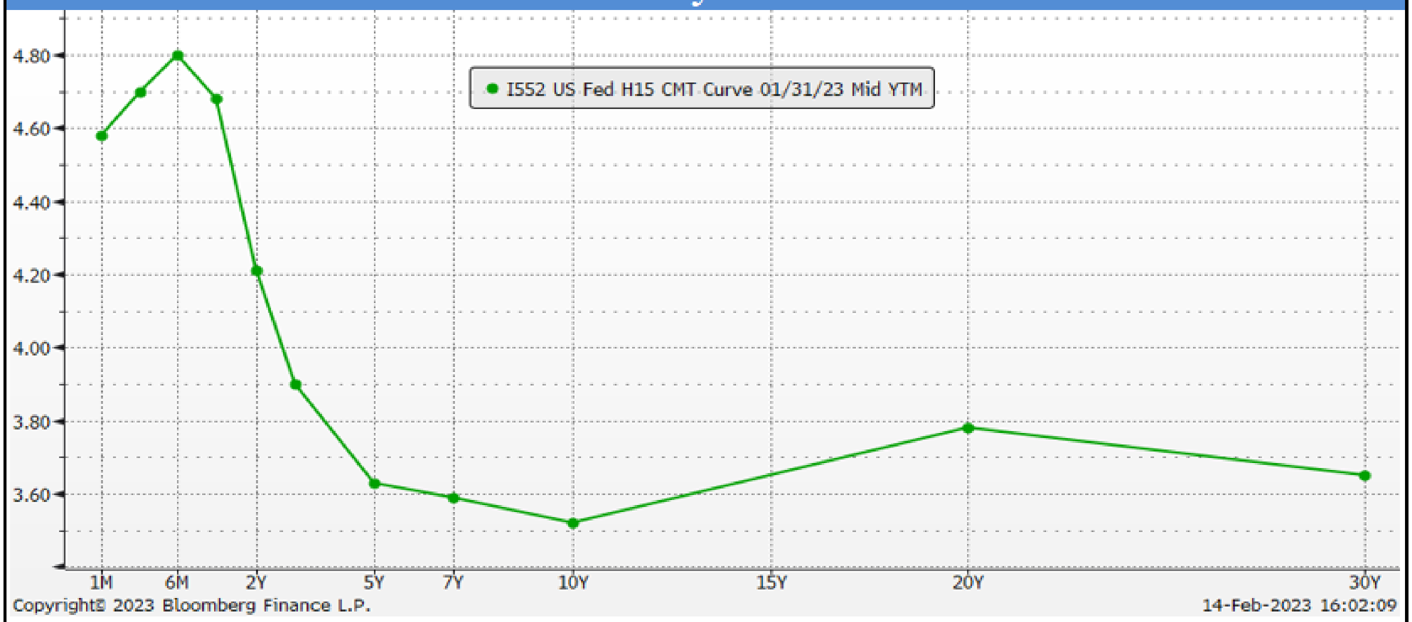
Investment Report

January 31, 2023

JOSEPH ABRUZZO
CLERK OF THE CIRCUIT COURT & COMPTROLLER
PALM BEACH COUNTY

Currently the yield curve is inverted reflecting the Fed rate hike plan to fight inflation. Bond yields expect the Fed will succeed in controlling inflation.

U.S. Treasury Yield Curve



>>>**MATURITY**>>>