

# Investment Report

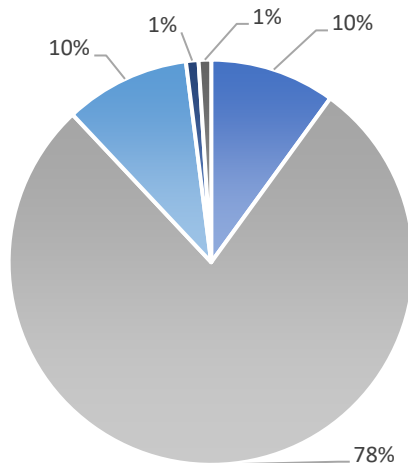
February 28, 2023



**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 ALLOCATION February 28, 2023



- Certificate of Deposit, 3.02% yield
- Money Market, 4.74% yield
- SBA Pool, 4.62% yield
- Israel Bond, 1.20% yield
- FLGIT, 3.22% yield

## Portfolio Statistics

Month	February '23	January '23	December '22
Month-end Market Value	\$4,011,575,470	\$4,006,296,849	\$4,046,177,500
Book Value	\$4,008,983,509	\$4,003,318,695	\$4,043,275,514
Unrealized Gain/Loss	\$2,591,961	\$2,978,154	\$2,901,986
Book Yield	4.50%	4.30%	4.14%
Market Yield	4.49%	4.29%	4.13%
Effective Duration	0.2 years	0.2 years	0.2 years
Average Credit Rating	AA+/Aa2/AA+	AA+/Aa2/AA+	AA+/Aa2/AA+

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## Portfolio Income

	Feb. '23	Jan. '23	Dec. '22
Interest Income (FYTD)	\$58,196,663	\$44,123,856	\$29,469,580
Investment Income (FYTD)	\$57,162,884	\$43,488,886	\$28,786,130
Interest Income (current month)	\$14,072,778	\$14,654,306	\$12,614,221

## February 2023 Economic & Market Overview

Treasury yields rose in February after closing lower in January. The 10-year Treasury note yield rose to 3.92% at the end of February vs. the 3.51% close at the end of January, while the 2-year Treasury note rose to 4.82% at the end of February vs. the 4.20% close at end of January.

Stocks fell in February after ending higher in January. Beginning at 4076.60 at the end of January, the S&P 500 fell 2.61% to 3970.15 at the end of February, but still above its 200-day moving average of 3940.

## Consumer

January nonfarm payrolls increased by 517,000 workers, beating expectations (est. 188,000). The unemployment rate fell to 3.4% and average hourly earnings increased 4.4% year-over-year vs. December's annual gain of 4.8%. Wage growth is trending lower.

Consumer spending rose 1.8% in January (est. 1.4%) vs. the 0.1% decline in December. Year-over-year, January consumer spending increased 7.9% and personal income rose 6.4%.

The February University of Michigan Consumer Sentiment Index increased 67. vs. 64.9 in January.

The February Conference Board Consumer Confidence Index fell to 102.9 vs. 106.0.

Year-over-year, January retail sales rose 7.7% an annual gain of 6.2% in December.

Total vehicle sales rose to a 15.74 million annualized sales pace in January vs. the 13.31 million annual sales pace December.

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

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## Business

The January ISM Manufacturing Index dropped to 47.4 (est. 48.0) vs. 48.4 in December, the lowest level since May 2020.

The January ISM Services Index jumped to 55.2 (est. 50.5), a two-month high, vs. 49.2 in December.

The January Conference Board Leading Economic Indicators Index fell 0.3%, as expected, following a 0.8% decline in December.

Durable goods fell 4.5% in January (est. down 4.0%), the largest monthly since April 2020. Year-over-year, headline orders rose 3.0% in January down from the 11.2% annual gain in December.

Capital goods orders excluding aircraft and defense, a proxy for business investment, rose 0.8% in January, the largest monthly increase since August.

Year-over-year January nondefense capital goods orders ex-aircraft increased 4.3%.

January industrial production was flat (0.0%) (est. up 0.5%) vs. a 1.0% December decline.

## International

The European Central Bank raised its rates 0.50% on February 2, 2023.

In the Eurozone, GDP rose 0.1% in the fourth quarter following a 0.3% gain in the third quarter.

Inflation (CPI) in the EU rose 8.6% in January year-over-year following a 9.2% annual gain in December.

The U.S. trade deficit widened by 10.5% to \$67.4 billion in December (est. \$68.5 billion), the widest in two months, vs. \$61.0 billion in November. Imports rose 1.3, while exports fell 0.9%. Trade with China increased 8% to the largest level on record except for 2018.

The Bank of England announced a 0.50% rate hike to bring its policy rate up to 4.0% vs. 3.50% prior.

U.K. January inflation rose 10.1% from a year ago, down slightly from the 10.5% annual increase in December.

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## Inflation

The January Consumer Price Index was high as expected; headline CPI rose 6.4% year-over-year (est. 6.2%) vs. the annual gain of 6.5% in December. Core, ex-food & energy, CPI rose 5.6% year-over-year (est. 5.5%) vs. the annual increase of 5.7% in December.

The January Core, ex-food & energy, Personal Consumption Expenditure Deflator rose to 4.7% year-over-year vs. the annual increase of 4.6% in December. This is the Fed's preferred inflation gauge and is still above the 2.0% inflation target.

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

## Government

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.

More defense spending to support the Ukraine War will add to the federal deficit which could spark inflation.

## Housing

The February NAHB Home Builder Confidence Index unexpectedly rose to 42 (est. 37), a five-month high, vs. 35 in January.

January existing home sales fell 0.7% (est. up 2.0%) to a 4.00 million annualized pace, lowest since May 2020 vs. a 4.03 million annual rate in December. January's drop was the 12th consecutive month of decline.

The December S&P Case-Shiller 20-City Home Price index fell 0.51%, more than the 0.40% decline expected and the sixth consecutive month of decline. Over the past 12 months, however, the 20-City Index rose 4.65%, the smallest gain in since July 2020 and down from the 6.76% increase the prior month.

January housing starts dropped 4.5% (est. down 1.9%) to a 1.309 million annualized pace, the fifth consecutive month of decline and the lowest level since June 2020. month low, vs. December's 1.371 million annual starts rate. Year-over-year, housing starts fell 21.4% in January, the ninth consecutive month of decline.

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

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## Monetary Policy

Fed officials raised the Fed Funds Target Range to 4.50% to 4.75% and indicated that more hikes were likely depending on the economic data.

## Bottom Line

At the end of February, the S&P 500 Index was above its 200-day average (3940) putting stocks into a long-term uptrend. The stock 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 3.79% to stay in a long-term uptrend. The 10-year Treasury note yield stayed above its 200-day average of 3.41% on the prospect of more Fed rate hikes and higher inflation. However, when short term interest rates are higher than long term rates, the fixed income market is anticipating higher rates in the near term but a recession and Fed rate cuts in the future. There is a fine line between being early with a forecast and being wrong!

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.

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