

# Investment Report

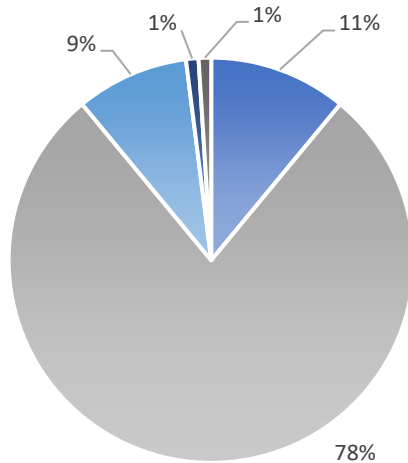
June 30, 2023



**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 June 30, 2023



- Certificate of Deposit, 3.02% yield
- Money Market, 5.24% yield
- SBA Pool, 5.37% yield
- Israel Bond, 1.20% yield
- FLGIT, 3.58% yield

## Portfolio Statistics

Month	June '23	May '23	April '23
Month-end Market Value	\$3,988,187,021	\$4,003,320,501	\$3,949,945,369
Book Value	\$3,985,930,840	\$4,001,117,676	\$3,947,577,816
Unrealized Gain/Loss	\$2,256,181	\$2,202,824	\$2,387,522
Book Yield	4.93%	4.94%	4.73%
Market Yield	4.92%	4.93%	4.72%
Effective Duration	0.5 years	0.6 years	0.2 years
Average Credit Rating	AA+/Aa2/AA+	AA+/Aa2/AA+	AA+/Aa2/AA+

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## Portfolio Income

	June '23	May '23	April '23
Interest Income (FYTD)	\$121,219,078	\$104,710,872	\$89,253,793
Investment Income (FYTD)	\$119,777,093	\$103,241,580	\$87,978,301
Interest Income (current month)	\$14,786,356	\$15,457,079	\$15,506,446,

## June 2023 Economic & Market Overview

Treasury yields rose in June after closing higher in May. The 10-year Treasury note yield rose to 3.84% at the end of June vs. the 3.65% close at the end of May, while the 2-year Treasury note rose to 4.90% at the end of June vs. the 4.40% close at end of May.

Stocks rose in June after ending higher in May. Beginning at 4179.83 at the end of May, the S&P 500 Index surged 6.47% to 4450.38 at the end of June, still above its 200-day moving average of 4002.

## Consumer

May nonfarm payrolls rose by 339,000 workers, beating expectations (est. 195,000), for the largest monthly gain since January. April payrolls were revised higher to a 294,000 gain (originally 253,000). The unemployment rate rose to 3.7% in May vs. 3.4% in April. Average hourly earnings increased 4.3% year-over-year in May down from April's annual gain of 4.4%.

Personal income rose 0.4% in May (est. 0.3%) vs. a 0.3% gain in April. Consumer spending increased 0.1% in May (est. 0.2%) vs. a 0.6% gain in April. Year-over-year, consumer spending increased 6.0% and personal income rose 5.5%.

The June final University of Michigan Consumer Sentiment Index rose to 64.4, a four-month high.

The June Conference Board Consumer Confidence Index rose to 109.7 (est. 104.0). The May reading was 102.5.

Retail sales unexpectedly rose 0.3% in May (est. down 0.2%) vs. a gain of 0.4% in April. Year-over-year, May retail sales rose at a 1.6% rate vs. a 1.2% annual rise in April.

Total vehicle sales fell to a 15.05 million annualized unit sales pace in May, a two-month low, (est. 15.30 million) vs. a 15.91 million annual sales rate in April.

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This sector is strong enough to keep the Fed on a rate-hike path. The unemployment rate remains very low.

## Business

The May ISM Manufacturing Index fell to 46.9, less than the 47.0 reading expected, vs. 47.1 in April. It was the seventh consecutive month below 50 signaling contraction.

The May ISM Services Index unexpectedly declined to 50.3, a five-month low, (est. 52.4) vs. 51.2 in April.

The May Conference Board Leading Economic Indicators Index fell 0.7% (est. down 0.8%), following a 0.6% decline in April.

Durable goods orders unexpectedly rose 1.7% in May (est. down 0.9%) vs. a 1.2% gain in April. Year-over-year, headline orders rose 4.2% in May, up from the 4.1% annual increase in April.

Capital goods orders excluding aircraft and defense, a proxy for business investment, rose 0.7% in May vs. a 0.6% rise in April. Year-over-year business investment increased 2.1%, up from the 1.8% annual gain in April.

May industrial production fell 0.2% in May vs. a 0.5% gain in in April.

## International

The April U.S. trade deficit widened to \$74.6 billion, the largest in six months, vs. \$60.6 billion in March. Imports rose 1.5% while exports fell 3.6%.

Import prices fell 0.6% in May and declined 5.9% on a year-over-year basis. Export prices dropped 1.9% in May and on a year-over-year basis, export prices fell 10.1%.

The Reserve Bank of Austria (RBA) announced a 12<sup>th</sup> round hike, taking its cash rate to 4.1% vs. 3.85%. The statement said that inflation is the key driver of higher interest rates.

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## Inflation

The Consumer Price Index rose 0.1% in May (est. 0.1%) vs. a gain of 0.4% in April. Year-over-year, consumer prices rose 4.0%, down from the 4.9% annual pace reported in April and the 11<sup>th</sup> consecutive month of cooling prices.

In May, core, ex-food & energy, CPI rose 5.3% year-over-year, down from the 5.5% annual increase in March.

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

Elevated inflation measures support more Fed rate hikes even as they show some improvement.

## Government

Sluggish economic growth and elevated inflation will continue to be the main themes of the global economy through 2024, according to the OCED.

The Treasury will continue to spend more than it takes in which will stimulate economic growth and put upward pressure on prices.

## Housing

The June NAHB Home Builder Confidence Index rose to 55, an eleventh-month high, vs. May's 50 reading.

May existing home sales unexpectedly 0.2% to 4.30 a million annualized pace, a two-month high, (est. down 0.7%) vs. the 4.29 million rate April. Year-over-year, existing home sales declined 20.4% in May, the 22<sup>nd</sup> consecutive month of decline. May's median home price fell 3.1% year-over-year to \$396,000.

May new home sales rose 12.2% (est. down 1.2%) to a 763,000 annualized rate vs. May's 680,000 annualized sales pace. Over the past 12 months sales jumped 20.0%.

The April S&P Case-Shiller 20-City Home Price index rose 0.91% following a 0.42% increase in March. Year-over-year the 20-city index declined 1.7% after a 1.12% decline the prior month.

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May housing starts unexpectedly jumped 21.7% (est. down 0.1%) pulling the annual pace up to 1.63 million, the highest since April 2022, vs. April's 1.34 million rate. Year-over-year starts rose 5.7%, the first positive month in a full year of declines.

The interest-rate-sensitive housing sector seems to be stabilizing at slower growth levels.

## Monetary Policy

Fed officials continue to indicate that additional policy firming may be necessary depending on the economic data. The Fed skipped a rate hike at the June 14, 2023, FOMC meeting to allow past monetary policy actions to slow the economy. Translation: Higher rates ahead after the "hawkish skip."

## Bottom Line

At the end of June, the S&P 500 Index was above its 200-day average (4002) putting stocks in 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 4.32% to stay in a long-term uptrend. The 10-year Treasury note yield was above on its 200-day average of 3.68%. The uptrend in the yield of in the 2-year Treasury and the uptrend in the 10-year Treasury yield are consistent with the prospect for more Fed rate hikes and high inflation.

When the Fed is hiking rates, it is difficult for Treasury yields to stay in a downtrend.

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Currently the yield curve is inverted reflecting the Fed rate hike plan to fight inflation. The bond market expects the Fed will succeed in controlling inflation.

