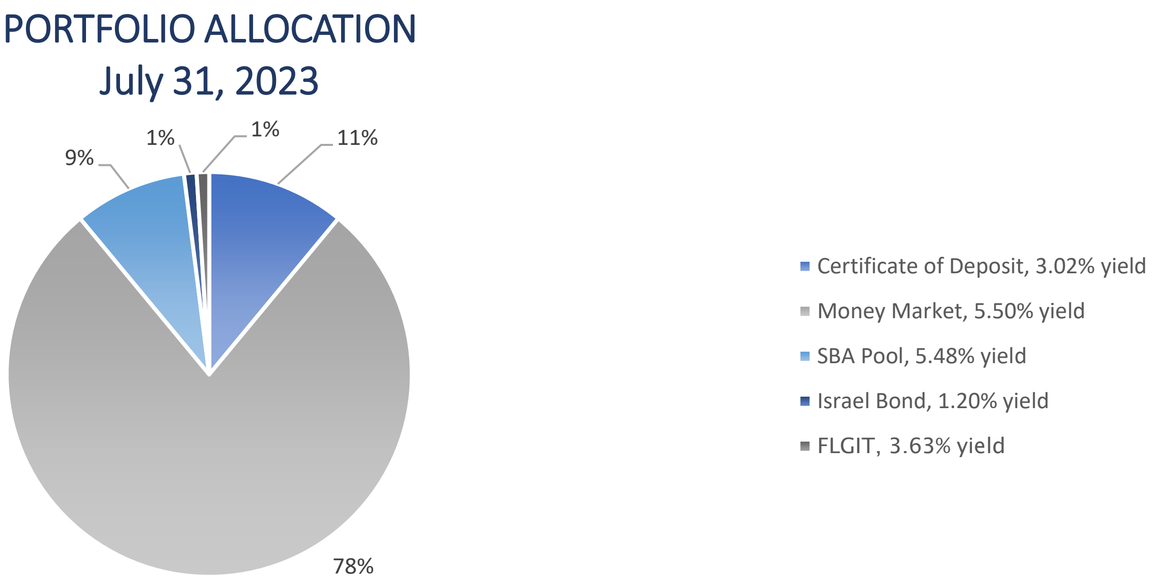
Investment Report

July 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	July '23	June '23	May '23
Month-end Market Value	$3,930,850,223	$3,988,187,021	$4,003,320,501
Book Value	$3,928,870,562	$3,985,930,840	$4,001,117,676
Unrealized Gain/Loss	$1,979,662	$2,256,181	$2,202,824
Book Yield	5.14%	4.93%	4.94%
Market Yield	5.11%	4.92%	4.93%
Effective Duration	0.2 years	0.5 years	0.6 years
Average Credit Rating	AA+/Aa2/AA+	AA+/Aa2/AA+	AA+/Aa2/AA+

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Portfolio Income

	July '23	June '23	May '23
Interest Income (FYTD)	$139,906,284	$121,219,078	$104,710,872
Investment Income (FYTD)	$138,176,126	$119,777,093	$103,241,580
Interest Income (current month)	$16,982,614	$14,786,356	$15,457,079,

July 2023 Economic & Market Overview

Treasury yields were mixed in July after closing higher in June. The 10-year Treasury note yield rose to 3.96% at the end of July vs. the 3.84% close at the end of June, while the 2-year Treasury note slipped to 4.88% at the end of July vs. the 4.90% close at end of June.

Stocks rose in July after ending higher in June. Beginning at 4450.38 at the end of June, the S&P 500 Index increased 3.11%% to 4588.96 at the end of July, still above its 200-day moving average of 4079.

Consumer

June nonfarm payrolls rose by 209,000 workers, (est. 230,000), for the weakest monthly pace of job creation since December 2020. May payrolls were revised lower to a 306,000 gain (originally 339,000).

The unemployment rate fell to 3.6% in June, a two-month low, vs. 3.7% in May.

Average hourly earnings increased 4.4% year-over-year in June for the third consecutive month.

Personal income rose 0.3% in June vs. a 0.5% gain in May. Consumer spending increased 0.5% in June vs. a 0.2% gain in May. Year-over-year, consumer spending increased 5.4% and personal income rose 5.3%.

Adjusting for inflation, over the past 12 months, real spending rose 2.4% and real disposable personal income gained 2.3%, following a 1.6% annual gain in May

The personal saving rate slipped to 4.3% in June vs. 4.6% in May.

The July University of Michigan Consumer Sentiment Index rose to 71.6 vs. 64.4 in June.

The July Conference Board Consumer Confidence Index rose to 117.00 vs. 110.10 in June.

Wage gains and a strong job market have improved consumer sentiment.

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Retail sales rose 0.2% in June (est. 0.5%) vs. a gain of 0.5% in May (revised higher from the 0.3% increase originally reported). Year-over-year, June retail sales rose at a 1.5% rate vs. a 2.0% annual rise in May.

Total vehicle sales rose to a 15.68 million annualized unit sales pace in June (est. 15.40 million) and a two-month high. Over the past 12 months, June vehicle sales jumped 20.2%, up from the 19.9% annual gain the month before.

The JOLTS number of job openings, the Job Openings and Labor Turnover Survey, declined to 9.8 million from 10.3 million, a two-month low. It was still near an historically high level.

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

Business

The June ISM Manufacturing Index unexpectedly fell to 46.0 (est. 47.1) vs. 46.9 in May, the eighth consecutive month in contractionary territory (a reading below 50).

The June ISM Services Index increased to 53.9 (est. 51.2) and a four-month high vs. 50.3 in May.

The June Conference Board Leading Economic Indicators Index fell 0.7%, following a 0.6% decline in May.

Durable goods orders rose 4.7% in June (est. 1.3%) vs. a 2.0% gain in May. Year-over-year, headline orders rose 8.9% in June, up from the 5.7% annual increase in May.

Capital goods orders, excluding aircraft and defense, a proxy for business investment, rose 0.2% in June vs. a 0.5% rise in May. Year-over-year business investment increased 1.9%, down from the 2.0% annual gain in May.

June industrial production unexpectedly dropped 0.5% in June (est. flat 0.0%).

The services sector (90% of the economy) continue to expand while manufacturing is contracting under the pressure of rising interest rates.

International

The May U.S. trade deficit narrowed 7.3% to $69.0 billion, the smallest in six months, vs. $74.4 billion in April. Imports declined 2.3% and exports fell 0.8%.

Import prices fell 0.2% in June, (est. down 0.1%) vs. a 0.4% drop in May. Export prices slumped 0.9% in June and a 1.9% plunge in May. Over the past 12 months, import prices fell 6.1%, the fifth consecutive annual decline, and exports dropped 12.0%, also the fifth consecutive decline.

Economic data coming out of China continue indicate a slow-growing economy.

Numbers from Europe also suggest a slowdown.

Inflation

The Consumer Price Index rose 0.2% in June and 3% year-over-year, the slowest pace in over two years.

Excluding food and energy, the core CPI also rose 0.2% in June and 4.8% from this time last year. At 4.8%, this is the slowest pace of core CPI inflation since the second half of 2021. It is still double the Fed's target.

The June core, ex-food & energy, Personal Consumption Expenditure Deflator rose to 4.1% year-over-year vs. an annual increase of 4.6% 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

According to the latest Supreme Court ruling, the Executive Branch exceeded its authority in the student-debt forgiveness plan.

Once the moratorium on student debt expires on September 1, the average student payment will resume at a monthly cost of roughly $200-$300. In total, according to Federal Reserve data, student debt is roughly $1.6 trillion with the average student loan around $38,000 per borrower.

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

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Housing

The July NAHB Home Builder Confidence Index rose to 56, the highest reading since June 2022, vs. June's 55 reading.

June existing home sales unexpectedly declined 3.3% to 4.16 a million annualized pace, a five-month high, (est. down 2.3%) vs. the 4.30 million annualized rate May. Year-over-year, existing home sales declined 18.9% in June, the 23rd consecutive decline but up from the 20.4% drop in May. June's median home price fell 0.9% year-over-year to $410,000, still near a record high.

June new home sales declined 2.5% (est. down 5.0%) to a 697,000 annualized rate, a two-month low vs. May's 715,000 annualized sales pace. Over the past 12 months sales jumped 23.8% vs a 12.4% annual gain in May. Year-over-year, median new home prices fell 1.76% in June after a 7.4% drop in May.

The May S&P Case-Shiller 20-City Home Price index rose 0.99% (est. up 0.70%) vs. a 0.85% increase in April. Year-over-year the 20-City index declined 1.76% in May after a 1.12% decline in April.

June housing starts declined 8.0% (est. down 9.3%) for an annual sales pace of 1.43 million, a two-month low. Year-over-year, housing starts fell 8.1% in June following a 1.0% annual gain in May.

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 hiked rates on July 26, 2023 to a Fed Funds Target Range of 5.25% to 5.50%.

The strength of the job market, resilient consumer spending, and inflation data will determine the need for additional rate hikes on a meeting-by-meeting basis.

Bottom Line

At the end of June, the S&P 500 Index was above its 200-day average (4079) putting stocks in a long-term uptrend. The stock market is anticipating a soft recession and potential Fed pivot to lower rates.

The 2-year Treasury note yield remained above its 200-day average of 4.40% to stay in a long-term uptrend. The 10-year Treasury note yield was above its 200-day average of 3.71%. 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.

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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.