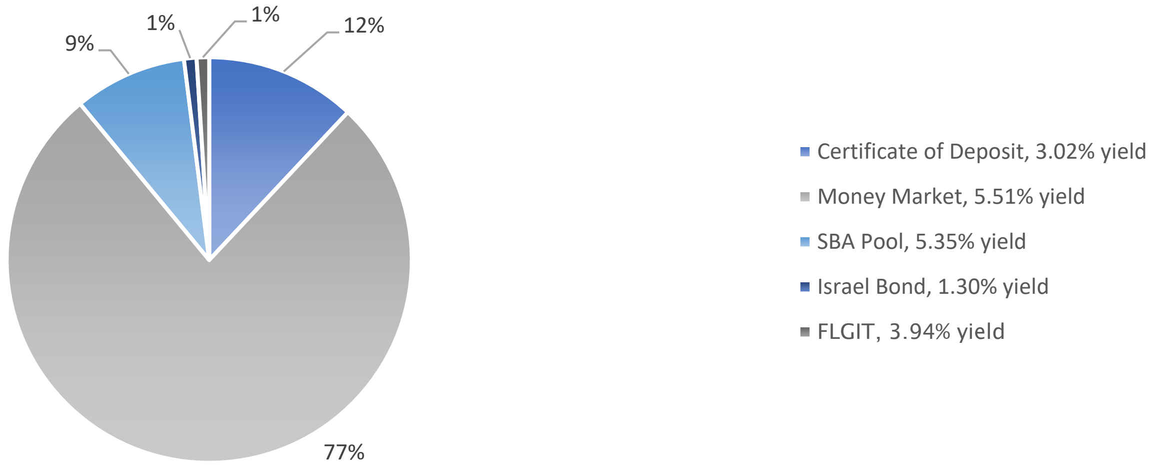
Investment Report

September 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 September 30, 2023



Portfolio Statistics

Month	Sep. '23	Aug. '23	July '23
Month-end Market Value	$3,718,552,883	$3,860,877,348	$3,930,850,223
Book Value	$3,716,444,997	$3,858,831,961	$3,928,870,562
Unrealized Gain/Loss	$2,107,886	$2,045,387	$1,979,662
Book Yield	5.16%	5.15%	5.14%
Market Yield	5.15%	5.14%	5.11%
Effective Duration	0.2 years	0.2 years	0.2 years
Average Credit Rating	AA+/Aa1/AA+	AA+/Aa2/AA+	AA+/Aa2/AA+

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Portfolio Income

	Sep. '23	Aug. '23	July '23
Interest Income (FYTD)	$173,324,440	$157,095,889	$139,906,284
Investment Income (FYTD)	$171,632,014	$155,375,136	$138,176,126
Interest Income (current month)	$16,256,878	$17,189,605	$16,982,614

September 2023 Economic & Market Overview

Treasury yields rose in September after a mixed performance in August. The 10-year Treasury note yield rose to 4.57% at the end of September vs. the 4.11% close at the end of August, while the 2-year Treasury note increased to 5.04% at the end of September vs. the 4.86% close at end of August.

Stocks declined in September after ending lower in August. Beginning at 4507.66 at the end of August, the S&P 500 Index fell 4.87% to 4288.05 at the end of September, still above its 200-day moving average of 4199.

Consumer

August nonfarm payrolls rose by 187,000 workers, (est. 170,000), the strongest pace since May. July payrolls were revised lower from a 187,000 gain to a 157,000 increase.

The August unemployment rate unexpectedly rose to 3.8%, the highest since February, vs. 3.5% in July

Average hourly earnings increased 4.3% year-over-year in August, down from a 4.4% annual gain in July.

Personal income rose 0.4% in August, as expected, vs. a 0.2% increase in July. Consumer spending increased 0.4% in August (est. 0.5%) vs. a 0.9% rise in July. Year-over-year, consumer spending increased 5.9% and personal income rose 4.8%.

Adjusting for inflation, over the past 12 months, real spending rose 0.1% in August while real income fell 0.2% in August, the second consecutive monthly decline. Over the past 12 months, real spending rose 2.3%, and real disposable personal income gained 1.3% vs. a 1.5% annual gain in July.

The personal saving rate slipped to 3.9% in August vs. 4.1% in June.

The September University of Michigan Consumer Sentiment Index fell to 68.1 vs. 69.5 in August.

The September Conference Board Consumer Confidence Index fell to 103.0 vs.108.7 in August.

Retail sales rose 0.6% in August (est. 0.1%), the largest monthly increase in three months. Year-over-year, retail sales rose at 2.5% in August, down slightly from the 2.6% annual rise in July.

Total vehicle sales dropped to a 15.04 million annualized unit sales pace in August (est. 15.40 million), a five-month low, vs. a 15.74 million pace July. Over the past 12 months, August vehicle sales rose 13.7%, down from the 18.1% annual gain the month before.

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

Business

The August ISM Manufacturing Index rose to 47.6 (est. 47.0), a six-month high, vs. 46.4 in July, the tenth consecutive month in contractionary territory (a reading below 50).

The August ISM Services Index unexpectedly rose to 54.5 (est. 52.5), a six-month high, vs. 52.7 in July.

The August Conference Board Leading Economic Indicators Index fell 0.4%, following a 0.3% decline in July.

Durable goods orders unexpectedly rose 0.2% in August (est. down 0.5%) following a 5.6% drop in July. Year-over-year, headline durable goods orders rose 3.5% in August, up from the 3.2% annual increase in July.

Capital goods orders, excluding aircraft and defense, a proxy for business investment, rose 0.9% in August vs. a 0.4% decline in July. Year-over-year July business investment increased 0.3%, down from the 0.4% annual gain in July.

August industrial production rose 0.4% (est. up 0.01%).

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

International

The June U.S. trade deficit widened 2% to $65.0 billion in July (est. $68.0 billion), the widest in two months. Imports declined 1.7% and exports rose 1.6%.

Import prices rose 0.5% in August, (est. up 0.3%), the largest monthly gain since May 2022. Export prices jumped 1.3% in August (est. up 0.4%), also the largest monthly gain since May 2022. Over the past 12 months, import prices fell 3.0% and export prices dropped 5.5%.

Eurozone GDP rose just 0.1% in the second quarter following a similarly minimal gain in the first quarter. The unemployment rate remained at 6.4% in July for the fourth consecutive month, and inflation in the region was higher than expected in August. It rose at a 5.3% annual pace following a similar annual gain in July.

The European Central bank raised its key interest rate for the 10th consecutive time for a deposit rate at a record high 4.00% from a low of -0.50%.

The U.K. labor market weakened with the unemployment rates rising to 4.3% in the three months ending in July, the highest since the third quarter 2021. Annual wage growth remained high at 8.5%.

The Chinese economy faced further hardship with a rise in unemployment. The latest Caixin services PMI fell to its lowest this year declining to 51.8 in August vs. 54.1 in July
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Inflation

The Consumer Price Index rose 0.6% in August following a 0.2% gain in July. Year-over-year, consumer prices rose 3.7%, a three-month high, and an increase from the July's 3.2% annual pace.

Excluding food and energy, the core CPI also rose 0.3% in August (est. 0.2%) vs. a 0.2% increase in July. Year-over-year the core CPI increased 4.3% down from the 4.7% gain in July. It is still double the Fed's target.

The August core, ex-food & energy, Personal Consumption Expenditure Deflator rose to 3.9% year-over-year vs. an annual increase of 4.3% in July. 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 improvement.

Government

Washington is coping with the new federal debt level above $33 trillion, a record high according to Treasury.

With less than three hours left, Washinton politicians were able to reach an agreement and avoid a government shutdown until 11/17/2023.

Aid to Ukraine was not part of the deal.

The federal deficit is expected to remain large and stimulate economic growth at a time when the economic growth may be accelerating and the job market is tight.

Housing

The September NAHB Home Builder Confidence Index unexpectedly dropped 6 points to a reading of 45, a five-month low (est. 49).

August existing home sales unexpectedly declined 0.7% (est. up 0.7%) to a 4.04 million annualized pace, a seven-month low, vs. 4.07 million in July. Year-over-year, existing home sales declined 15.6% in August, the 25th consecutive month of decline but up from the 16.6% drop in July. August's median home price rose 3.9% year-over-year to $407,000, up from the $406,00 median price in July.

August new home sales dropped 8.7% (est. up 0.9%) to a 675,000 annualized rate, a five-month low vs. the 739,000 annualized pace in July. Over the past 12 months sales rose 5.8%, down from the 36.1% annual gain in July.

The July S&P Case-Shiller 20-City Home Price index rose 0.87% (est. up 0.70%) vs. a 0.91% increase in June. Year-over-year the 20-City index increased 0.11% in June.

August housing starts sank 11.3% (est. down 0.9%) for an annual sales pace of 1.283 million, the slowest pace since June 2020, vs. the 1.447 million annualized pace in July. Year-over-year, housing starts fell 14.8% in August following a 5.5% annual gain in July.

Shortages of workers and supplies have restrained housing construction.

The interest-rate-sensitive housing sector continues to struggle to stabilize activity with high mortgage rates.

Monetary Policy

Fed officials continue to indicate that additional rate hikes could be necessary to get inflation down to a level that will provide convincing evidence that the 2% inflation target can be sustained for an extended period of time.

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.

The September FOMC meeting on 9/20/2023 left rates unchanged with a Fed Funds Target Range of 5.25% to 5.50%. More hikes seem likely to contain inflation.

Bottom Line

At the end of September, the S&P 500 Index was above its 200-day average (4199) putting stocks in a long-term uptrend. The stock market is anticipating a soft landing for the economy and potential Fed pivot to lower rates.

The 2-year Treasury note yield remained above its 200-day average of 4.51% to stay in a long-term uptrend. The 10-year Treasury note yield was above its 200-day average of 3.79%. The uptrend in the yield of in the 2-year Treasury and the uptrend in the 10-year Treasury note yield are consistent with the prospect for more Fed rate hikes and high inflation.

Gradually rising interest rates and bond yields are a reflection of a growing economy.

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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.