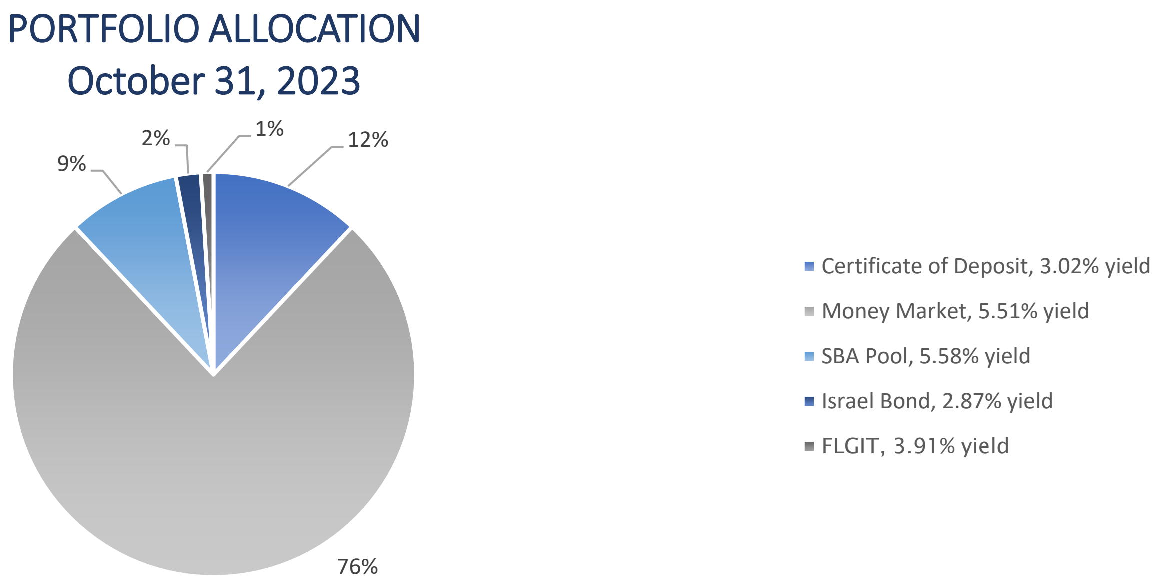
Investment Report

October 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	Oct. '23	Sep. '23	Aug '23
Month-end Market Value	$3,503,626,579	$3,718,552,883	$3,860,877,348
Book Value	$3,501,523,095	$3,716,444,997	$3,858,831,961
Unrealized Gain/Loss	$2,103,483	$2,107,886	$2,045,387
Book Yield	5.16%	5.16%	5.15%
Market Yield	5.15%	5.15%	5.14%
Effective Duration	0.2 years	0.2 years	0.2 years
Average Credit Rating	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+

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

Portfolio Income

	Oct. '23	Sep. '23	Aug '23
Interest Income (FYTD)	$16,226,664	$173,324,440	$157,095,889
Investment Income (FYTD)	$16,184,127	$171,632,014	$155,375,136
Interest Income (current month)	$16,226,634	$16,256,878	$17,189,605

October 2023 Economic & Market Overview

Treasury yields rose in October after a moving higher in September. The 10-year Treasury note yield rose to 4.93% at the end of October vs. the 4.57% close at the end of September, while the 2-year Treasury note increased to 5.09% at the end of September vs. the 5.04% close at end of September.

Stocks declined in October after ending lower in September. Beginning at 4288.05 at the end of September, the S&P 500 Index fell 2.20% to 4193.80 at the end of October, just below its 200-day moving average of 4242.

Consumer

September nonfarm payrolls rose by 336,000 workers, (est. 170,000), the strongest pace since January. August payrolls were revised higher to a 227,000 gain from a 187,000 increase.

The September unemployment rate unexpectedly remained at 3.8% (est. 3.7%) vs. 3.8% in August, matching the highest level of joblessness since February 2022.

Average hourly earnings increased 4.2% year-over-year in September, down from a 4.3% annual gain in August and the weakest gain since June 2021.

Personal income rose 0.3% in September (est. 0.4%) vs. a 0.4% increase in August. Consumer spending increased 0.7% in September (est. 0.5%) vs. a 0.4% rise in August. Year-over-year, consumer spending increased 5.9% and personal income rose 4.7%.

Adjusting for inflation, over the past 12 months, real consumer spending rose 2.4% in September while real disposable income rose 1.2% following a 1.3% annual gain in August.

The personal saving rate slipped to 3.4% in September vs. 4.0% in July.

The October University of Michigan Consumer Sentiment Index fell to 63.8, a five-month low, vs. 67.9 in September.

The October Conference Board Consumer Confidence Index fell to 102.6 (est. 100.5), a five-month low vs.104.3 in September.

Retail sales rose 0.7% in September (est. 0.3%) vs. an upwardly revised 0.8% gain in August. Year-over-year, retail sales rose at 3.8% in September, up from the 2.9% annual rise in August and the largest monthly annual increase since February.

Total vehicle sales rose to a 15.67 million annualized unit sales pace in September (est. 15.40 million), a two-month high. Over the past 12 months, September vehicle sales rose 14.4%, up from the 13.7% 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 September ISM Manufacturing Index rose to 49.0 (est. 48.6), below 50 and still signaling contraction for the 11th straight month.

The September ISM Services Index declined to 53.6 in September (est. 53.5), a two-month low.

The September Conference Board Leading Economic Indicators Index fell 0.7% (est. down 0.4%), following a 0.5% decline in August.

GDP accelerated 4.9% on an annualized basis in the preliminary third quarter report, following a 2.1% gain in the second quarter for the fastest quarter growth rate since the fourth quarter of 2021.

Durable goods orders rose 4.7% (est. 1.9%) in September following a 0.1% decline in August. Year-over-year, headline durable goods orders rose 7.8% in September, up from the 3.3% annual increase in August.

Capital goods orders, excluding aircraft and defense, a proxy for business investment, rose 0.6% in September vs. a 1.1% rise in August. Year-over-year July business investment increased 2.4%, up from the 0.5% annual gain in August.

September industrial production unexpectedly rose 0.3% (est. 0.0%) following a 0.4% increase in August.

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

International

The August U.S. trade deficit narrowed 9.9% to $58.0 billion (est. $59.8 billion), the smallest in almost three years. Imports fell 0.7% while exports increased 1.6%.

Import prices rose 0.1% in September, (est. up 0.5%) vs. a 0.6% increase in August. Export prices rose 0.7% in September (est. up 0.5%) vs. a 1.1% rise in the prior month. Over the past 12 months, import prices fell 1.7% and export prices dropped 4.1%.

International conflict dominated headlines and the markets as investors tried desperately to separate geopolitical risks and the humanitarian impact with the potential longer-run implications for the international and domestic economy. Hot wars continued in Ukraine and the Middle East.

The European Central bank paused rate hikes for the first time since July 2022. According to Bloomberg, investors now anticipate rates to remain steady at 4.50% for the main refinancing rate, 4.75% for the marginal lending facility rate and 4.00% for the deposit rate for the next five to six months with a total of 0.70% of cuts priced in for next year.

The Bank of Canada held its key overnight steady at 5.0% for the second consecutive meeting. With inflation still elevated at a current rate of 3.8%, officials now expect inflation to average 3% in 2024, up from a 2.5% projection in July. At the same time, the economy is slowing with the latest second quarter GDP report showing a decline of 0.2% and projections for a third quarter growth rate at a low 0.5%. The Bank was clear that it might not be done with rate hikes.

Inflation

The Consumer Price Index rose 0.4% in September (est. 0.3%) vs. a 0.6% gain in August. Year-over-year, consumer prices rose 3.7%, matching the 3.7% pace reported in August.

Excluding food and energy, the core CPI also rose 0.3% in September (est. 0.3%) vs. a 0.3% increase in August. Year-over-year the core CPI increased 4.1% down from the 4.3% gain in August. It is still double the Fed’s target.

The September core, ex-food & energy, Personal Consumption Expenditure Deflator rose 3.7% year-over-year vs. an annual increase of 3.8% in August. This is the Fed’s preferred inflation gauge and is still above the 2.0% inflation target.

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

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.

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

A tentative deal was reached between the Big Three Detroit automakers and the United Auto Workers to end the strike. The walkouts began in September and involved almost 50,000 workers and cost billions in lost production and wages. Union members will get a 25% pay hike over the next 4.5 years, restrictions on the use of lower-paid temporary workers, and the contract gives workers influence over plant closures as automakers shift to electric vehicles. The win for workers will cost consumers an estimated $900 more to buy a new car.

Housing

The October NAHB Home Builder Confidence Index declined 4 points to a reading of 44, as expected and a five-month low.

September existing home sales fell 2.0% (est. down 3.7%) to a 3.96 annual million pace, the lowest level since 2010 vs. 4.04 million in August. Year-over-year, existing home sales declined 15.4% in September, the 26th consecutive month of decline, vs. the 15.3% drop in August. September's median home price rose 2.8% year-over-year to $394,000, down from the $404,000 median price in August.

September new home sales jumped 12.3% (est. up 0.7%) to a 759,000 annualized rate, the most since February of last year, vs. the 676,000 annual pace in August. Over the past 12 months, sales rose 33.9%, up from the 6.0% annual gain in August. The median cost of a newly constructed home fell 3.3% from the prior month to $419,000. Year-over-year, new home prices decreased 12.3% in September vs. a 1.6% decline in August.

The August S&P Case-Shiller 20-City Home Price index rose 1.01% (est. up 0.80%), the fastest pace since May of 2023. Year-over-year, the August 20-City index increased 2.2%, a seven-month high.

September housing starts rose 7.0% (est. up 7.8%) for an annual sales pace of 1.358 million, a two-month high, vs. the 1.269 million annualized pace in August. Year-over-year, housing starts fell 7.2% in September following a 15.7% annual drop in August.

Shortages of workers, lots, 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 in a timely way.

Bottom Line

At the end of October, the S&P 500 Index was below its 200-day average (4242) putting stocks in a long-term downtrend. The stock market is anticipating a weaker economy and the potential for the Fed to increase rates enough to cause a recession.

The 2-year Treasury note yield remained above its 200-day average of 4.60% to stay in a long-term uptrend. The 10-year Treasury note yield was above its 200-day average of 3.91%. 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 reflect a growing economy.

Investment Report
October 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. The bond market expects the Fed will succeed in controlling inflation.