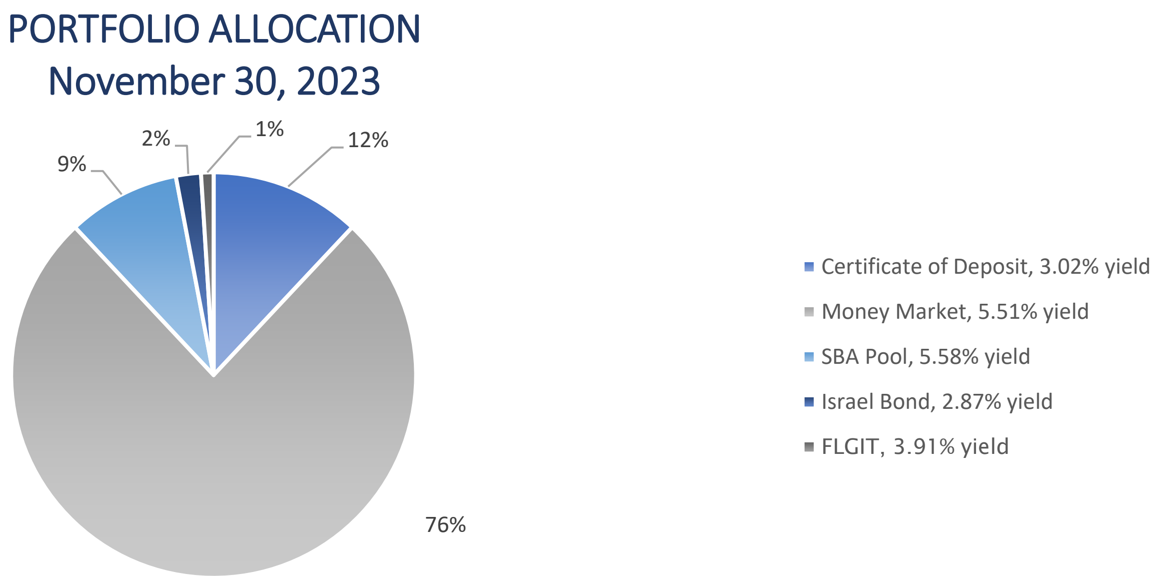
Investment Report

November 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 Statistics

Month	Nov. '23	Oct. '23	Sep. '23
Month-end Market Value	$3,876,770,322	$3,503,626,579	$3,718,552,883
Book Value	$3,874,668,497	$3,501,523,095	$3,716,444,997
Unrealized Gain/Loss	$2,101,825	$2,103,483	$2,107,886
Book Yield	5.14%	5.16%	5.16%
Market Yield	5.17%	5.15%	5.15%
Effective Duration	0.4 years	0.2 years	0.2 years
Average Credit Rating	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+

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Portfolio Income

	Nov. '23	Oct. '23	Sep. '23
Interest Income (FYTD)	$31,808,743	$16,226,664	$173,324,440
Investment Income (FYTD)	$31,704,446	$16,184,127	$171,632,014
Interest Income (current month)	$15,578,379	$16,226,634	$16,256,878

November 2023 Economic & Market Overview

Treasury yields declined in November after moving higher in October. The 10-year Treasury note yield fell to 4.33% at the end of November vs. the 4.93% close at the end of October, while the 2-year Treasury note decreased to 4.68% at the end of November vs. the 5.09% close at end of October.

Stocks surged in November after ending lower in October. Beginning at 4193.05 at the end of October, the S&P 500 Index jumped 8.92% to 4567.80 at the end of November, above its 200-day moving average of 4284.

Consumer

October nonfarm payrolls rose by 150,000 workers, (est. 180,000) vs. a downwardly revised 297,000 in September (originally up 336,000). The labor market is cooling.

The October unemployment rate unexpectedly rose to 3.9%, the highest rate since January 2022, (est. 3.8%) vs. 3.8% in September.

Average hourly earnings increased 4.1% year-over-year in October, down from a 4.3% annual gain in September and the weakest gain since June 2021.

Personal income rose 0.2% in October as expected vs. a 0.4% increase in September. Consumer spending increased 0.2% in October, as expected, vs. a 0.7% rise in September. Year-over-year, consumer spending increased 5.3% and personal income rose 4.5%.

Adjusting for inflation, over the past 12 months, real consumer spending rose 2.2% in October matching the pace the prior month while real disposable income rose 1.4% following a 1.3% annual gain in September.

The October personal saving rate rose slightly to 3.8% in October vs. 3.7% in September.

The November University of Michigan Consumer Sentiment Index fell to 61.3, a six-month low, vs. 63.8 in October.

The November Conference Board Consumer Confidence Index rose to 102.0 vs. 99.1 in October.

Retail sales rose 2.5% year-over-year in October vs. a 4.1% annual gain in September.

Total vehicle sales rose to a 15.50 million annualized unit sales pace in October vs. September's 15.67 million annual sales rate. Over the past 12 months, October vehicle sales rose 5.6%, down from the 14.5% gain the month prior.

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

Business

The October ISM Manufacturing Index declined to 46.7, a three-month low, (est. 49.0) vs. 49.0 in September. The reading below 50 signals contraction in manufacturing for the 12th straight month.

The October ISM Services Index declined to 51.8 in October (est. 53.0), a five-month low, vs. 53.6 in September.

The October Conference Board Leading Economic Indicators Index fell 0.8% (est. down 0.7%) marking the largest decline since April.

GDP accelerated 5.2% on an annualized basis in the second revision of the 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 dropped 5.4% (est. down 3.2%) in October following a 4.0% rise in September. Year-over-year, headline durable goods orders rose just 0.3%, in October down from the 7.1% annual increase in September.

Capital goods orders, excluding aircraft and defense, a proxy for business investment, slipped 0.1% in October vs. a 0.2 decline in September. Year-over-year July business investment increased 0.6%, down from the 1.5% annual gain in September.

October industrial production fell 0.6% (est. down 0.4%) following a 0.1% increase in September.

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

International

The September U.S. trade deficit widened to $61.5 billion (est. $59.8 billion). Imports rose 2.7% to the highest level since February while exports increased 2.2%, a one-year high.

Import prices fell 0.8% in October, (est. down 0.3%) vs. a 0.4% increase in September. Export prices dropped 1.1% in October (est. down 0.4%) vs. a 1.1% rise in the prior month. Over the past 12 months, import prices fell 2.0% and export prices dropped 4.9%.

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 was alarmed about expectations for rate cuts which could force the central bank into further action to raise rates.

The Bank of England held rates steady at 5.25%, a 15-year high. The bank indicated that it is too early to consider rate cuts.

Inflation

The Consumer Price Index was unchanged in October (est. 0.1%) vs. a 0.4% gain in September. Year-over-year, consumer prices rose 3.2%, down from the 3.7% pace reported in September.

Excluding food and energy, the core CPI also rose 0.2% in October (est. 0.3%) vs. a 0.3% increase in September. Year-over-year the core CPI increased 4.0% down from the 4.1% gain in September. It is still double the Fed's target.

The October core, ex-food & energy, Personal Consumption Expenditure Deflator rose 3.5% year-over-year vs. an annual increase of 3.7% in September. 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.

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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.

Moody's reduced its credit-rating outlook for the United States citing downside risks to the country's fiscal strength. Moody's expects U.S. debt affordability to decline further compared to other highly rated countries.

Tight labor markets have encouraged unions to organize more businesses to achieve wage gains and other benefits.

According to Airlines for America, a trade group, U.S. air travel reached record levels over the Thanksgiving holiday, with the TSA screening more than 27 million people from November 16 to November 26.

Housing

The November NAHB Home Builder Confidence Index unexpectedly declined 6 points to a reading of 34 in November (est. 40), the lowest reading since December 2022.

October existing home sales fell 4.1% (est. down 1.5%) to a 3.79 annual million pace, the lowest level since 2010 vs. 3.95 million in September. Year-over-year, existing home sales declined 14.6% in October, the 27th consecutive month of decline, but up from the 15.6% drop in September. October's median home price rose 3.4% year-over-year to $392,000, down from the $393,000 median price in September.

October new home sales dropped 5.6% (est. down 5.1%) to a 679,000 annualized rate, a two-month low, vs. a 719,000 annual pace in September. Over the past 12 months, sales rose 17.7%, down from the 26.8% annual gain in September. The median cost of a newly constructed home fell 3.1% in October from a month ago to $409,000. Year-over-year, new home process plunged 17.6% in October following ann11.6% decline in September.

The September S&P Case-Shiller 20-City Home Price index rose 3.95%, the largest annual gain since January.

October housing starts unexpectedly rose 1.9% (est. down 0.6%) for an annual sales pace of 1.37, a three-month high, vs. the 1.35 million annualized pace in September. Year-over-year, housing starts fell 4.2% in October following an 8.0% annual drop in September. October's annual decline is the third consecutive month of an annual decline.

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 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 FOMC meeting ending November 1, 2023, left rates unchanged with a Fed Funds Target Range of 5.25% to 5.50%. More hikes may be needed to contain inflation.

Bottom Line

At the end of November, the S&P 500 Index was above its 200-day average (4284) putting stocks in a long-term uptrend. The stock market is anticipating moderate economic growth with the potential for the Fed to cut rates to avoid a recession.

The 2-year Treasury note yield remained above its 200-day average of 4.66% to stay in a long-term uptrend. The 10-year Treasury note yield was above its 200-day average of 4.01%. The uptrend in the yield of the 2-year Treasury note and the uptrend in the 10-year Treasury note yield are consistent with a growing economy vulnerable to 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.