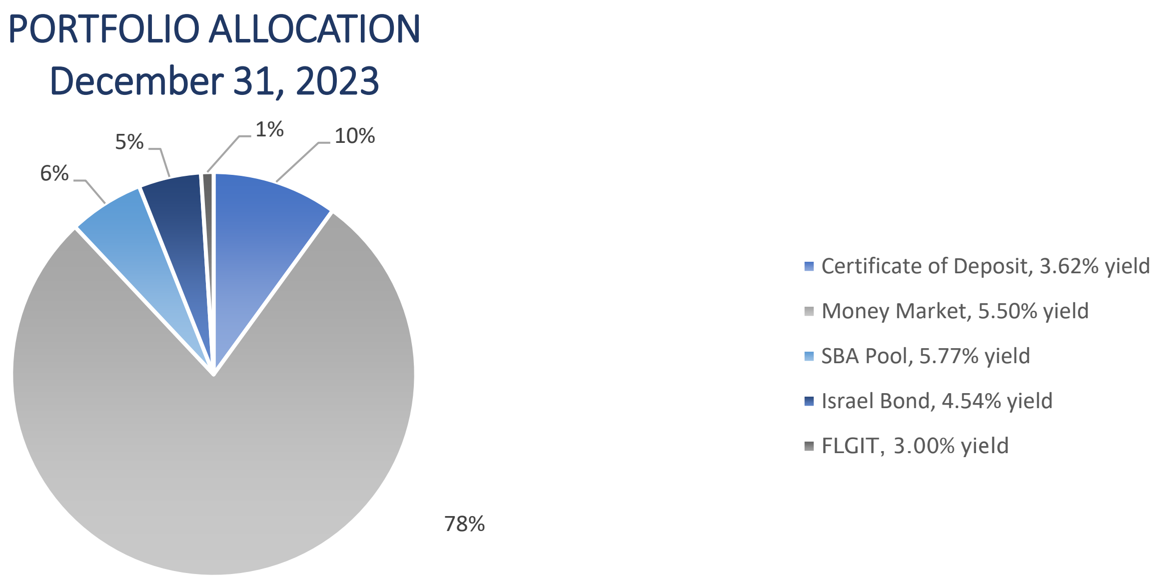
# Investment Report

December 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 | Dec. '23 | Nov. '23 | Oct. '23 |
|---|---|---|---|
| Month-end Market Value | $4,770,056,344 | $3,876,770,322 | $3,503,626,579 |
| Book Value | $4,768,046,572 | $3,874,668,497 | $3,501,523,095 |
| Unrealized Gain/Loss | $2,009,772 | $2,101,825 | $2,103,483 |
| Book Yield | 5.27% | 5.14% | 5.16% |
| Market Yield | 5.26% | 5.17% | 5.15% |
| Effective Duration | 0.3 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

| | Dec. '23 | Nov. '23 | Oct. '23 |
|---|---|---|---|
| Interest Income (FYTD) | $52,730,936 | $31,808,743 | $16,226,664 |
| Investment Income (FYTD) | $52,519,848 | $31,704,446 | $16,184,127 |
| Interest Income (current month) | $20,922,193 | $15,578,379 | $16,226,634 |

## December 2023 Economic & Market Overview

Treasury yields declined in December after moving lower in November. The 10-year Treasury note yield fell to 3.88% at the end of December vs. the 4.33% close at the end of November, while the 2-year Treasury note decreased to 4.25% at the end of November vs. the 4.33% close at end of November.

Stocks rose in December after surging higher in November. Beginning at 4567.80 at the end of November, the S&P 500 Index increased 4.42% to 4769.83 at the end of December, above its 200-day moving average of 4354.

## Consumer

November nonfarm payrolls rose by 199,000 workers, (est. 185,000). The three-month average rose to 204,000 vs. 192,000 in November. October payrolls were unrevised at a 150,000 gain, while September payrolls were revised lower to a 262,000 increase vs. a 297,000 gain.

The November unemployment rate fell to 3.7% (est. 3.9%), a four-month low, vs. 3.9% in October.

Average hourly earnings increased 4.0% year-over-year in November, as expected, following the same gain in October.

Personal income rose 0.4% in November, the largest monthly increase since August. Year-over-year, income rose 4.6%, up from a 4.3% annual pace reported in October. Personal spending gained 0.2% in November, following a 0.1% rise in October and gained 5.4% year-over-year, up from a 5% annual pace in October.

Adjusting for inflation, real consumer spending rose 0.3%, and real income increased 0.4% in November, the largest monthly gain since March. Over the past 12 months, real spending rose 2.7% and real disposable personal income gained 1.9% following a 1.4% gain in October.

The November personal saving rate was unchanged at 4.1%, the same rate as in October.

The December University of Michigan Consumer Sentiment Index surged to 69.7, a five-month high. The current conditions index was revised lower while the gauge of future expectations was revised higher to the highest reading since July.

The December Conference Board Consumer Confidence Index rose to 110.7, the highest reading since July, (est. 104.5) vs. 101.0 in November. Indexes of current conditions and future expectation also rose.

Retail sales unexpectedly rose 0.3% in November (est. down 0.1%) following a decline of 0.2% in October Year-over-year, retail sales rose 4.1% in November, up from the 2.2% annual rise in October and the largest annual increase since February of 2023. Excluding food, autos, building materials, and gasoline stations sales, control group sales rose 0.4% in November and 4.9% over the past 12 months.

Total vehicle sales unexpectedly fell to a 15.32 million annualized unit sales pace in November (est. 15.50) vs. October's 15.50 million annual sales rate. Over the past 12 months, November vehicle sales rose 7.4%, up from the 5.1% gain the month prior.

This sector is strong enough to keep the Fed on pause until consumers begin to curb spending. The unemployment rate remains very low and wage gains persist.

## Business

The November ISM Manufacturing Index unexpectedly remained at a 46.7 reading (est. 47.8), for the 13th consecutive month of contraction (a reading below 50).

The November ISM Services Index edged higher to 52.7 in November, a two-month high, (est. 52.3) vs.51.8 in October.

The November Conference Board Leading Economic Indicators Index fell 0.5%, as expected, following a 1.0% drop in October. Over the past 12 months, the Leading Economic Indicators fell 7.6% in November following an 8.0% annual decline in October.

GDP was revised lower to 4.9% annualized growth vs. 5.2%, the prior estimate. That is the final estimate for third quarter growth.

Durable goods orders rose 5.4% (est. 2.3%) in November, more than offsetting the 5.1% decline in October and the largest monthly gain since July 2020. Year-over-year, headline durable goods orders rose just 9.3% in November, up from the 0.6% annual increase in October.

Capital goods orders, excluding aircraft and defense, a proxy for business investment, rose 0.8% in November vs. a 0.6 decline in October. Year-over-year July business investment increased 2.0%, up from a flat (o.0) reading in October.

November industrial production rose 0.2%, the most in four months, and following a 0.9% decrease in October.

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

## International

The October U.S. trade deficit widened more than expected to $64.3 vs. $61.2 billion in September billion (est. $59.8 billion). Imports rose 0.2% while exports fell 1.0%, a two-month low.

Import prices fell 0.4% in November, (est. down 0.8%) vs. a 0.6% decrease in October. Export prices dropped 0.9% in November (est. down 1.0%) vs. a similar 0.9% decline in the October. Over the past 12 months, import prices fell 1.4%, the smallest annual decline since February, while exports prices declined 5.2%, the largest annual drop since August. 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 held rates steady for a second consecutive meeting with the main financing rate at 4.50%.

The Bank of England held rates steady at 5.25%, a 15-year high, at its December meeting.

## Inflation

The Consumer Price Index rose 0.1% in November (est. 0.0%) following no change in October. Year-over-year, consumer prices rose 3.1%, as expected marking the smallest annual gain since June of 2023.

Excluding food and energy, the core CPI also rose 0.3% in November (est. 0.3%) vs. a 0.2% increase in October. Year-over-year the core, ex-food & energy) CPI increased 4.0% matching the annual gain in October for the smallest annual increase since September 2021

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The October core, ex-food & energy, Personal Consumption Expenditure Deflator rose 3.2% year-over-year vs. an annual increase of 3.4% in November. 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 $34 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 solid and the job market is tight.

New research shows that 44% of companies say artificial intelligence (AI) is likely to replace some employees in 2024, according to ResumeBuilder.com survey of 750 business leaders. Also, 37% of surveyed companies currently using AI laid off workers in 2023 because of the technology.

## Housing

The December NAHB Home Builder Confidence Index to 37, a two-month high, vs. November's 34 reading.

November existing home sales unexpectedly rose 0.8% to 3.82 million annualized, a two-month high. vs. 3.79 million in October. Year-over-year, existing home sales declined 7.3% in November, the 28th consecutive month of decline, but up from the 14.6% drop in October. November's median home price rose 4.0% year-over-year to $388,000, down from the $392,000 median price in October.

November new home sales unexpectedly dropped 12.2% (est. up 1.6%) to a 590,000 annualized rate, a one-year low, vs. a 672,000 annual pace in October. Over the past 12 months, sales rose 1.4%, down from the 16.5% annual gain in October. The median cost of a newly constructed home rose 3.1% in November from a month ago to $435,000. Year-over-year, new home prices dropped 6.0% in November following a 16.5% decline in September.

The October S&P Case-Shiller 20-City Home Price index rose 4.92%, the largest annual gain since November 2022.

November housing starts unexpectedly rose 14.8% (est. down 0.9%) for an annual sales pace of 1.56 million, a six-month high, vs. the 1.36 million annualized pace in October. Year-over-year, housing starts rose 9.8% in November, the largest annual gain since April 2022.

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

## Monetary Policy

The Federal Reserve's rate-setting FOMC meeting ending December 13, 2023, left rates unchanged with a Fed Funds Target Range of 5.25% to 5.50%. Three rate cuts were forecast in the Summary of Economic Projections (SEP) if inflation and the economy behave as expected.

The Fed said that inflation is still high but the next change in rates will be down if inflation continues to decline.

## Bottom Line

At the end of December, the S&P 500 Index was above its 200-day average (4354) 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 fell below its 200-day average of 4.64% to move into a long-term downtrend in anticipation of a Fed rate cut. The 10-year Treasury note yield also fell below its 200-day average of 4.03% for the same reason. The downtrend in the yield of the 2-year Treasury note and the downtrend in the 10-year Treasury note yield reflect lower inflation expectations and a series of future Fed rate cuts.

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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.