

Investment Report

January 31, 2024

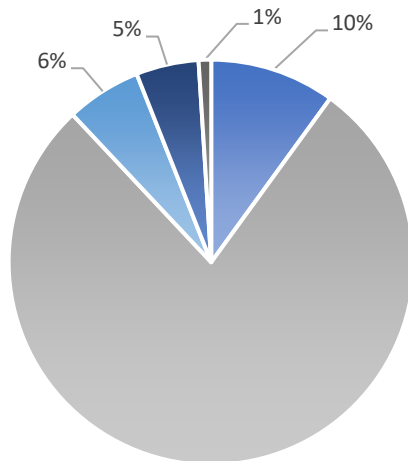


JOSEPH ABRUZZO
CLERK OF THE CIRCUIT COURT & COMPTROLLER
PALM BEACH COUNTY

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

January 31, 2024



- Certificate of Deposit, 3.62% yield
- Money Market, 5.50% yield
- SBA Pool, 5.77% yield
- Israel Bond, 4.54% yield
- FLGIT, 3.00% yield

Portfolio Statistics

Month	Jan. '24	Dec. '23	Nov. '23
Month-end Market Value	\$4,635,334,894	\$4,770,056,344	\$3,876,770,322
Book Value	\$4,632,705,908	\$4,768,046,572	\$3,874,668,095
Unrealized Gain/Loss	\$2,628,986	\$2,009,772	\$2,101,825
Book Yield	5.28%	5.27%	5.14%
Market Yield	5.27%	5.26%	5.17%
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

	Jan. '24	Dec. '23	Nov. '23
Interest Income (FYTD)	\$73,569,655	\$52,730,936	\$31,808,743
Investment Income (FYTD)	\$73,971,994	\$52,519,848	\$31,704,446
Interest Income (current month)	\$20,838,720	\$20,922,193	\$15,578,634

January 2024 Economic & Market Overview

Treasury yields were mixed in January after moving lower in December on the Fed's announced potential pivot to rate cuts. The 10-year Treasury note yield rose to 3.91% at the end of January vs. the 3.88% close at the end of December 2023, while the 2-year Treasury note decreased to 4.21% at the end of December vs. the 4.25% close at end of December.

Stocks rose in January after surging higher in December. Beginning at 4769.83 at the end of December, the S&P 500 Index increased 1.59% to 4845.65 at the end of January, staying above its 200-day moving average of 4434.

Consumer

December nonfarm payrolls rose by 216,000 workers, (est. 175,000), the strongest pace of job creation since September. The three-month average fell to 165,000 vs, 180,000. For the full year, U.S. employers added 2.7 million jobs, a solid level of job creation, but down from the 4.8 million jobs added in 2022 and the 7.3 million added in 2021, following the pandemic plunge in 2020.

The December unemployment rate stayed at 3.7% (est. 3.8%) vs. 3.7% in November.

Average hourly earnings increased 4.1% year-over-year in December, a two-month high. (est. 3.9%), following the 4.0% gain in November.

Personal income rose 0.3% in December (est. 0.3%) vs. the 0.4% increase in November. Consumer spending increased 0.7% in December (est. 0.5%), the largest increase in three months. Year-over-year, consumer spending increased 5.9%, the largest gain in four months, and personal income rose 4.7%, also the largest gain in four months.

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Adjusting for inflation, real consumer spending rose 0.5% for the second consecutive month, while real income increased 0.1% in December, down from a 0.5% gain in November. Over the past year, real spending rose 3.2%, the largest annual increase since February 2022, and real disposable personal income gained 2.0%, the largest increase in six months.

The January University of Michigan Consumer Sentiment Index surged to 78.8, marking the largest monthly increase since 2005 and the highest level since 2021.

The January Conference Board Consumer Confidence Index rose to 114.7, the highest reading since December 2021.

Retail sales increased 0.6% in December (est. up 0.4%), the largest monthly gain since September. Year-over-year, retail sales rose 5.6% in December, up from the 4.0% annual increase in November and the largest annual increase since January of last year.

Total vehicle sales unexpectedly increased to a 15.83 million annualized unit sales pace in December, (est. 15.50 million) an eight-month high. Over the past 12 months, December vehicle sales rose 16.8%, up from the 7.5% annual gain November.

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 December ISM Manufacturing Index increased to 47.4 (47.1) vs. 46.7 in November, for the 14th consecutive month of contraction (a reading below 50).

The December ISM Services Index dropped to a reading of 50.6 (est. 52.5), a seven-month low, vs. 52.7 in November.

The December Conference Board Leading Economic Indicators Index fell 0.1% (est. down 0.3%) vs. a 0.5% decrease in November.

Fourth quarter GDP rose 3.3% annualized vs. the 4.9% annual increase in the third quarter. For all of 2023, the U.S. economy accelerated at a 2.5% annualized pace, the most in two years.

Durable goods orders were unexpectedly flat (0.0%) (est. 1.5%) vs. a 5.5% rise in November. Year-over-year, headline durable goods orders rose 4.8% in December, down from the 9.5% annual increase in November.

Capital goods orders, excluding aircraft and defense, a proxy for business investment, rose 0.3% in December vs. a 1.0% increase in November. Year-over-year July business investment increased 1.9%, up from a 2.2% annual gain in November.

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December industrial production rose 0.1% (est. down 0.1%).

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

International

The November U.S. trade deficit narrowed 2% to \$63.2 (est. 64.9 billion) vs. \$64.3 billion in October. Imports fell 1.9%, to the lowest level since August. while exports fell 1.9%, to a four-month low.

Import prices were unchanged in December (est. down 0.5%) vs. a 0.5% decline in November. Export prices dropped 0.9% in December (est. down 0.7%) vs. a 0.9% decline in November. Over the past 12 months, import prices fell 1.6%, and export prices declined 3.2%.

The European Central Bank held rates steady for its third meeting with the deposit rate at 4%, the main refinancing rate at 4.5%, and the marginal lending facility at 4.75%. Inflation remains above its target of 2.0% with the latest annual rate of 2.9%.

Inflation

The Consumer Price Index rose 0.3% in December (est. 0.2%) following a 0.1% increase in November. Year-over-year, consumer prices rose 3.4% (est. 3.2%), for the largest annual gain in three months.

Excluding food and energy, the core CPI also rose 0.3% in December as expected and following a similar increase the month prior. Year-over-year the core CPI increased 3.9%, down from the annual gain of 4.0% in November and marking the smallest annual increase since May 2021.

The December 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 numbers support continued Fed patience before cutting rates.

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.

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Housing

The January NAHB Home Builder Confidence Index rose to 44 (est. 39), to the highest reading in four months.

December existing home sales fell 1.0% (est. up 0.3%) to 3.79 million annualized, the lowest since August 2010, vs. 3.82 million in November. Year-over-year, existing home sales declined 6.2% in December, the 29th consecutive month of decline, but up from the 7.3% drop in November. December's median home price rose 4.4% year-over-year to \$383,000, down from the \$388,000 median price in November.

For the full year of 2023, existing home sales fell 18.7% to 4.09 million, down from 5.03 million units in 2022 and the lowest since 1995. The median home price for 2023 was \$389,800, a record high.

December new home sales rose 8.0% (est. 10.0%) to 664,000, a two-month high, vs. 615,000 in November. Over the past 12 months, December sales rose 4.4%, down from the 5.7% annual gain in November. The median cost of a newly constructed home fell 3.0% in December from a month ago to \$413,000, the lowest since October. Year-over-year, new home prices dropped 7.6% in December following a 7.9% decline in November.

The November S&P Case-Shiller 20-City Home Price index rose 5.45%, the largest annual gain since November 2022.

December housing starts fell 4.3% (est. down 8.7%), the first monthly decline in four months, for an annualized pace of 1.46 million units, a two-month low, vs. 1.53 million in November. Year-over-year, housing starts rose 9.8% in December, 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 January 31, 2024 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.

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Bottom Line

At the end of January, the S&P 500 Index was above its 200-day average (4434) 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 below its 200-day average of 4.67% to stay in a long-term downtrend in anticipation of a Fed rate cut. The 10-year Treasury note yield also remained below its 200-day average of 4.09% 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.

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.

