

CPIM

CENTER FOR PUBLIC INVESTMENT MANAGEMENT



A PROGRAM BROUGHT TO YOU BY:

ROBERT SPRAGUE

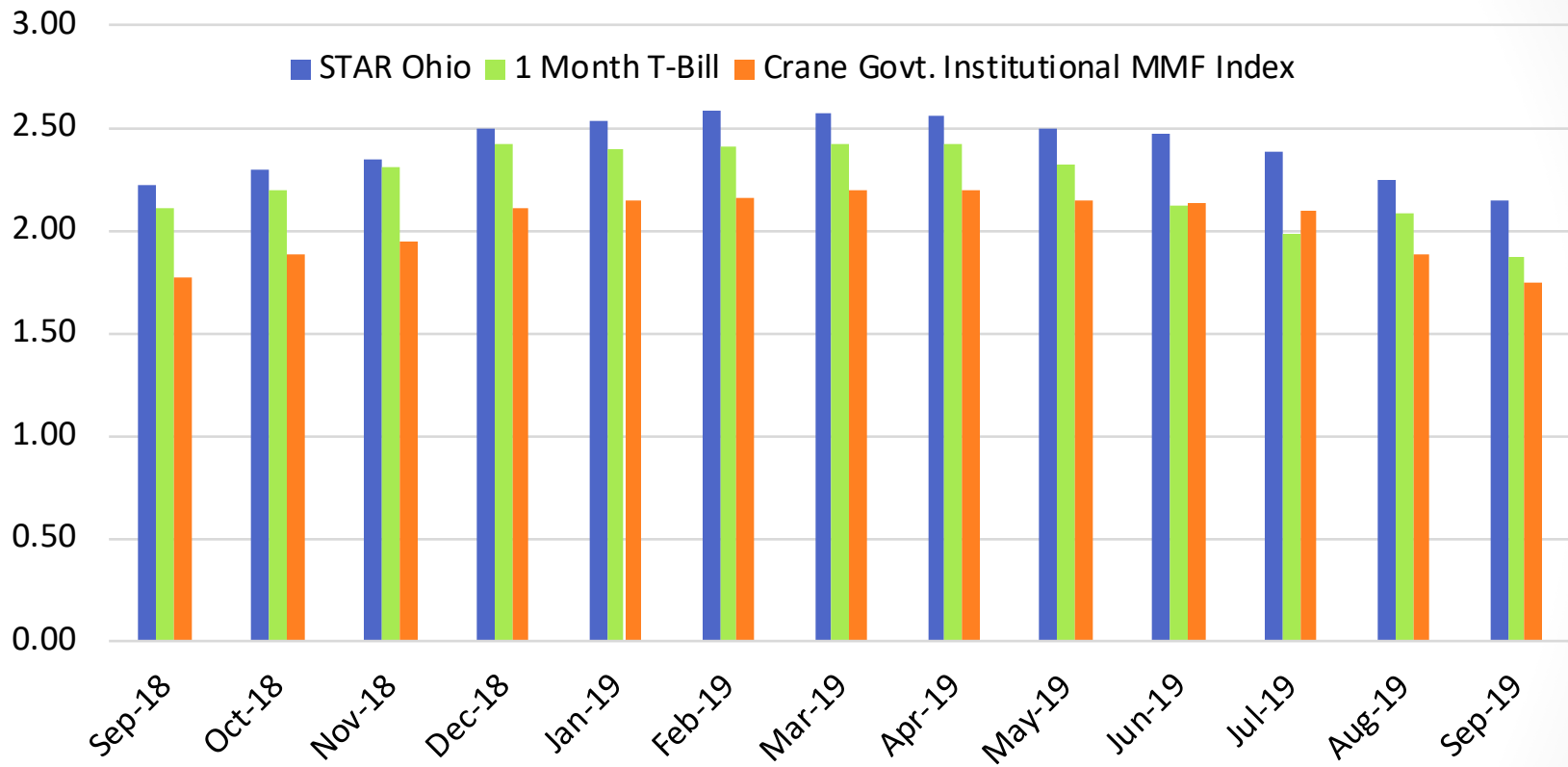
OHIO TREASURER

# General Session & Market Update

# Presenters

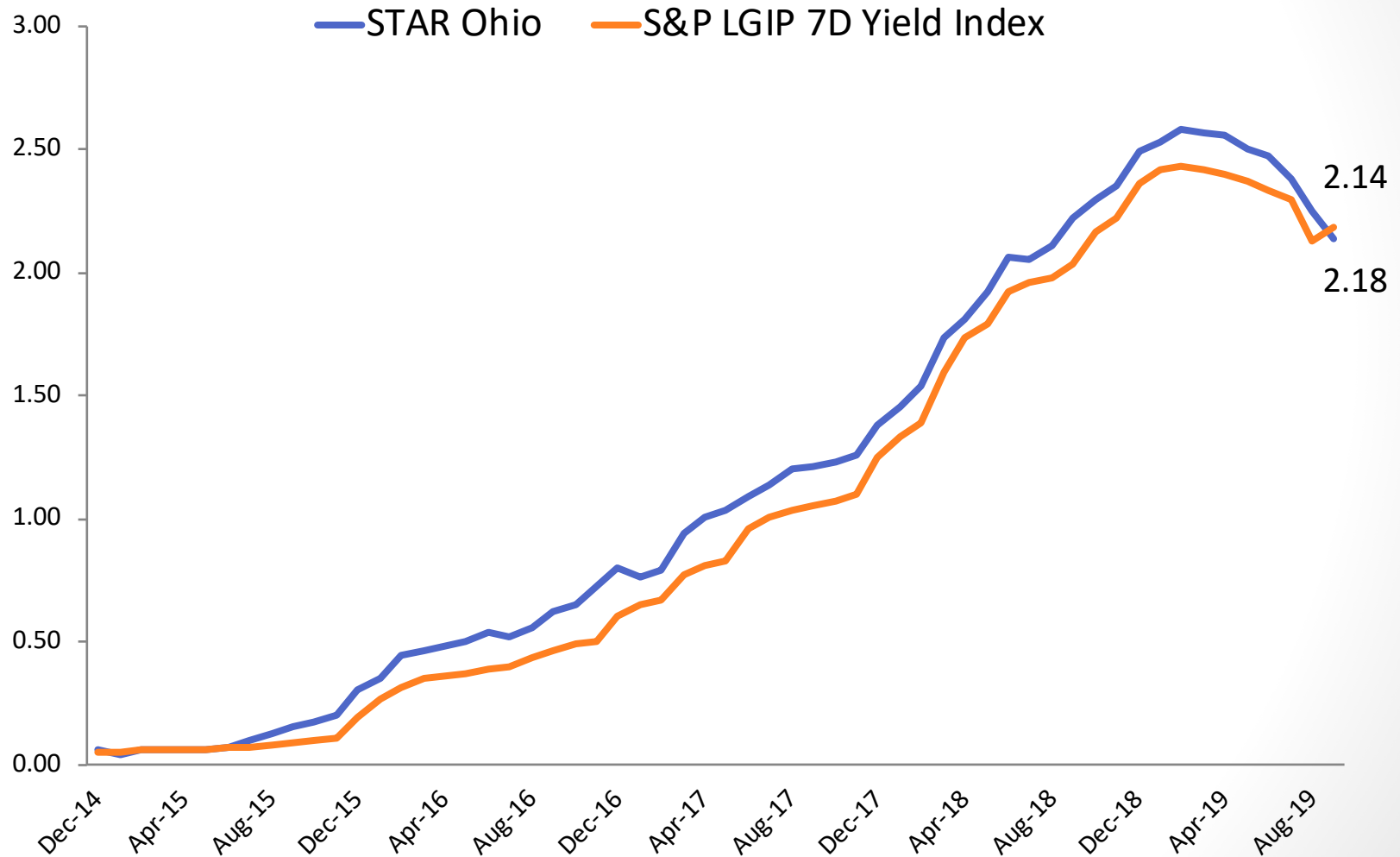
- Jonathan Azoff
- Ohio Treasurer of State's Office
- [Jonathan.Azoff@tos.ohio.gov](mailto:Jonathan.Azoff@tos.ohio.gov)
  
- Jim McCourt, Portfolio Manager
- Meeder Investment Management
- [jmccourt@meederinvestment.com](mailto:jmccourt@meederinvestment.com)
  
- Connor Chambers, Vice President
- Huntington Investment Company
- [Connor.chambers@huntington.com](mailto:Connor.chambers@huntington.com)
  
- Ryan Nelson, Co-Founder and Portfolio Manager
- Red Tree Investment Group
- [ryan@redtreeinv.com](mailto:ryan@redtreeinv.com)

# Yield Comparison



As of 09/30/19	STAR Ohio	2.14%
	1mo T-Bills	1.87%
	CRANE GOVT INSTIT MF INDEX	1.74%

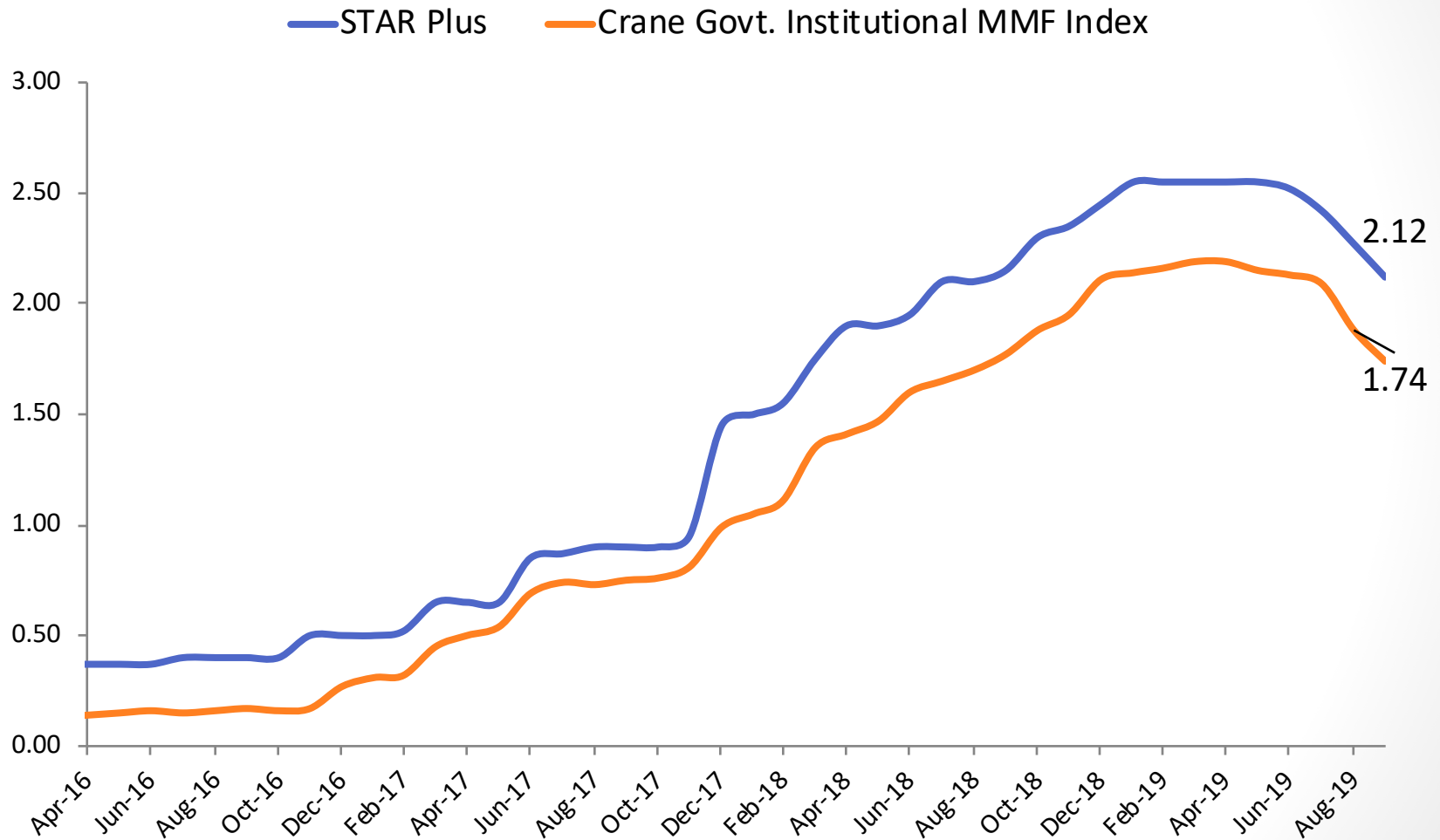
# Yield Comparison



Data as of 10/07/2019



# Yield Comparison

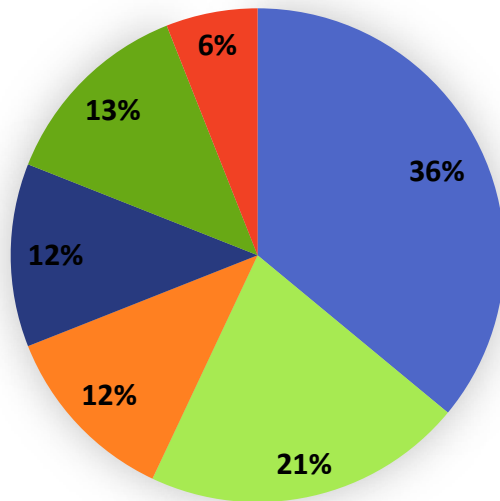


Data as of 10/07/2019

# Over \$13 billion in Deposits

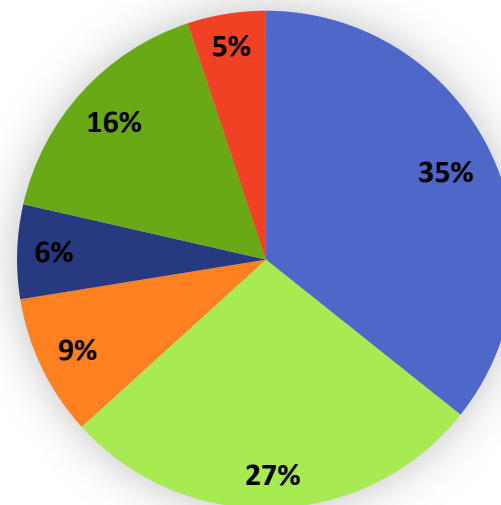
## Composition

9/30/2018



- Commercial Paper - 36%
- Money Market Funds - 21%
- Government Bonds - 12%
- Repurchase Agreements - 12%
- Corporate Bonds - 13%
- Bank Deposits - 6%

9/30/2019



- Commercial Paper - 35%
- Money Market Funds - 27%
- Government Bonds - 9%
- Repurchase Agreements - 6%
- Corporate Bonds - 16%
- Bank Deposits - 5%

# STAR Ohio Outlook

- Expect yields in STAR Ohio to slightly decline due to interest rate outlook for the rest of 2019.
- STAR Plus rates should keep pace with government funds.
  - First tier yield should remain competitive with STAR Ohio.

The FOMC voted 7-3 in favor of cutting its overnight target rate 0.25% for the second time this year to a range of 1.75% to 2.00%.

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The decision was not unanimous as one member voted in favor of a 0.50% cut and two members dissented in favor of maintaining the current range.

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Chairman Powell described the rate adjustment as “insurance against ongoing risks” and indicated the FOMC is not on a “preset course.”

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“We see a favorable economic outlook, ...though, there are risks to this positive outlook due particularly to weak global growth and trade developments.”

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In a likely response to the recent move of the effective Fed Funds rate outside the target range, the Committee also lowered the interest on excess reserves (IOER) rate by 0.30%.

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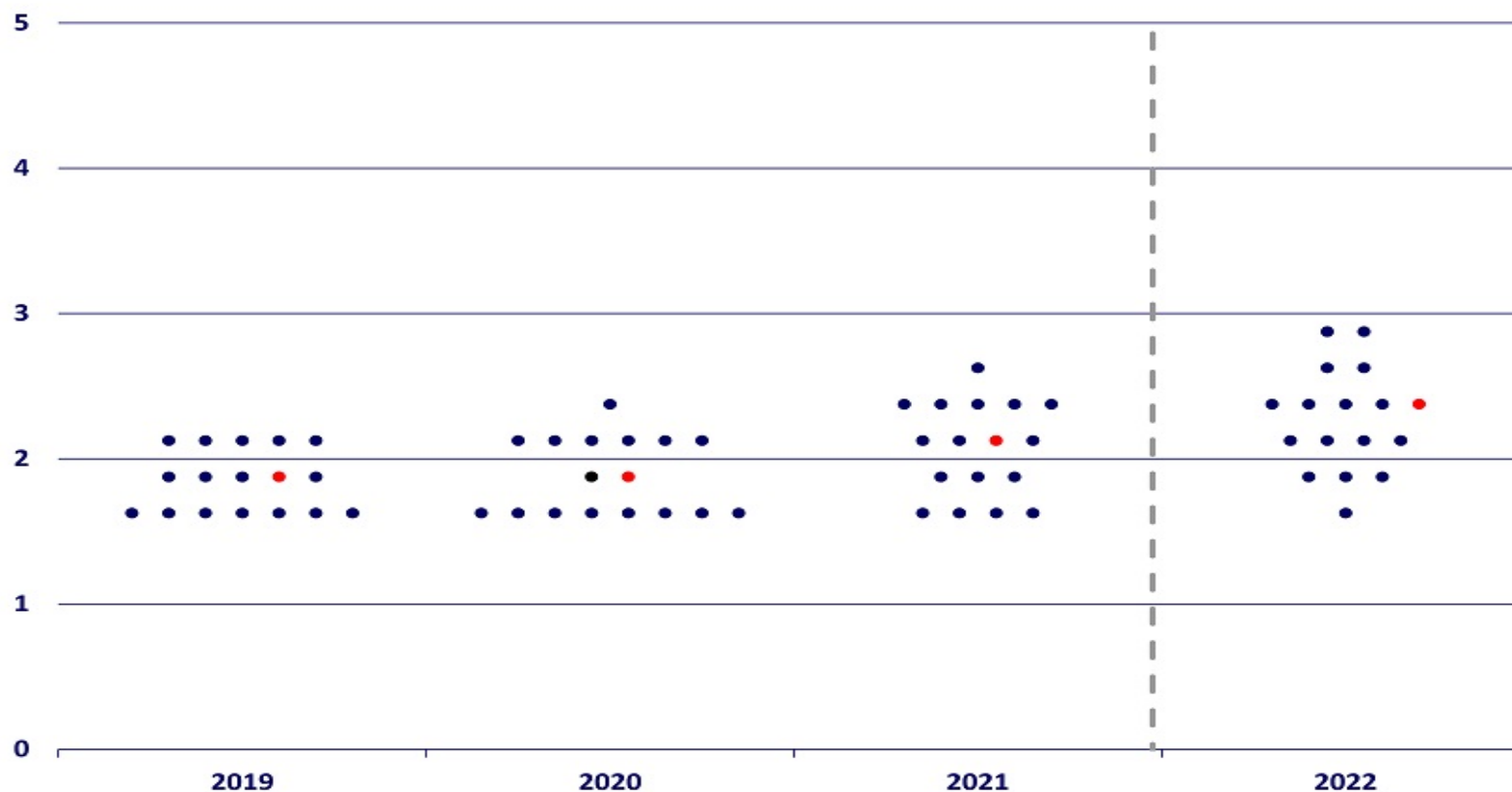
There was some speculation that the Fed would announce a balance sheet increase to help boost liquidity, however, there was no mention of a standing repo facility or the start of balance sheet expansion.

# FOMC STATEMENT HIGHLIGHTS

September 2019

# Federal Reserve Dot Plot

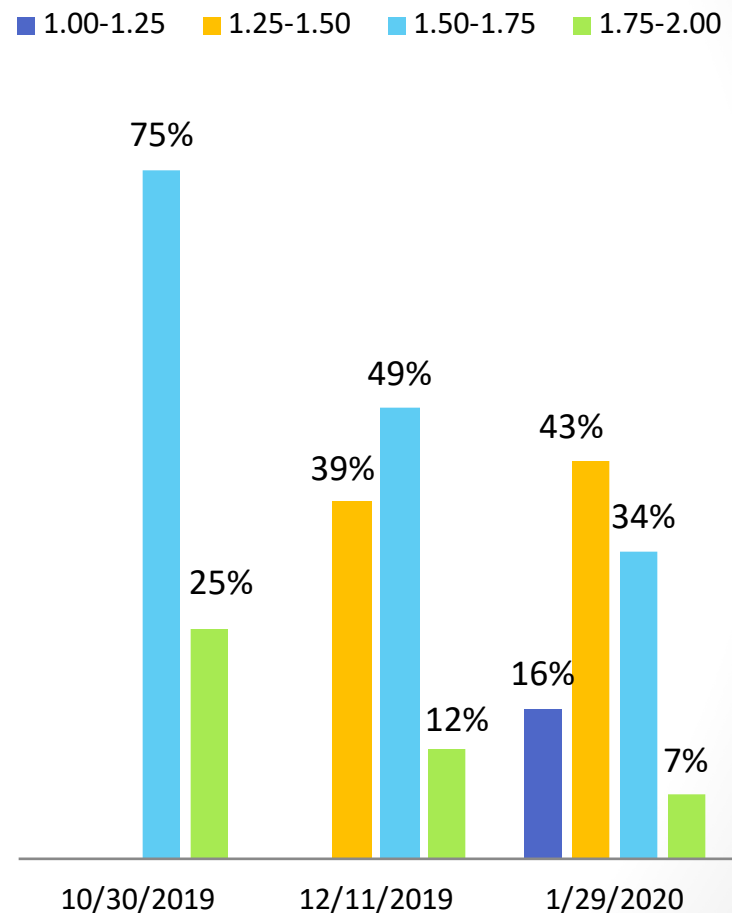
**Target Federal Funds Rate at Year-End**  
(percent)



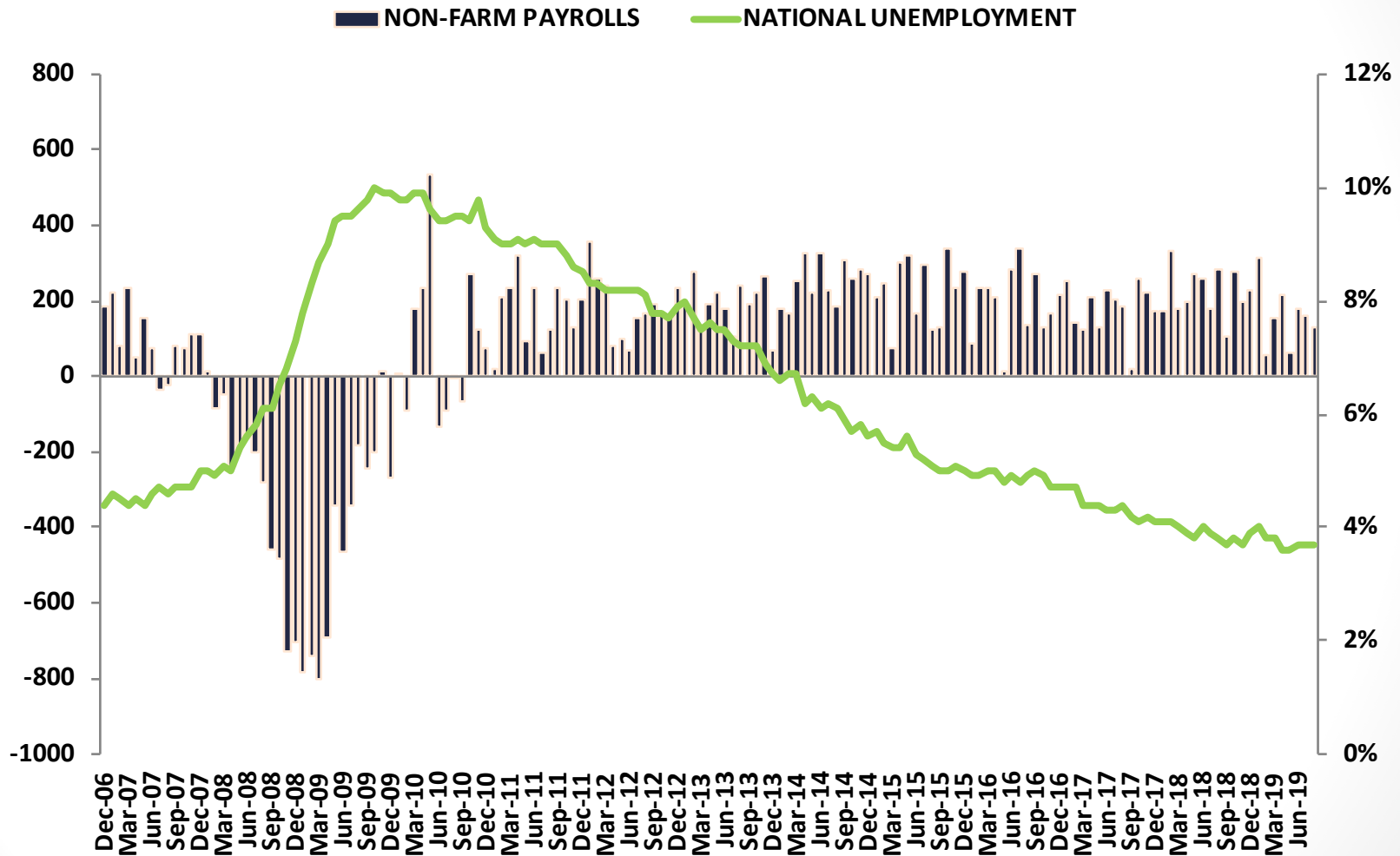
Source: September 2019 Summary of Economic Projections. Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant's judgment of the appropriate level of the target federal funds rate at the end of the specified calendar year or over the longer run. Median dot is colored red.

# Rate Cut Path

- Fed funds futures markets are pricing in a high probability of at least one more rate cut in 2019.
- Investors continue to price in additional rate cuts in 2020.

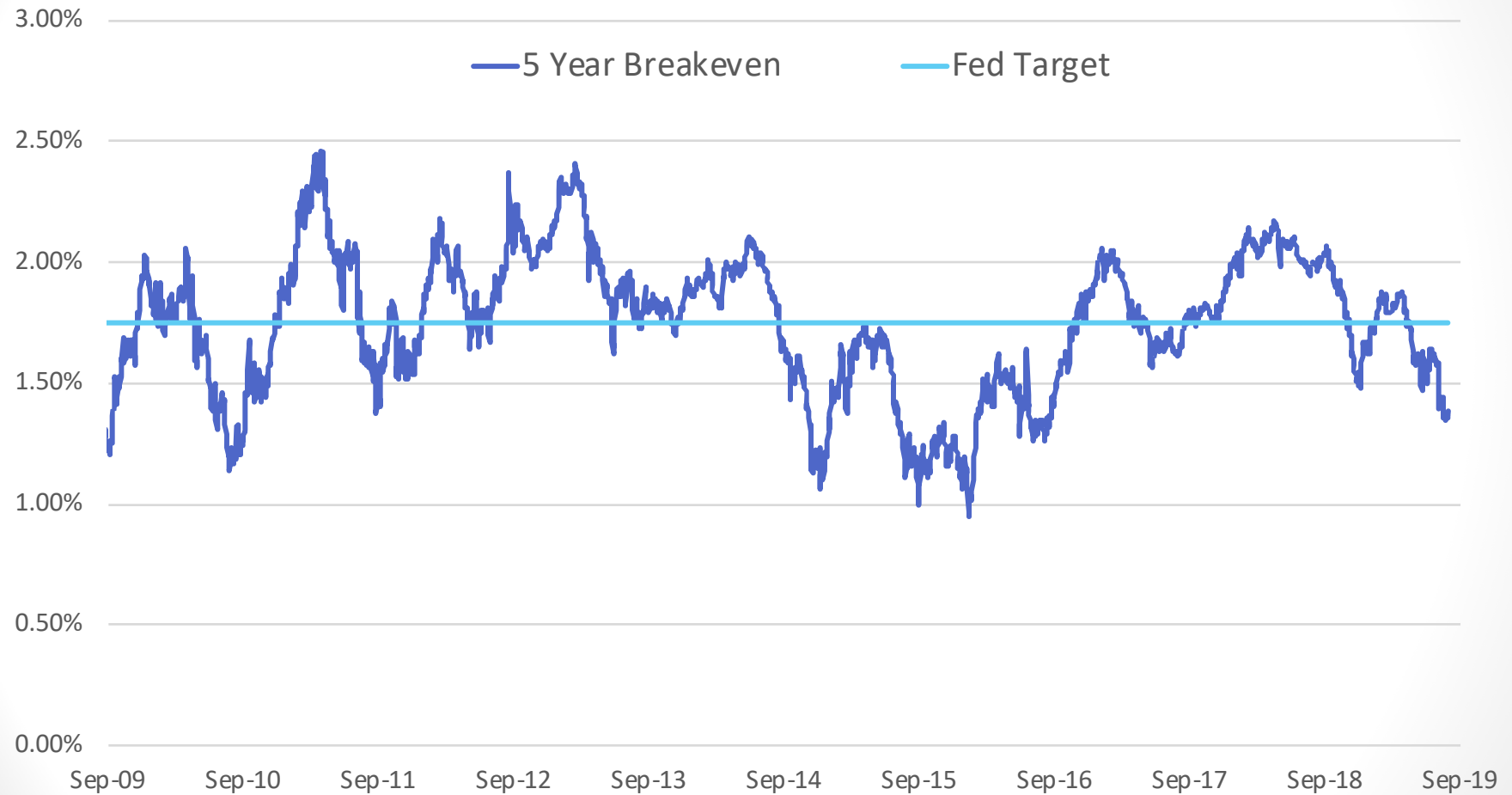


# U.S. Labor Market



Source: Bloomberg as of 08/31/2019

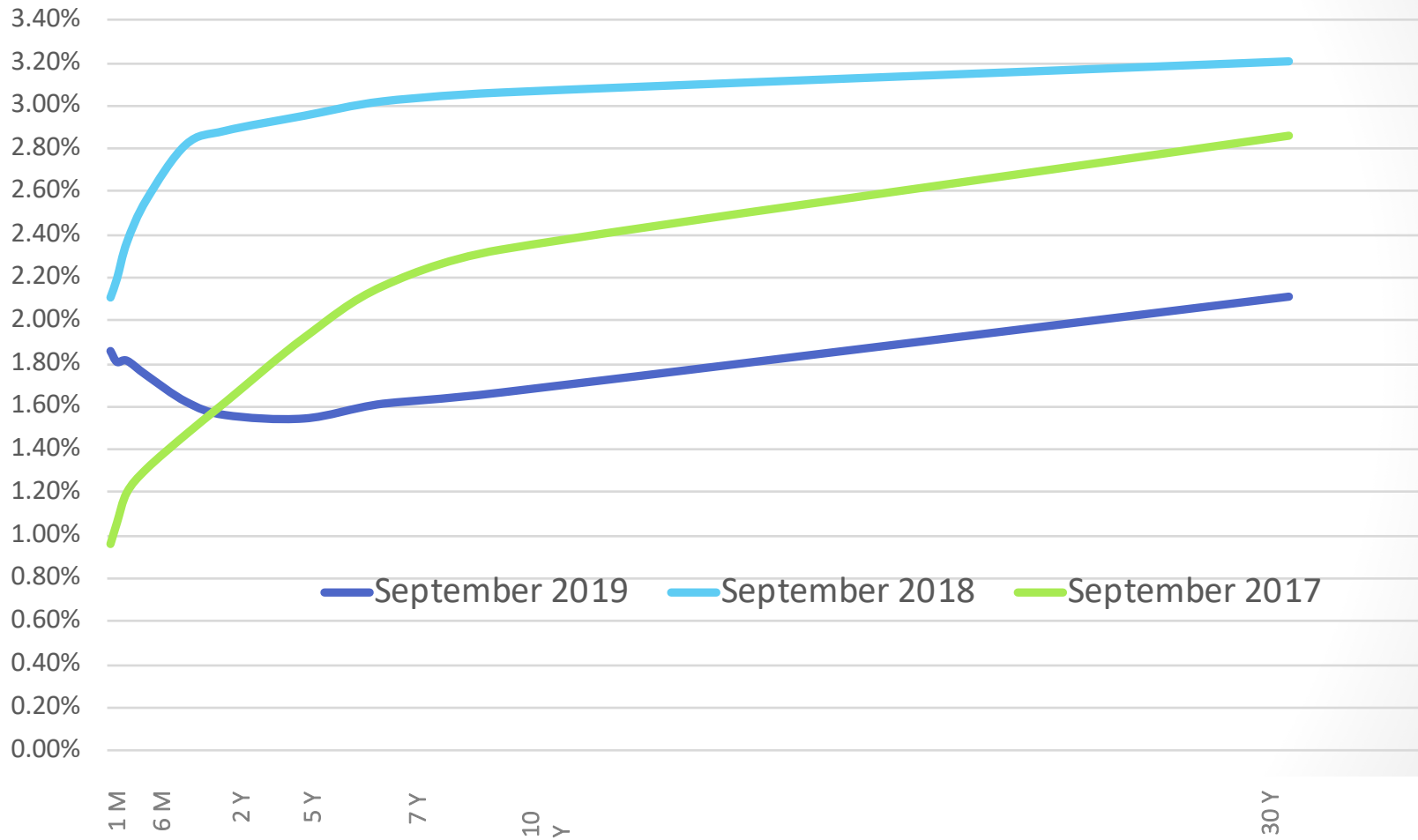
# Inflation



Source: Bloomberg

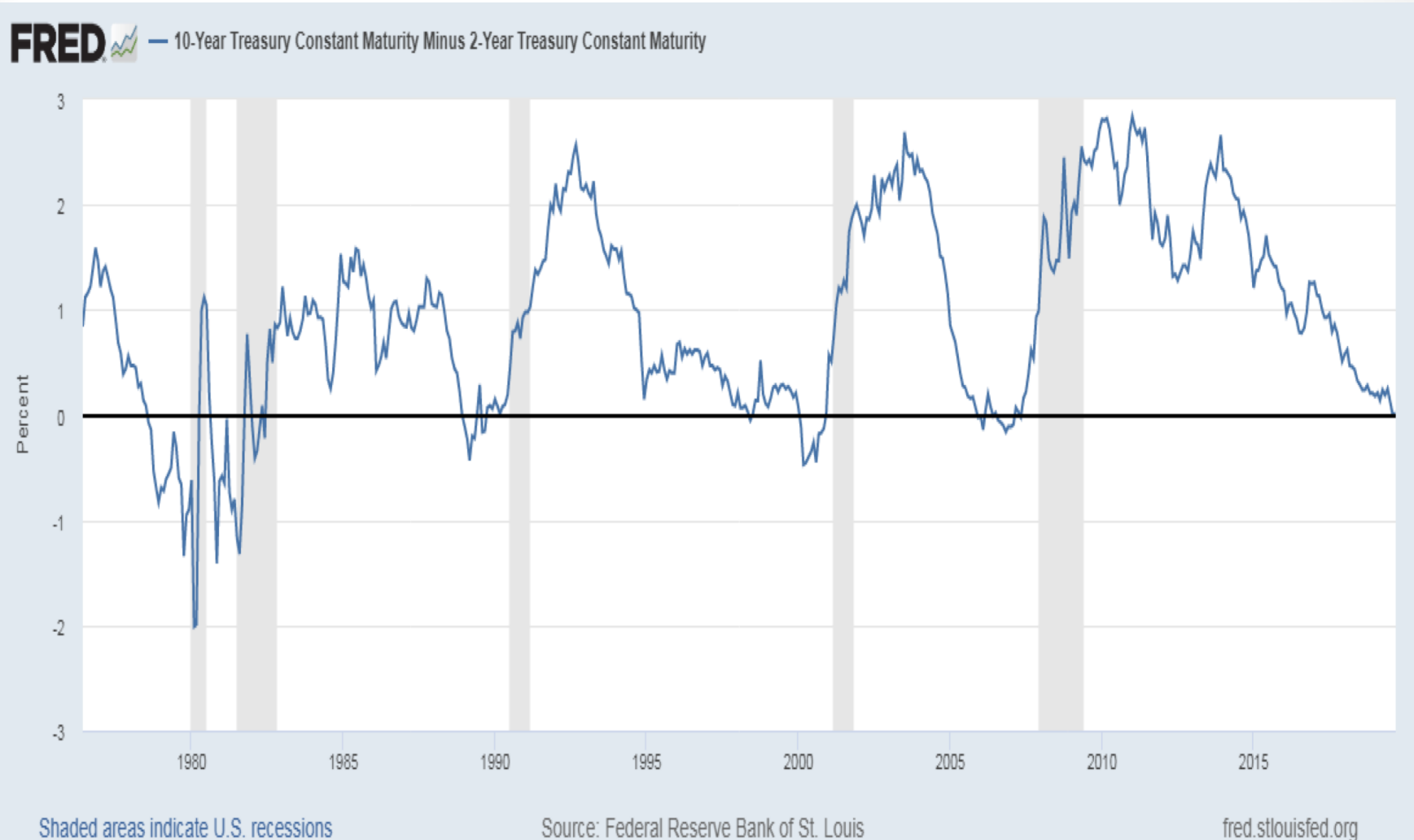


# Yield Curve Comparison



Source: Bloomberg

# Historical Yield Curve Inversions



# Global Bond Yields

Region	2 Year	3 Year	5 Year	7 Year	10 Year	30 Year
<b>United States</b>	<b>1.58%</b>	<b>1.51%</b>	<b>1.49%</b>	<b>1.56%</b>	<b>1.65%</b>	<b>2.14%</b>
Australia	0.71%	0.66%	0.67%	0.80%	0.95%	1.58%
Canada	1.32%	1.27%	1.19%	1.19%	1.19%	1.44%
China	2.75%	2.77%	2.87%	3.05%	3.01%	3.69%
France	-0.79%	-0.82%	-0.70%	-0.54%	-0.29%	0.59%
Germany	-0.89%	-0.93%	-0.84%	-0.79%	-0.59%	-0.10%
Italy	0.23%	0.64%	1.07%	1.32%	1.70%	2.65%
Japan	-0.28%	-0.28%	-0.31%	-0.34%	-0.23%	0.21%
United Kingdom	0.43%	0.32%	0.33%	0.34%	0.49%	1.17%

Source: Bloomberg as of 9/10/2019

# Economists are Forecasting Slow, Steady Growth

Although projected to slow, GDP forecasts maintain just under 2.00% through '21

United States		Browse		Private		Official		Actual / Forecasts			Probability of Recession			35.0%
Indicator	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021				
<b>Economic Activity</b>														
Real GDP (YoY%)	2.2	1.8	2.5	2.9	1.6	2.4	2.9	2.3	1.8	1.8				
Consumer Spending ...	1.5	1.5	3.0	3.7	2.7	2.6	3.0	2.5	2.2	2.0				
Government Spendin...	-2.1	-2.4	-0.9	1.9	1.8	0.7	1.7	2.2	1.5	1.1				
Private Investment (...)	11.0	6.9	5.6	4.9	-1.3	4.4	5.1	2.8	1.9	2.6				
Exports (YoY%)	3.4	3.6	4.2	0.5	0.0	3.5	3.0	0.4	1.8	2.3				
Imports (YoY%)	2.7	1.5	5.0	5.3	2.0	4.7	4.4	1.8	2.3	2.9				
Industrial Production (Yo...	3.0	2.0	3.1	-1.0	-2.0	2.3	4.0	1.2	1.1	1.5				
<b>Price Indices</b>														
CPI (YoY%)	2.1	1.5	1.6	0.1	1.3	2.1	2.5	1.8	2.0	2.1				
PCE Price Index (YoY%)								2.0	1.5	2.0				
Core PCE (yoy%)	1.9	1.5	1.6	1.3	1.6	1.6	2.0	1.7	2.0	2.0				
<b>Housing Market</b>														
Housing Starts (000s SAA...								1261	1250	1269	1273			
New Home Sales (000s S...								616	652	655	663			
Existing Home Sales (Mln...								5.4	5.3	5.4	5.4			
Building Permits (000s S...								1310	1302	1332	1332			

Inflation is projected near 2.00%

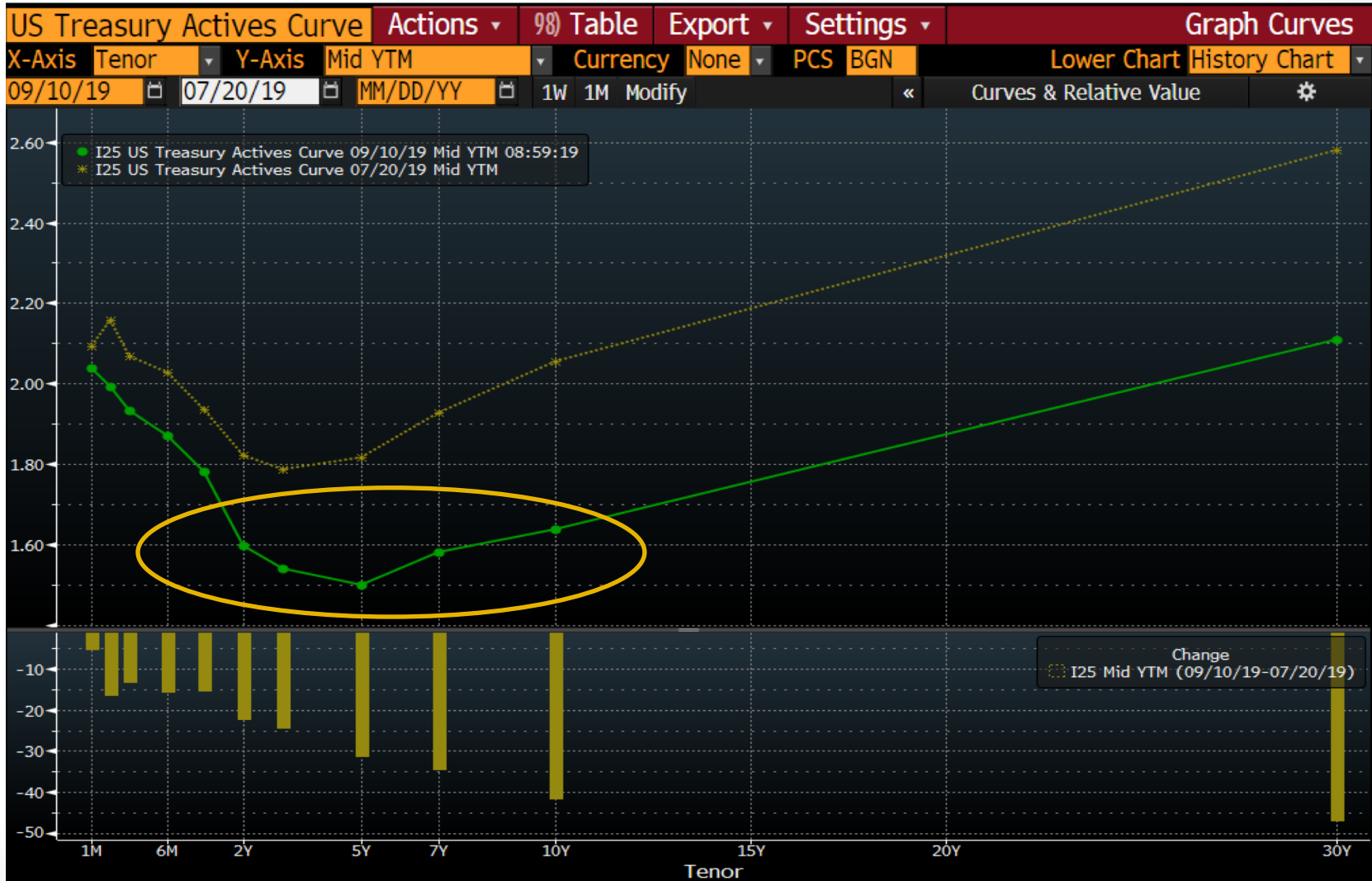
# Market Expecting Multiple Cuts

Meeting	Hike Prob	Cut Prob	0.75-1	1-1.25	1.25-1.5	1.5-1.75	1.75-2	Fwd Rate
09/18/2019	0.0%	100.0%	0.0%	0.0%	0.0%	4.7%	95.3%	1.87
10/30/2019	0.0%	100.0%	0.0%	0.0%	2.4%	51.5%	46.1%	1.74
12/11/2019	0.0%	100.0%	0.0%	1.4%	29.9%	48.5%	20.3%	1.60
01/29/2020	0.0%	100.0%	0.6%	14.2%	38.3%	35.8%	11.1%	1.49
03/18/2020	0.0%	100.0%	4.4%	20.9%	37.6%	28.9%	8.0%	1.42
04/29/2020	0.0%	100.0%	7.2%	23.8%	36.1%	25.3%	6.7%	1.38
06/10/2020	0.0%	100.0%	9.9%	25.7%	34.4%	22.3%	5.6%	1.34
07/29/2020	0.0%	100.0%	12.3%	27.0%	32.6%	19.8%	4.8%	1.30
09/16/2020	0.0%	100.0%	14.3%	27.8%	30.8%	17.7%	4.1%	1.27

Market not expecting any hikes in foreseeable future

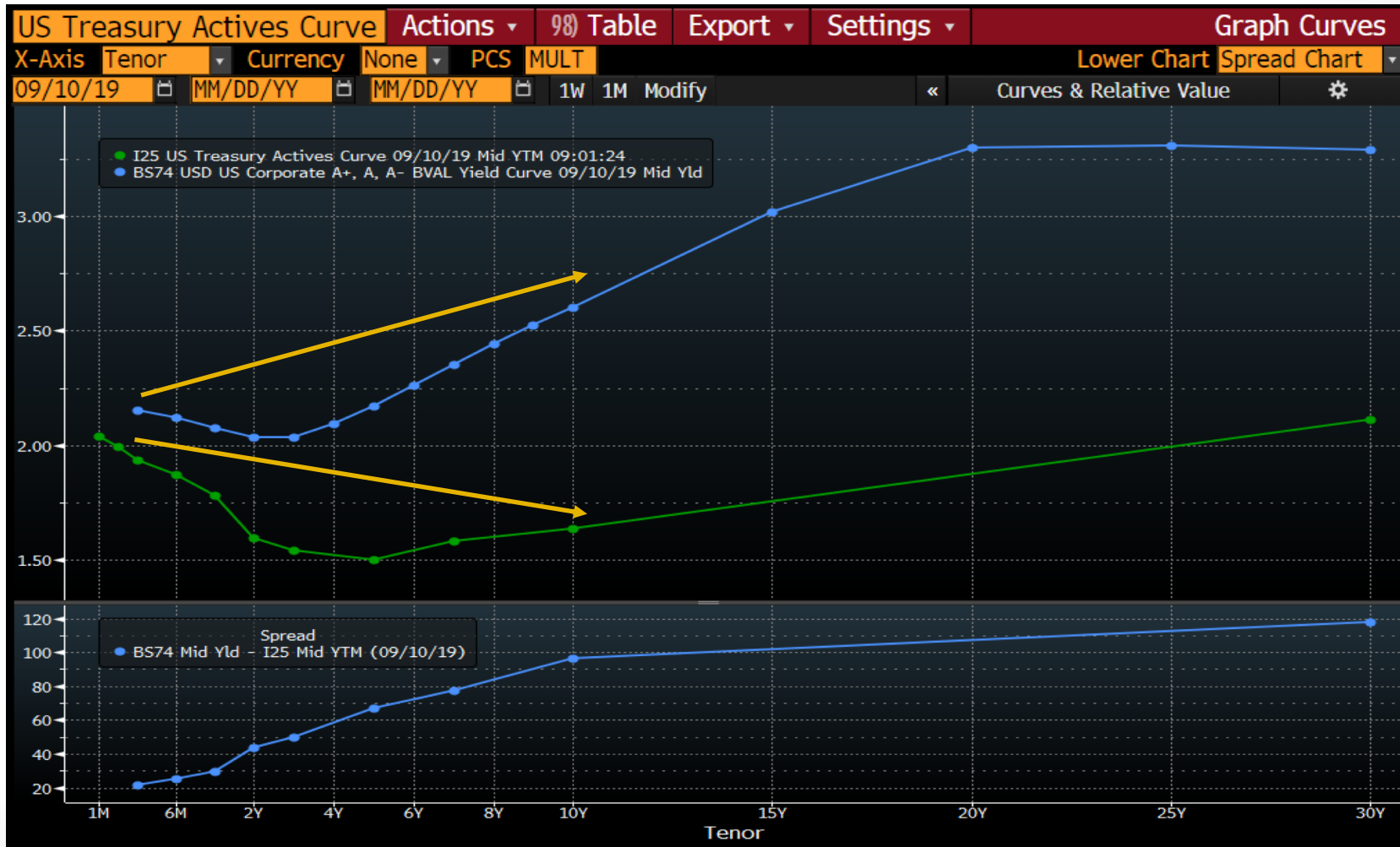
Currently, the market expects 2 more hikes this year and 1-2 in '20

# Treasury Curve is Currently Defensively Positioned



# Corporate Bond Curve Vs. Treasuries

## Corps have another 40bps before “inverting”



Source: Bloomberg

# Investing in Today's Markets

## Investment Strategy

- Have one!
- Every entity approaches differently
- Think long-term in the short term
- Keep up with changing markets
- Understand the **VALUE** and **RISK** in the different investment options



# Prudent Investment Plan

## Liquid Funds

## Intermediate Funds

## Core Funds

### Investment Options

- STAR Ohio
- STAR Plus
- Bank Accounts

- CDARs
- Commercial Paper

- FDIC CDs
- Government Agencies
- Treasuries

### Notes

- How much liquidity?
- What is optimal balance at bank?

- Watch FDIC coverage
- Credit concerns
- Calculation on CP limits

- FDIC Coverage
- Understand callable structures
- Know cash flows

# Thank You!

- Jonathan Azoff
- Ohio Treasurer of State's Office
- [Jonathan.Azoff@tos.ohio.gov](mailto:Jonathan.Azoff@tos.ohio.gov)
  
- Jim McCourt, Portfolio Manager
- Meeder Investment Management
- [jmccourt@meederinvestment.com](mailto:jmccourt@meederinvestment.com)
  
- Ted Sumnar, Senior Vice President/Managing Director
- Huntington Investment Company
- [Ted.Sumnar@huntington.com](mailto:Ted.Sumnar@huntington.com)
  
- Jennifer Trowbridge, Co-Founder and Portfolio Manager
- Red Tree Investments
- [jennifer@redtreeinv.com](mailto:jennifer@redtreeinv.com)

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**MARKET**