

CPIM

CENTER FOR PUBLIC INVESTMENT MANAGEMENT



A PROGRAM BROUGHT TO YOU BY:

JOSH MANDEL

TREASURER OF OHIO

General Session & Market Update

Presenters

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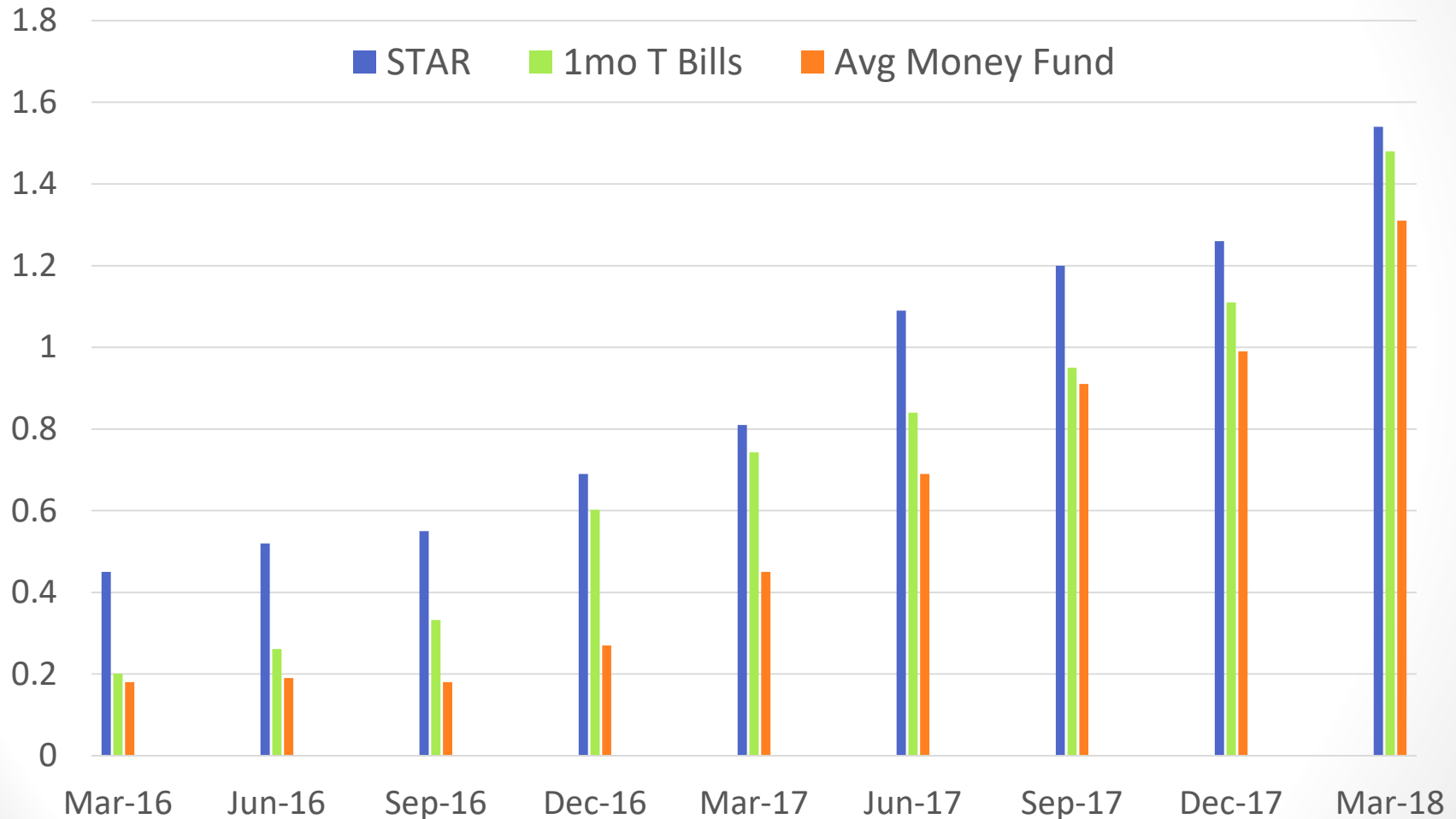
MARKET

STAR Ohio outlook

- Expect yields in STAR Ohio to continue to increase w/ subsequent rate hikes
 - LIBOR rates continue to cheapen
 - Commercial Paper and T Bill issuance has increased
- STAR Plus rates should keep pace with government funds
 - First tier yield should remain competitive with STAR Ohio

Yield Comparison

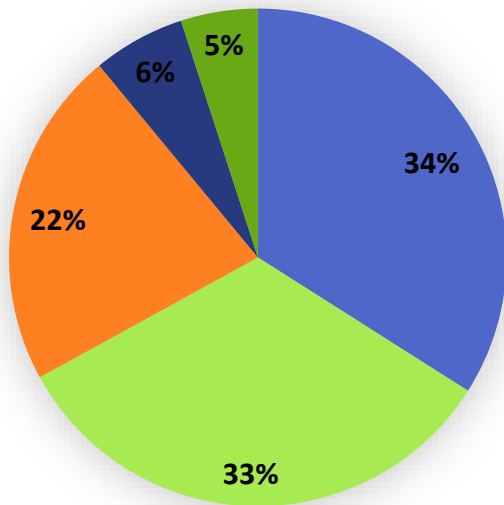
STAR Ohio vs. Treasury vs. Avg Money Fund



Over \$10 billion in Deposits

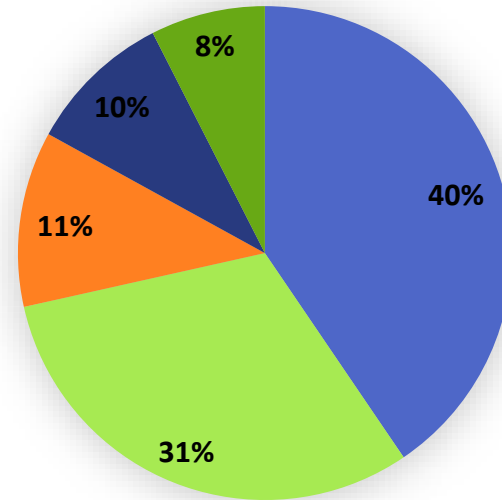
Composition

6/30/2017



- Commercial Paper - 34%
- Cash - 33%
- Gov't Bond - 22%
- Repo - 6%
- Corporate Bond - 5%

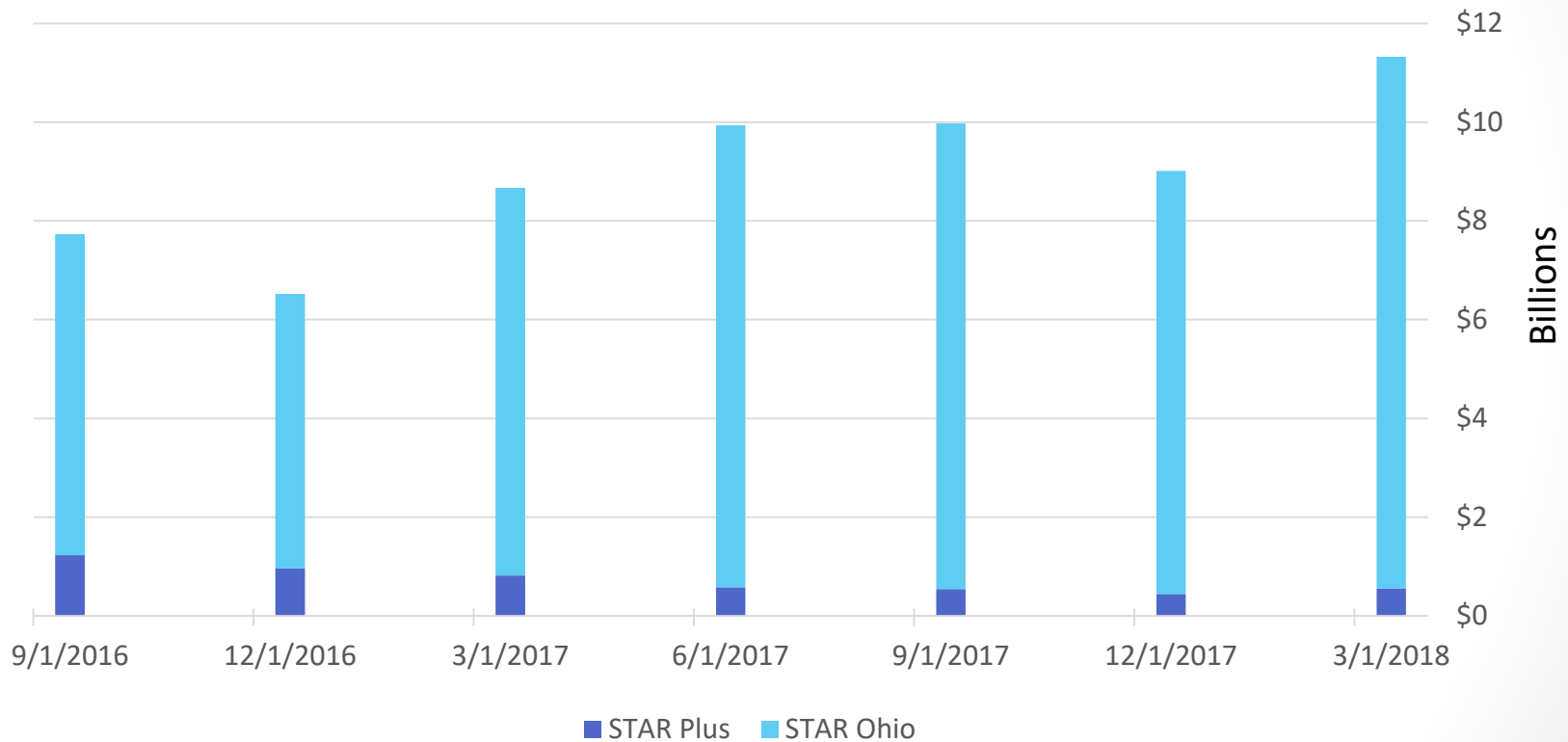
3/5/2018



- Commercial Paper - 40%
- Cash - 31%
- Gov't Bond - 11%
- Repo - 10%
- Corporate Bond - 8%

Program Assets

Star Ohio vs Star Plus



Data as of 3/12/18

Driving Forces Behind Fed Policy

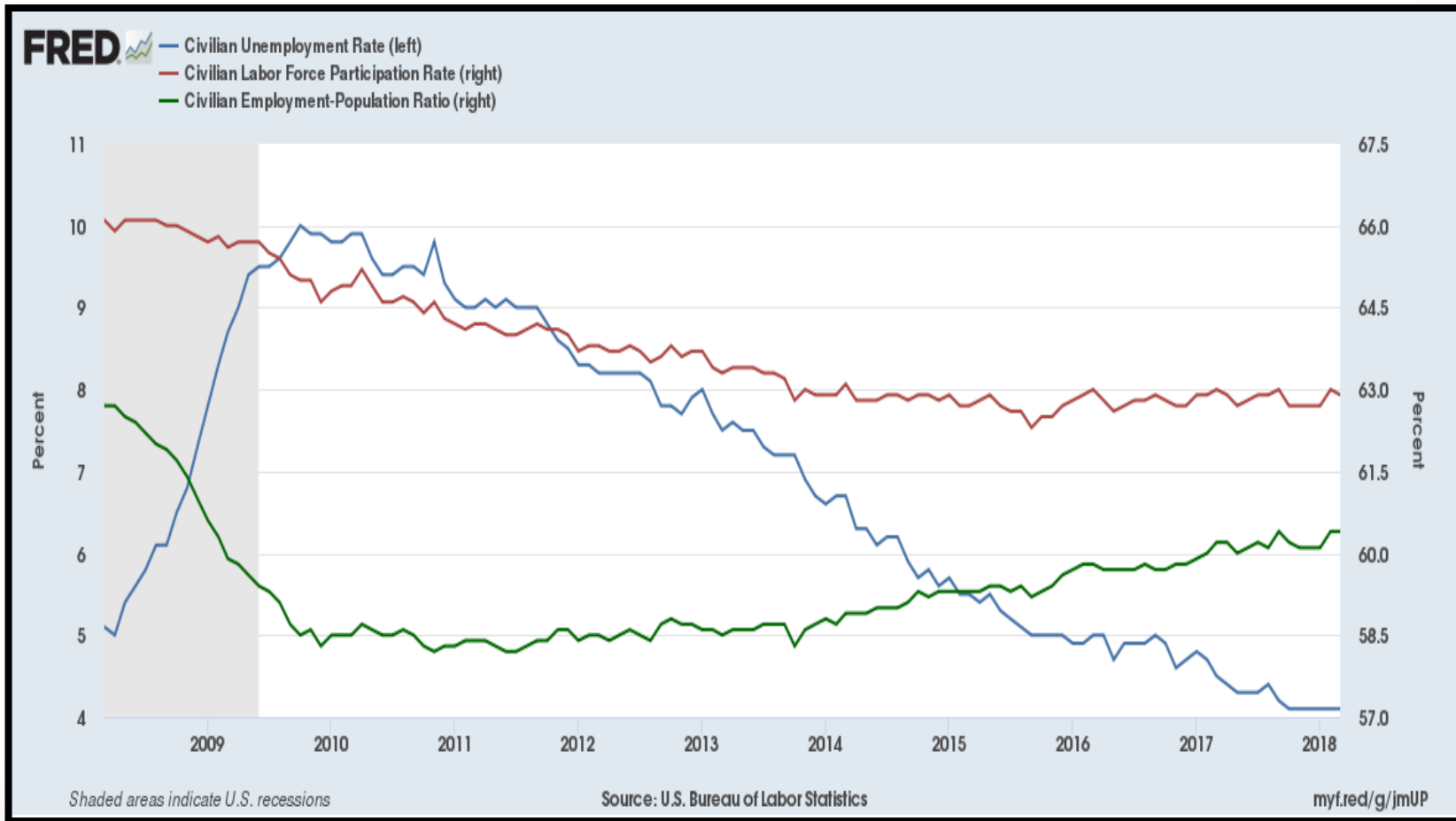
U.S. economy is betting on the consumer

- **PCE is key figure to track for inflation data – reveals consumers' willingness to pay greater % amount for good & services versus previous period**
- **GDP remains strong as does employment.**
- **Wage inflation (in part due to tax cuts) may be key**

Geopolitical Concerns

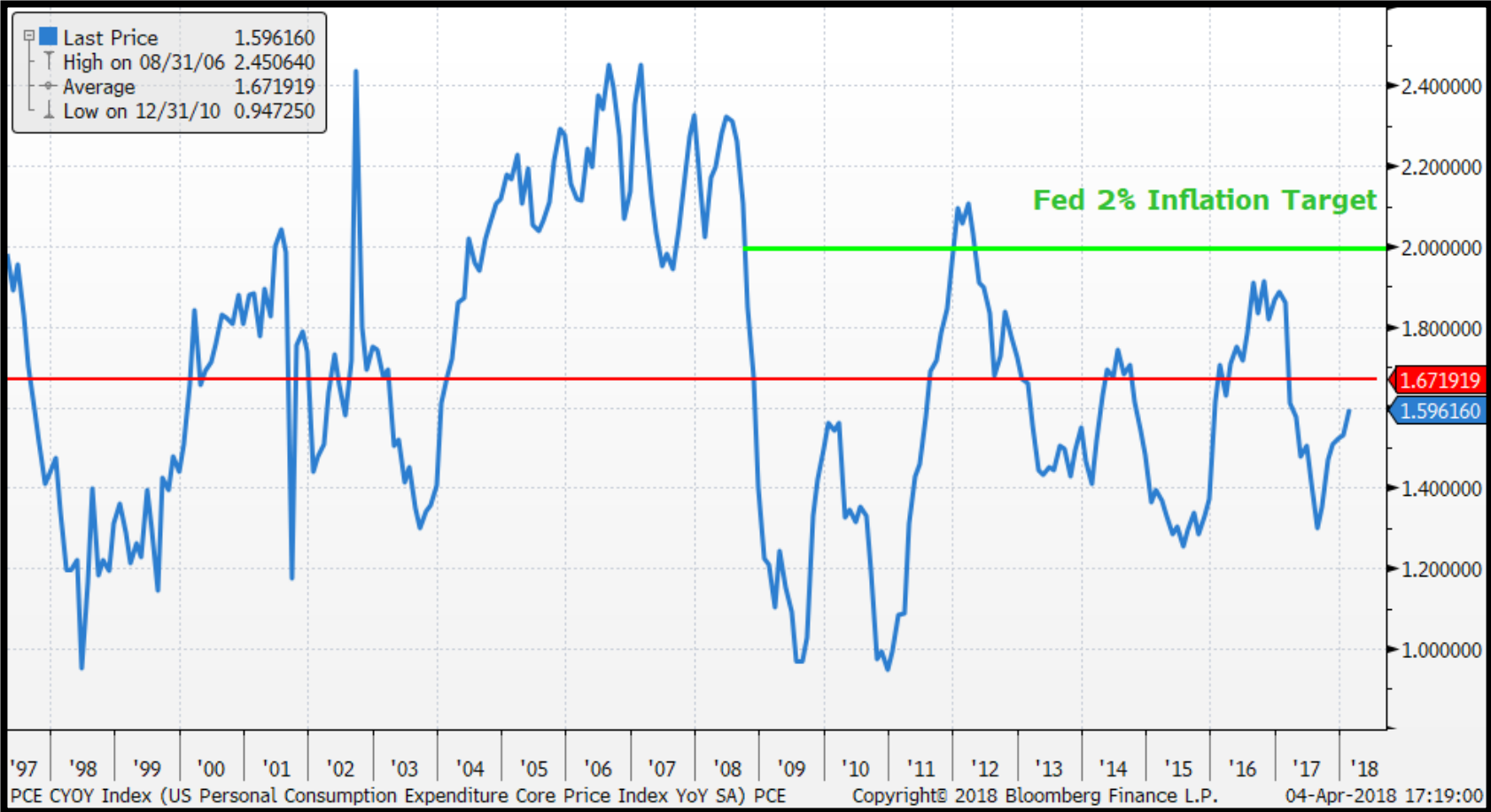
- **Trade wars make COGS more expensive for everyone in the short run.**
- **Real wars threaten the global economy even more.**

Employment

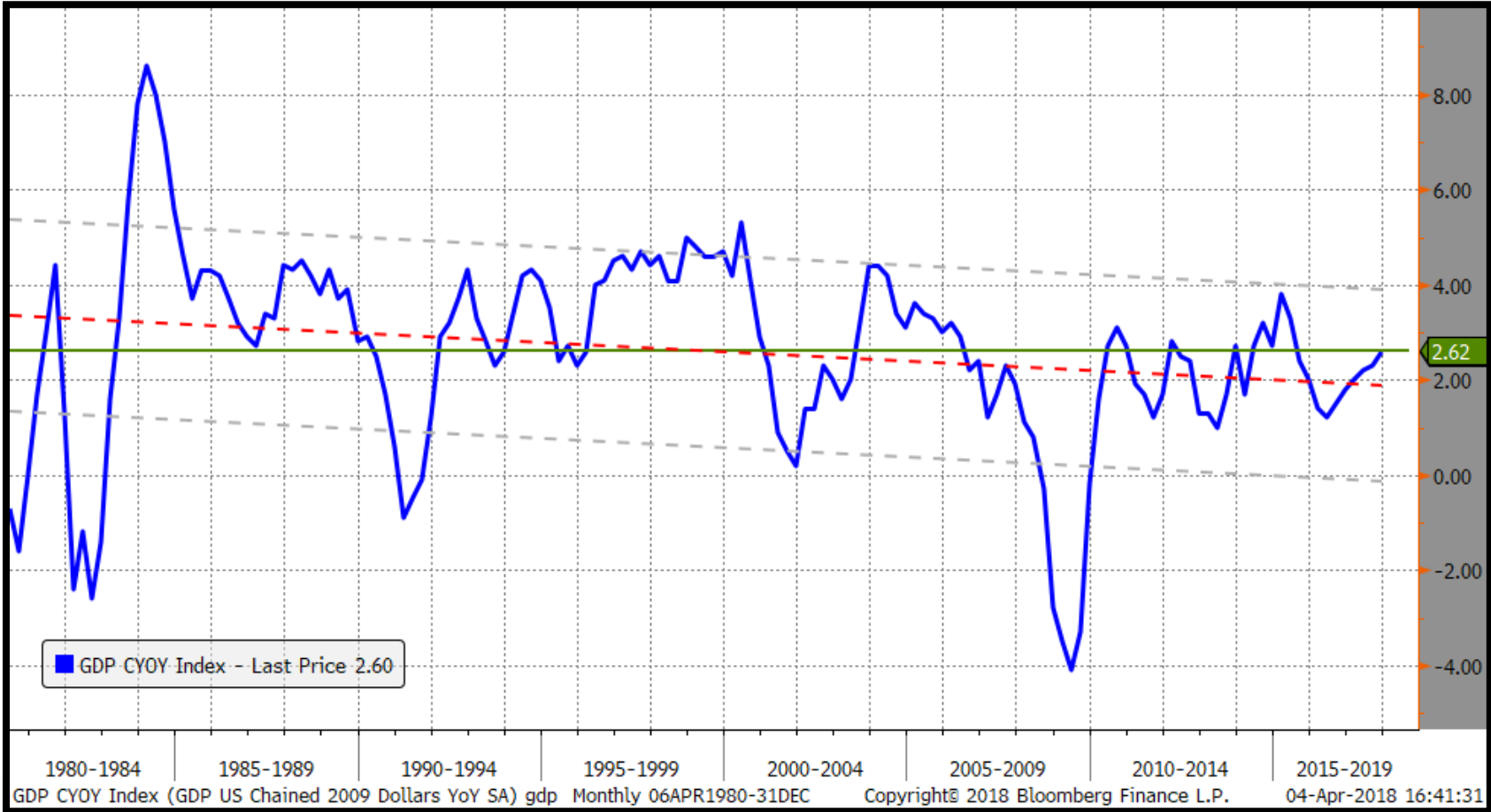


Inflation

PCE (YoY%)

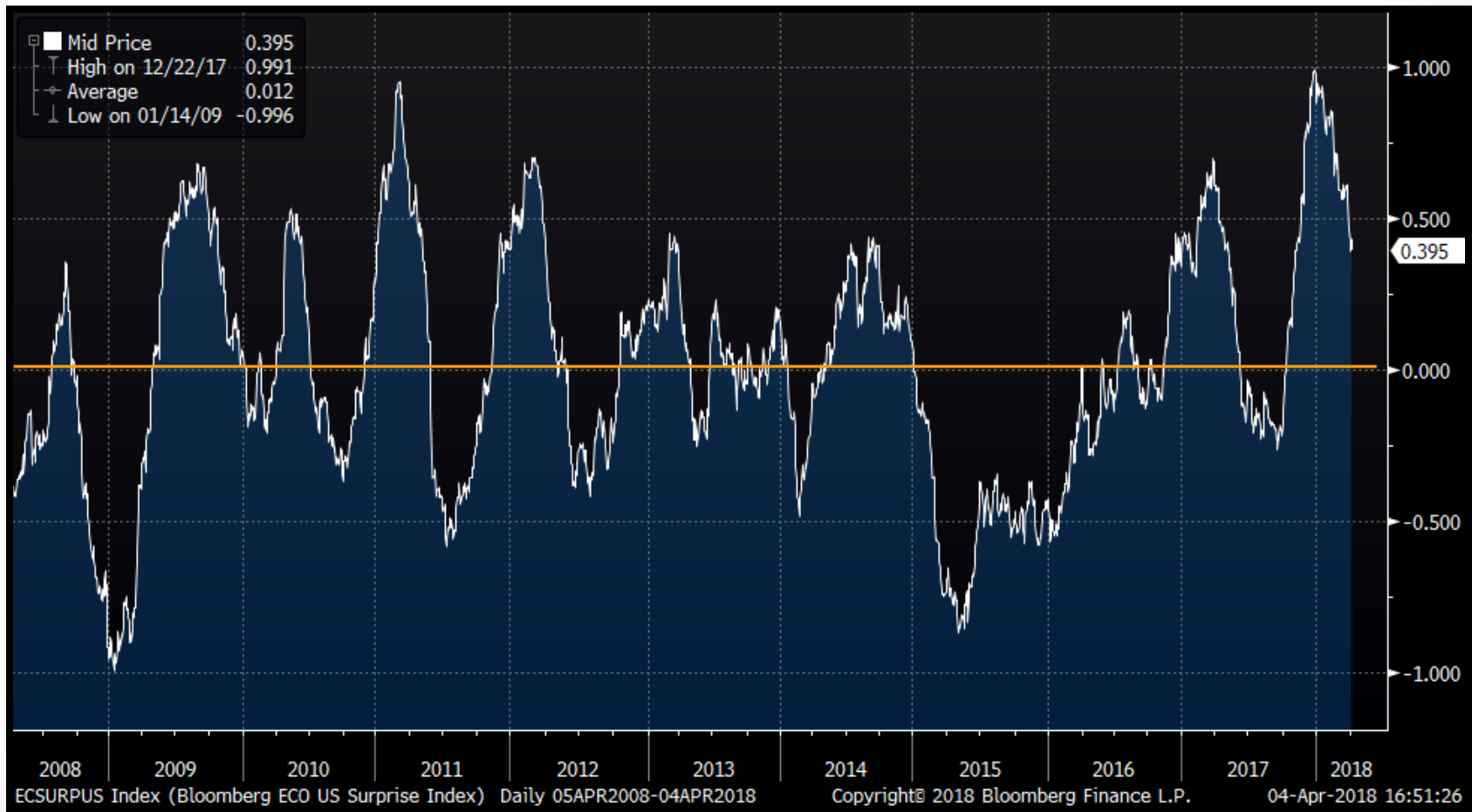


GDP Growth

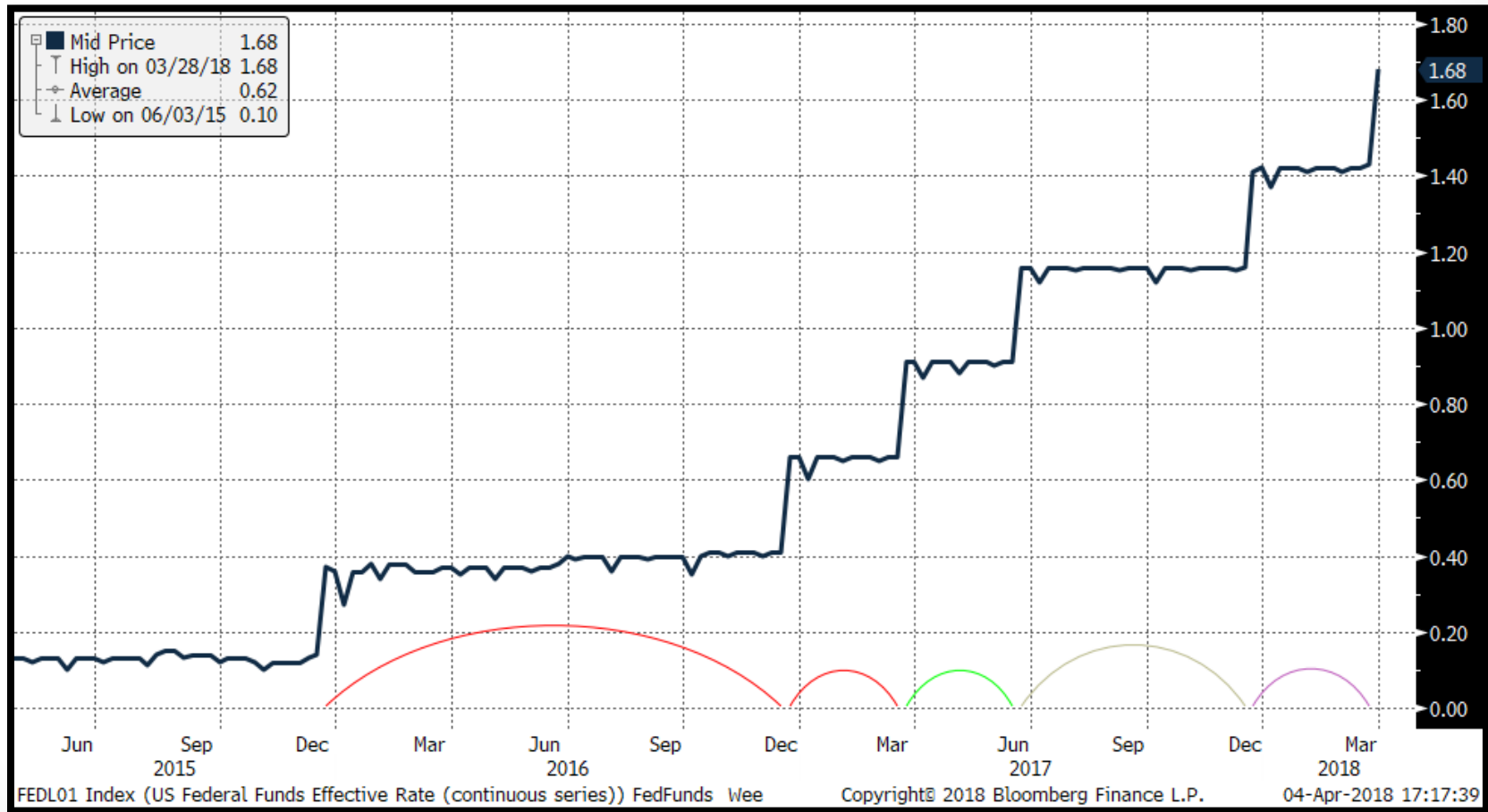


Data Sentiment

Economic Surprise Index



Fed Funds Rate



Federal Reserve Outlook

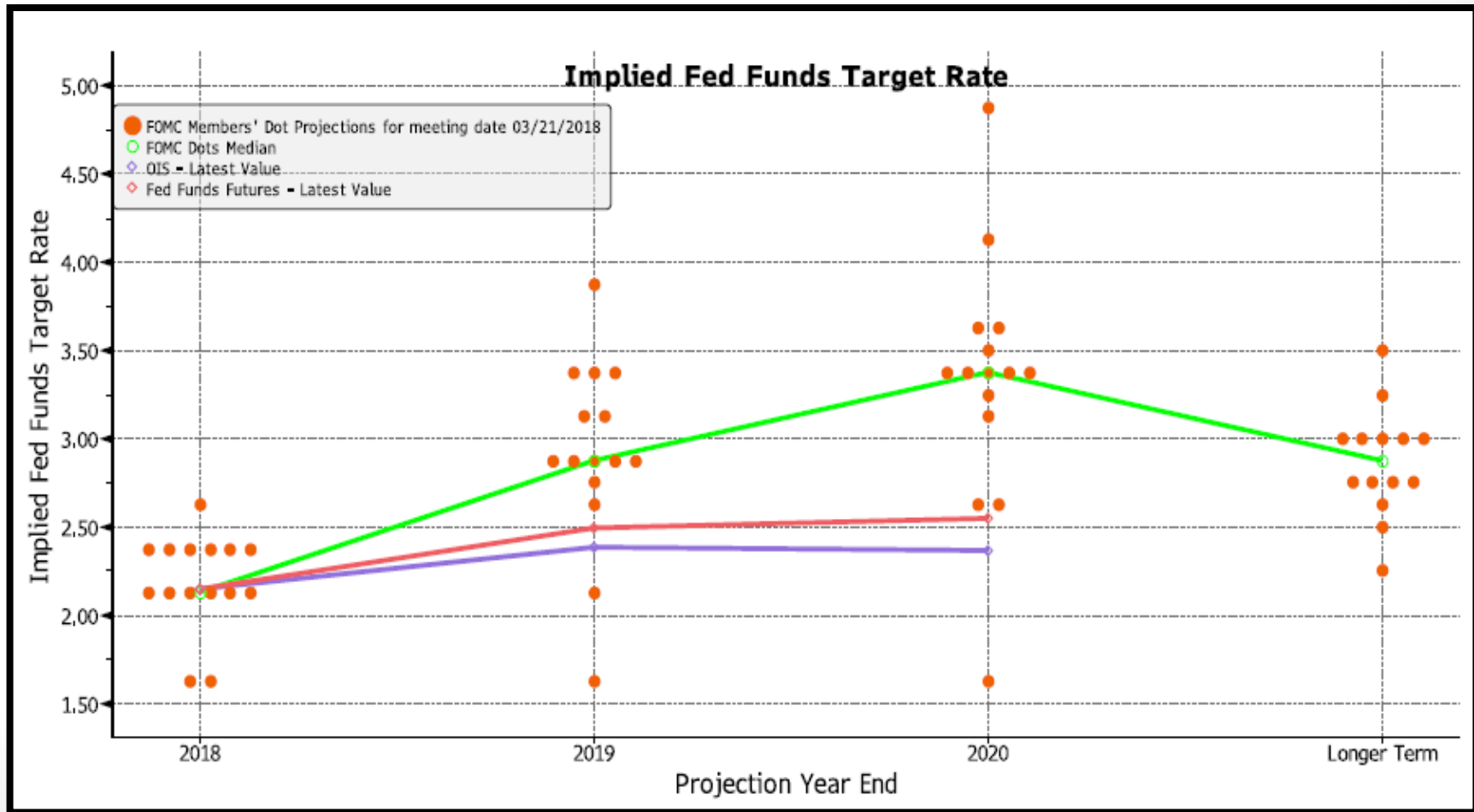
Near Term Policy Outlook

- Most economists expecting three more hikes in 2018
- 80% chance of June hike as of 4/6

Longer Term Policy Outlook

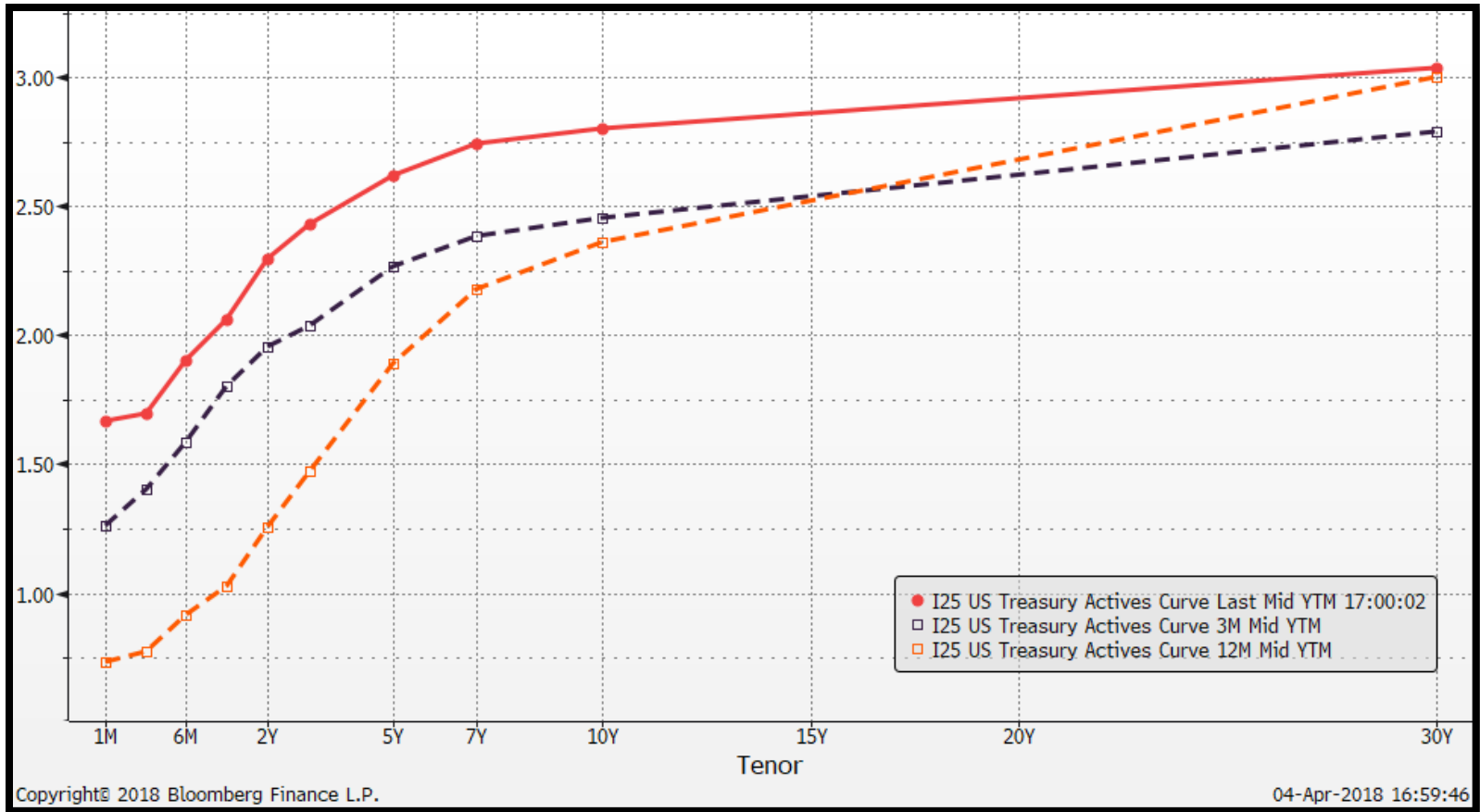
- Learning about Jay Powell's Fed
- Board composition (still three open seats)
- GDP growth / inflation / demographics
- Debt burden

Projected Path of Fed Funds

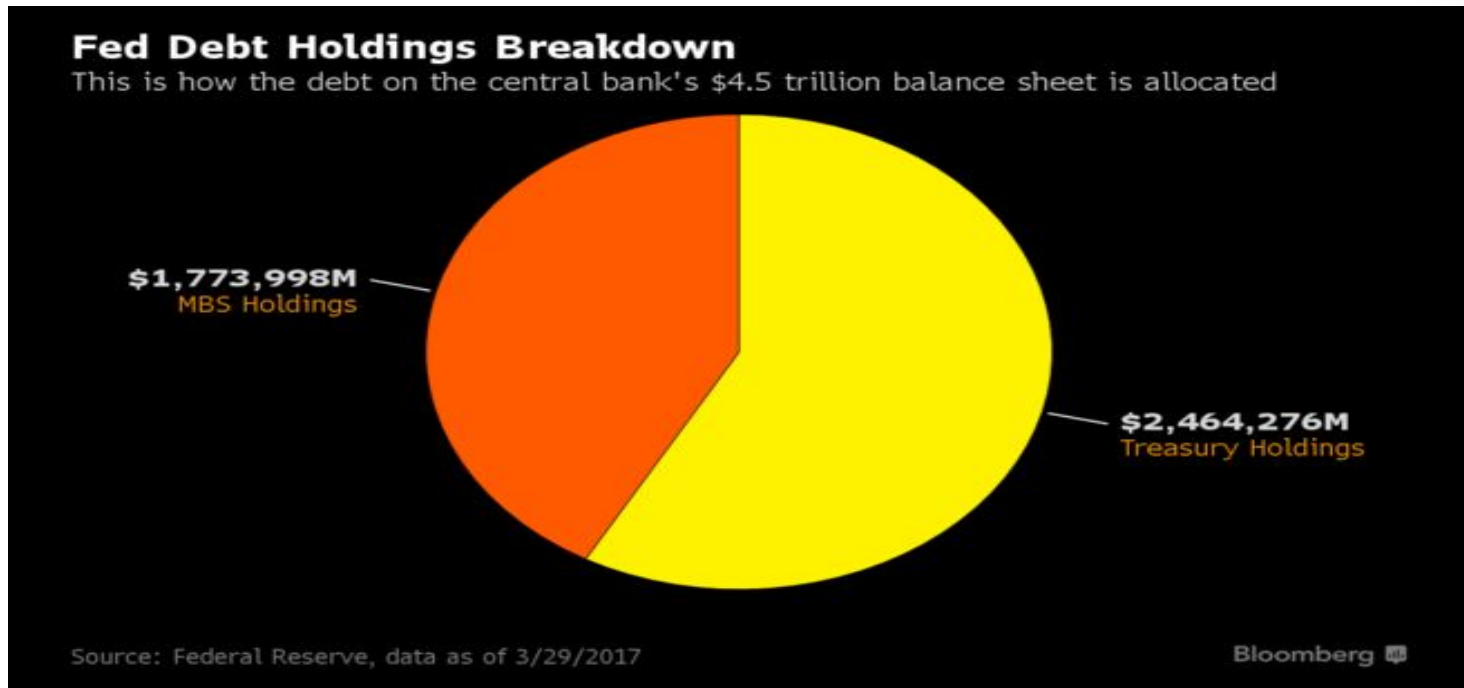


Interest Rate Environment

Over the last year, the yield curve has flattened upward.



Fed Balance Sheet Unwinding

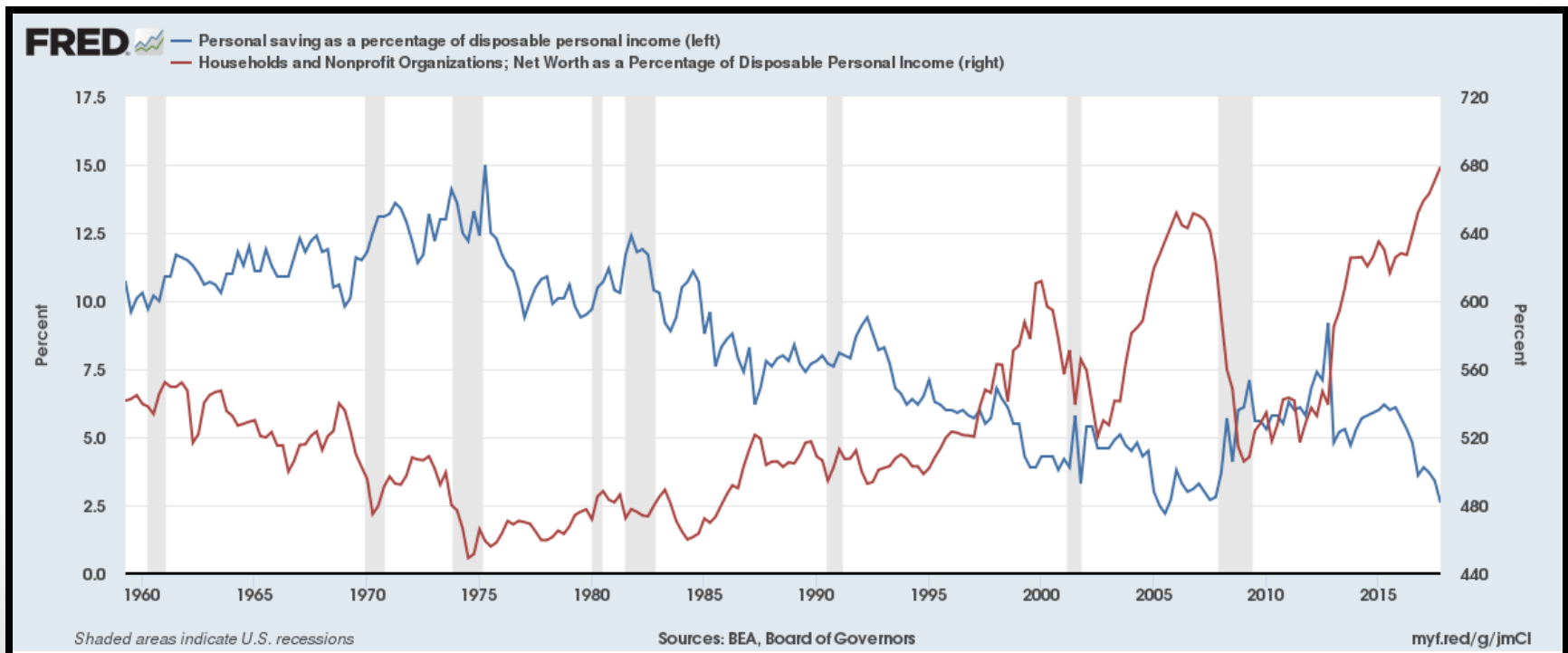


	Months 1-3	Months 4-6	Months 7-9	Months 10-12	Terminal Cap
U.S. Treasuries	6	12	18	24	30
Agency Debt and MBS	4	8	12	16	20

Source: Federal Open Market Committee.

Other factors

- Student loan delinquencies continue to rise
- Subprime auto loans defaults
- Credit card balance delinquencies
- “Two economies”?



Investing in Rising Rate Environment

Be Opportunistic

- Interest rate volatility will create moments of opportunity
- Keep cash on hand, but be willing to put it to work when markets move your favor

Be Disciplined

- Following a laddered or barbell strategy will keep portfolio balanced
- Investing regularly will be smartest in the long run. Don't be short-term greedy.

Be Flexible

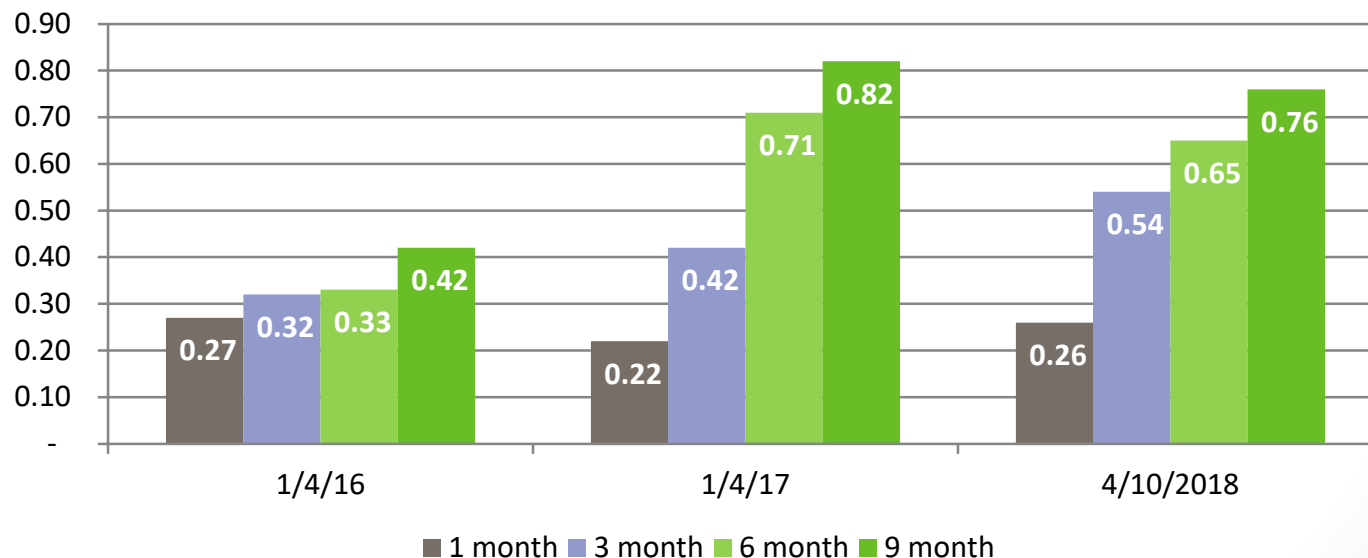
- Keep your paradigm adaptable to a changing environment
- New products and programs will come into favor while others will fade

Commercial Paper

Spreads Remain Wide, But Tightening Slightly

- Money market reform resulted in changes to prime funds
- As a result, over \$900B in assets moved to government funds
- Commercial paper is a large component of prime funds
- Decreased demand resulted in increased commercial paper yields

Commercial Paper (A1/P1) vs. Agency Discount Notes

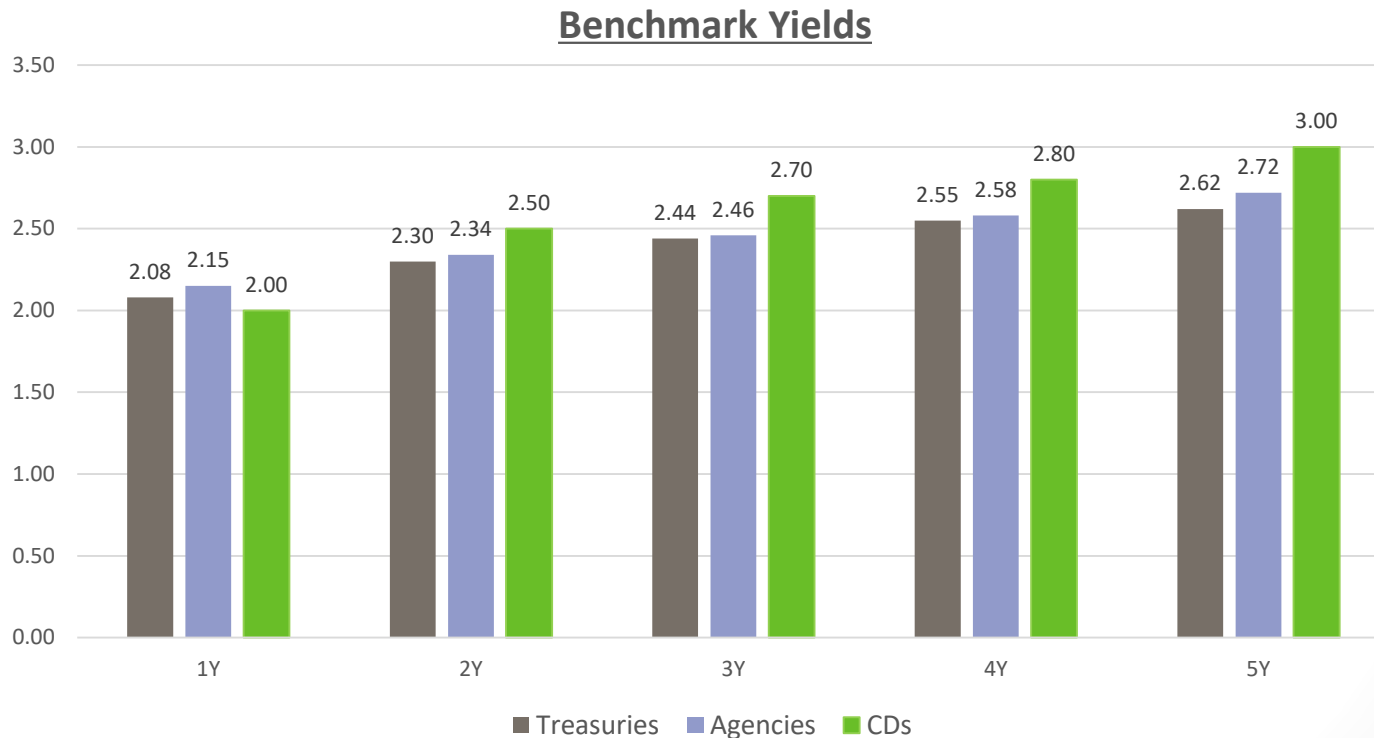


Source: Bloomberg
As of 4/10/2018

Certificates of Deposit

CD Yields Lagging on Short End, Exceeding on Long End

- Agency spreads have narrowed against Treasuries
- CDs trailing on short end as banks adjusting funding slower than market
- Longer term CD rates are 25-30 bps higher than 3–5 year agency bullets



Source: Bloomberg

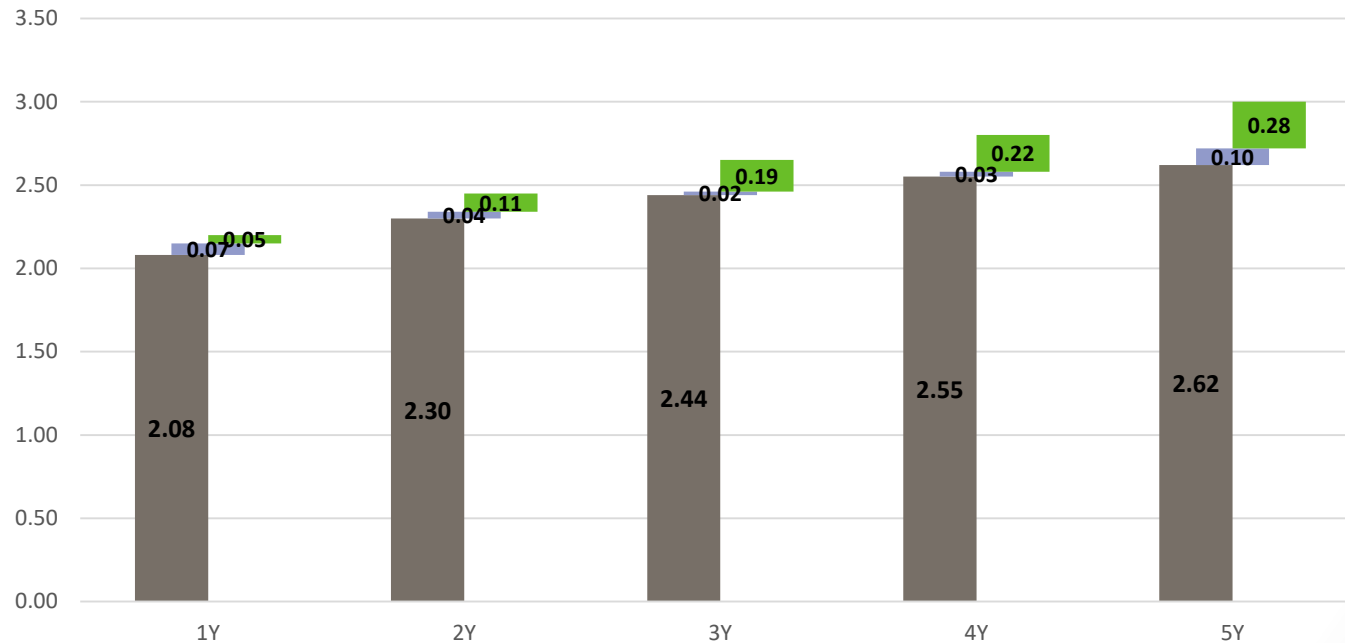
As of 4/10/2018

Callable Agency Bonds

Provides Yield Enhancement Over Bullets

- Callables can achieve incremental yield compared to noncallable agencies
- Required liquidity is an important factor when deciding to add callable agency bonds to a portfolio.

Agency Spreads to Treasuries



Source: Bloomberg
As of 4/10/2018

■ Treasuries ■ Agencies ■ Callable Agencies

Thank You!

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