

CPIM

CENTER FOR PUBLIC INVESTMENT MANAGEMENT



A PROGRAM BROUGHT TO YOU BY:

JOSH MANDEL

TREASURER OF OHIO

General Session & Market Update

Presenters

- Jason Click, President Public Funds
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- Jason Headings, Sr. Vice President Public Funds
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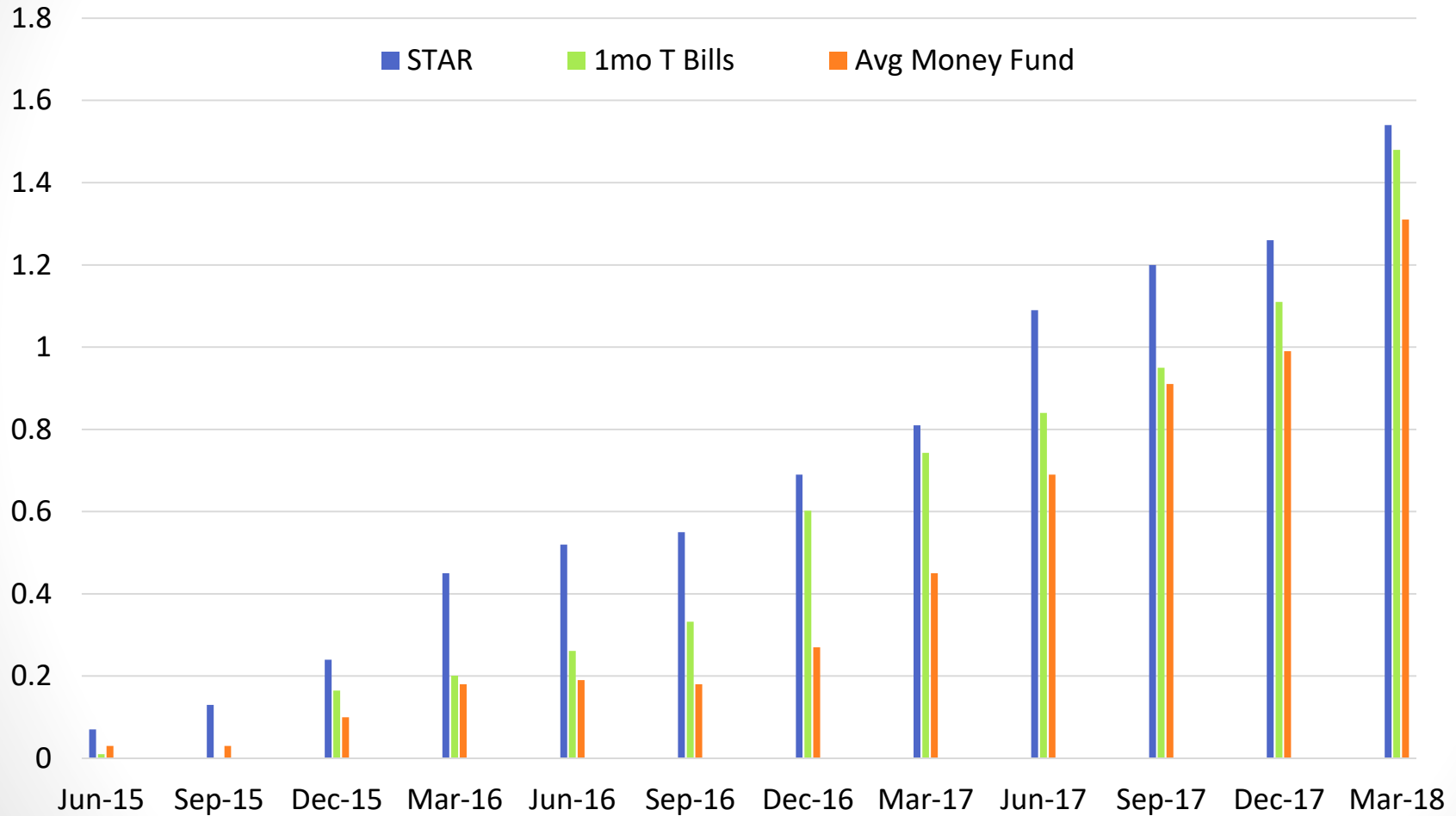
- Jim McCourt, Vice President
- United American Capital Corporation
- jmccourt@uacc.com

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

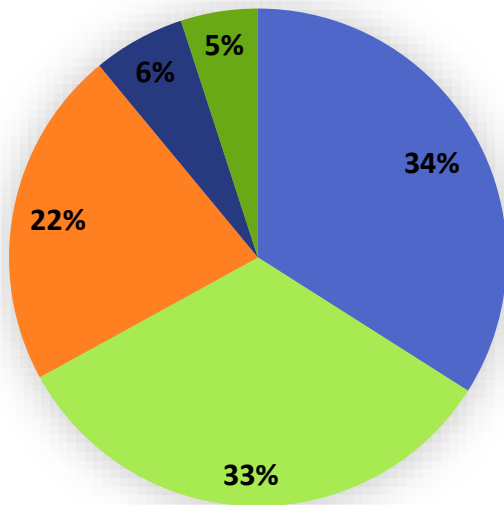
STAR Ohio vs. Treasury vs. Avg Money Fund



Over \$10 billion in Deposits

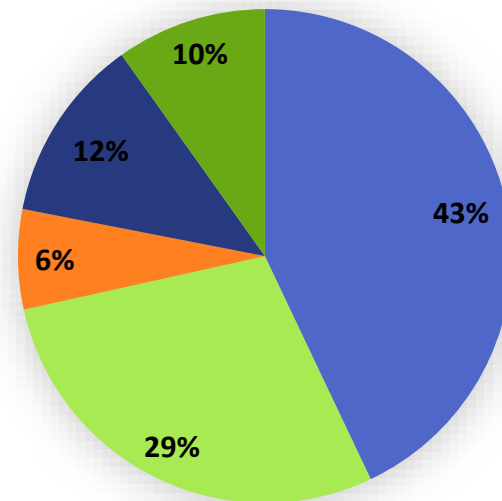
Composition

6/30/2017



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

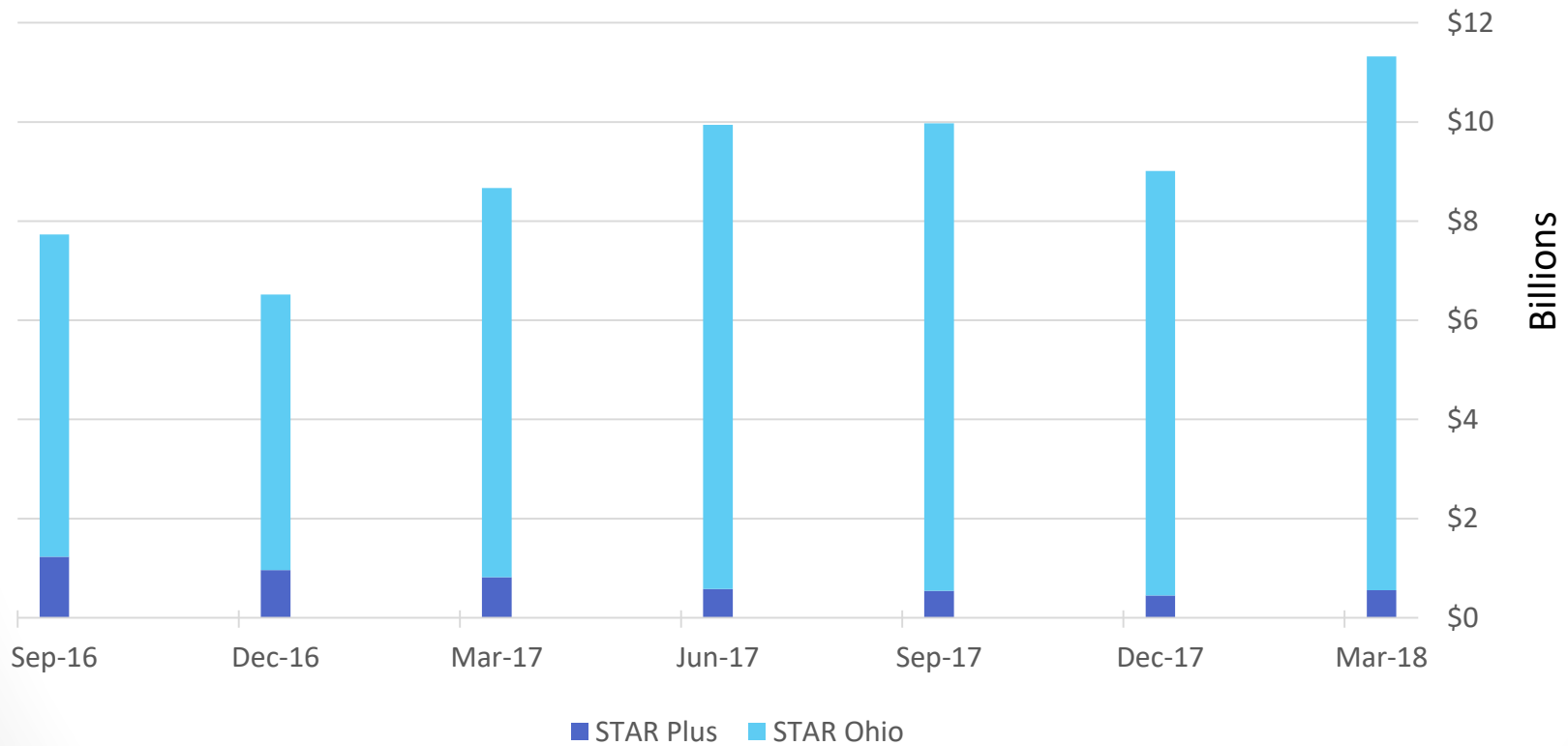
05/14/2018



- Commercial Paper - 43%
- Cash - 28.5%
- Gov't Bond - 6.5%
- Repo - 12%
- Corporate Bond - 10%

Program Assets

Star Ohio vs Star Plus



Data as of 5/14/18

Driving Forces Behind Fed Policy

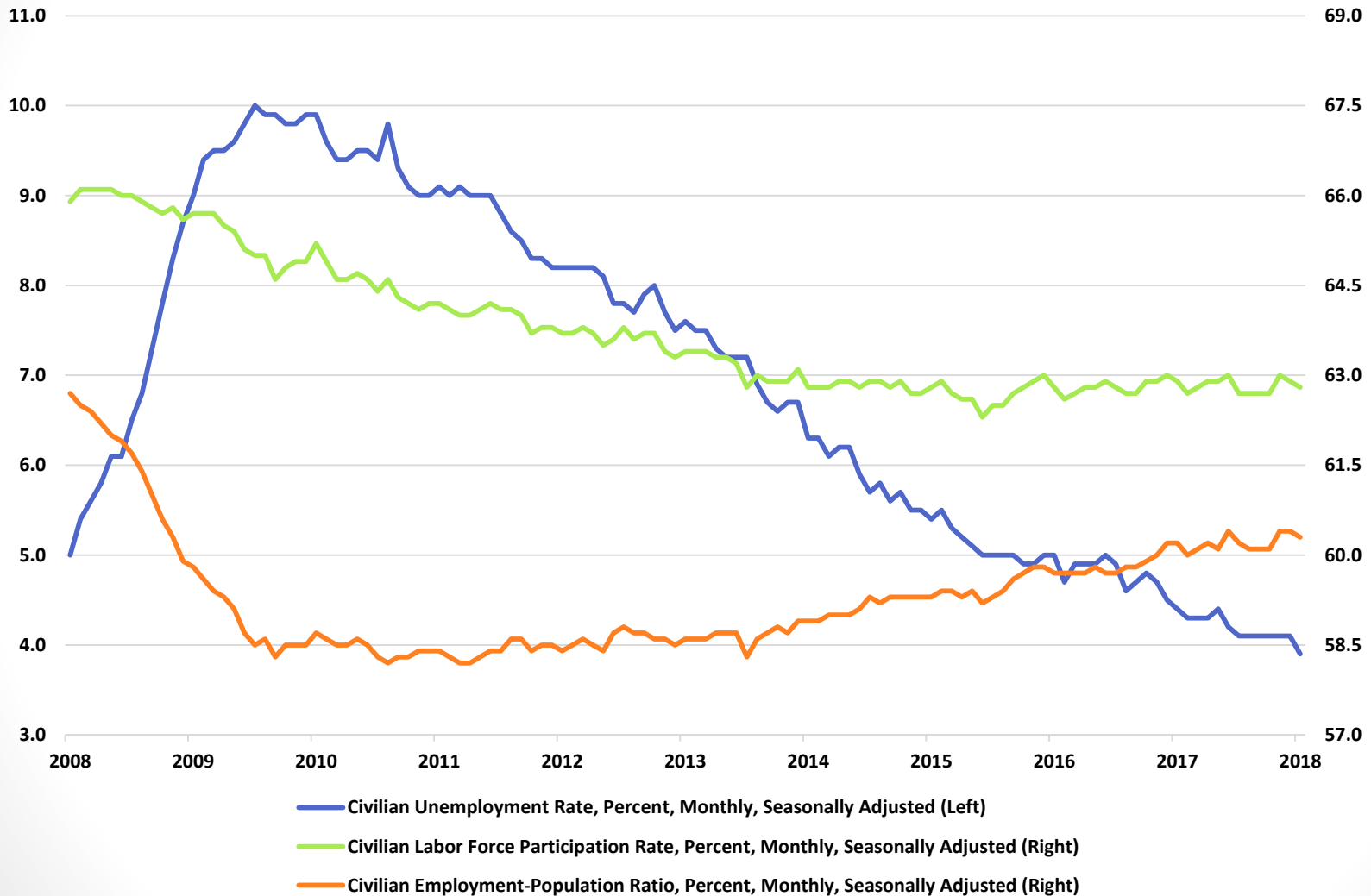
U.S. economy is betting on the consumer

- 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

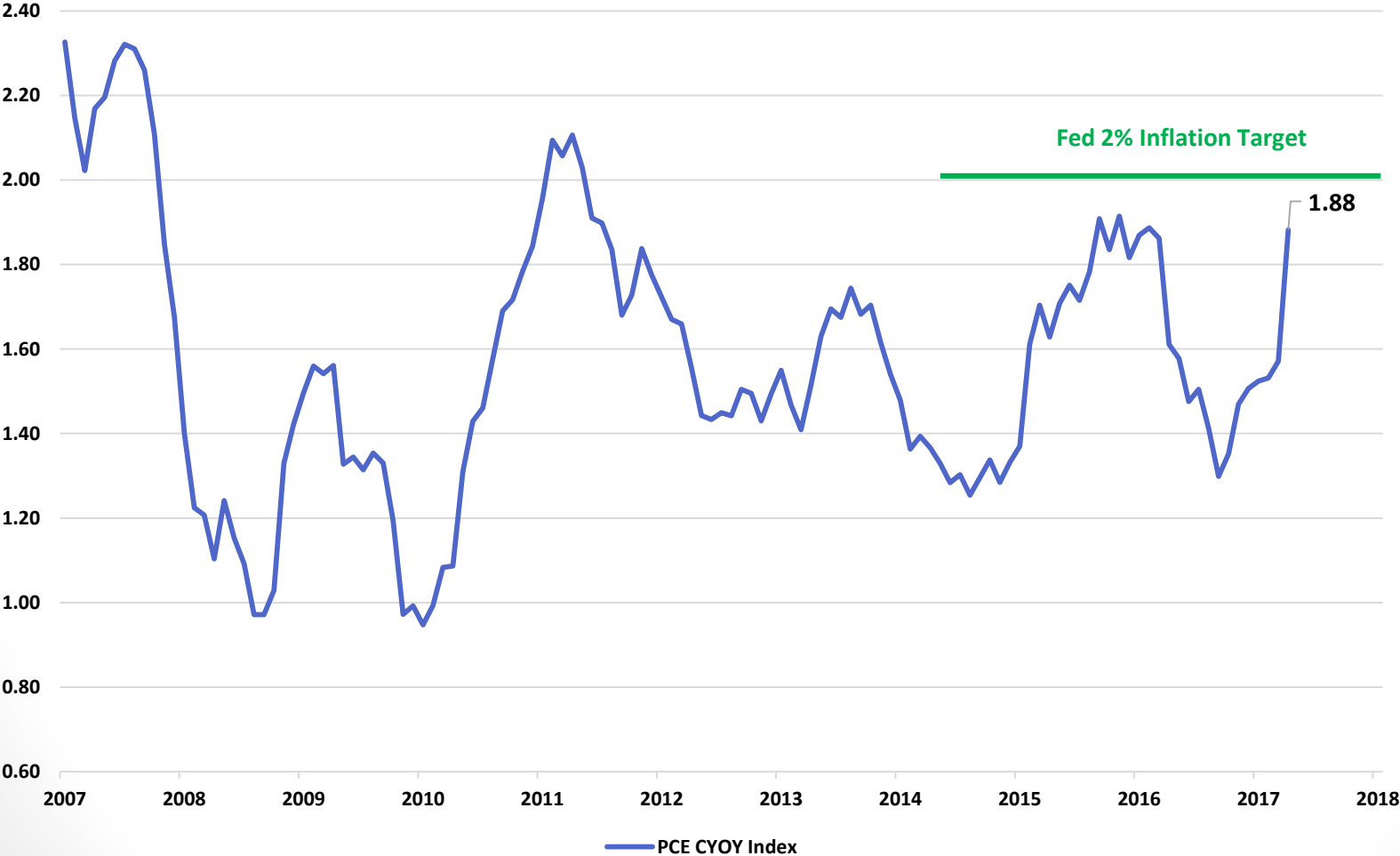


Data as of: 05/15/18

Source: St. Louis Federal Reserve Economic Database

Inflation

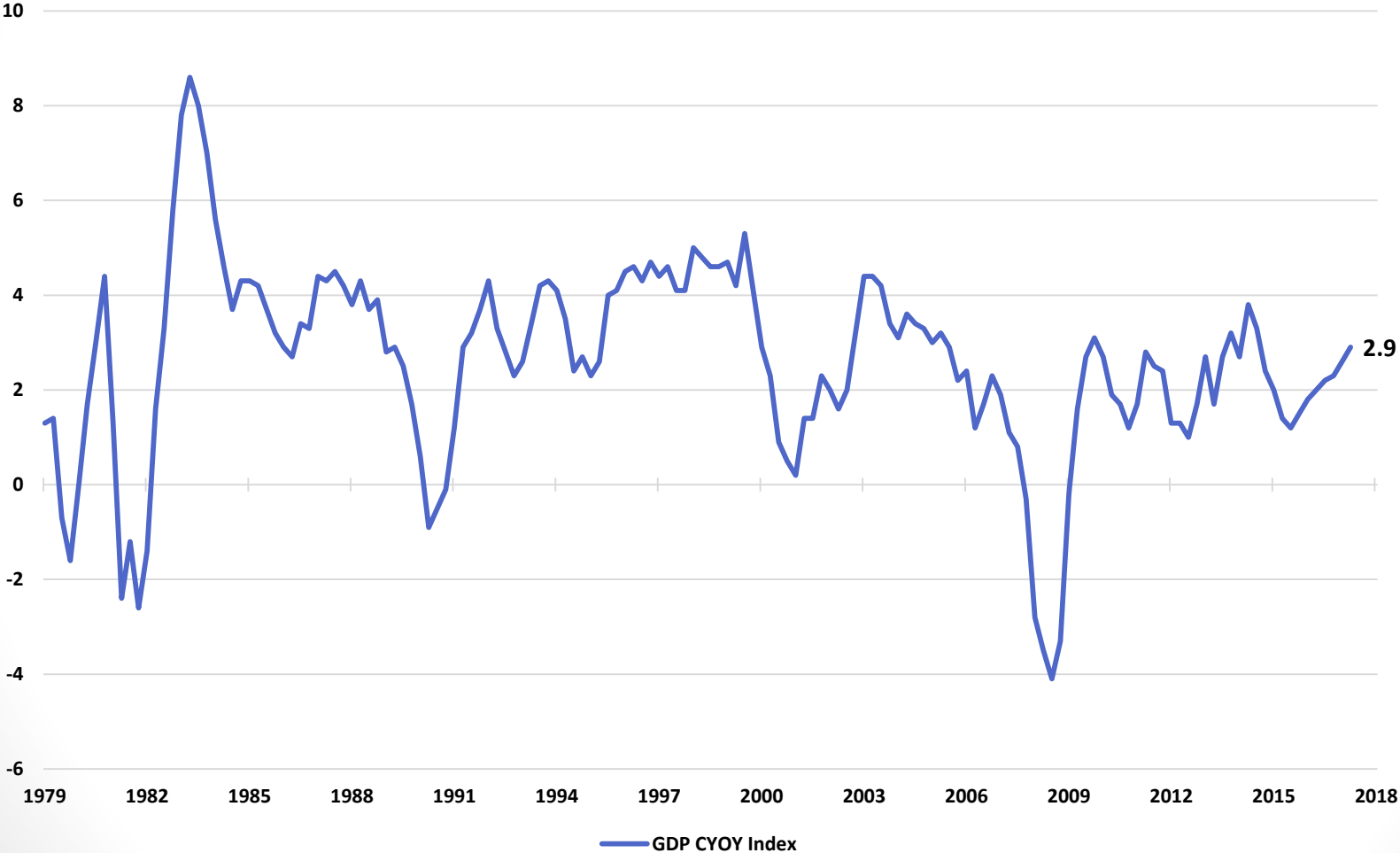
PCE (YoY%)



Data as of: 05/15/18

Source: Bloomberg L.P.

GDP Growth

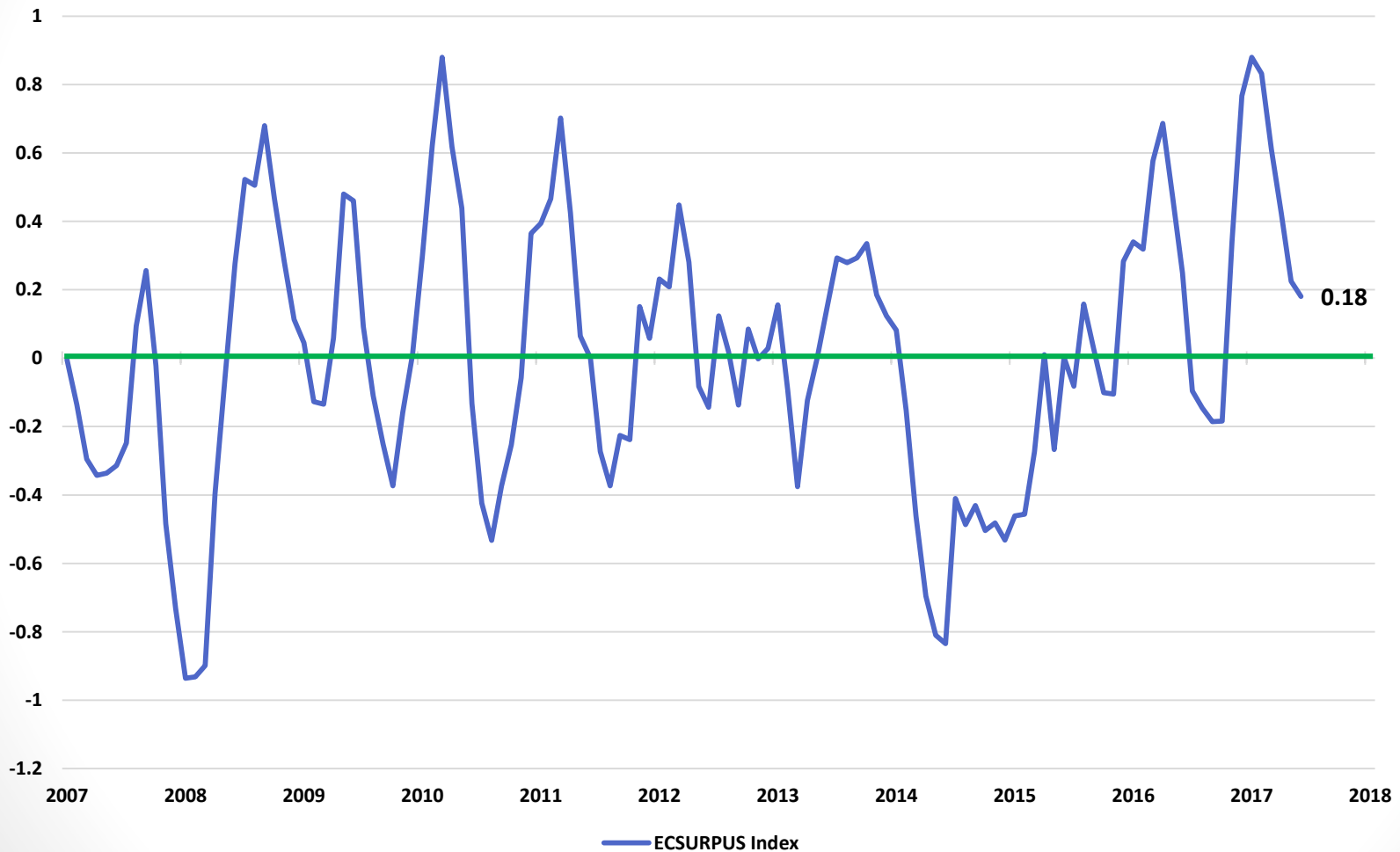


Data as of: 05/15/18

Source: Bloomberg L.P.

Data Sentiment

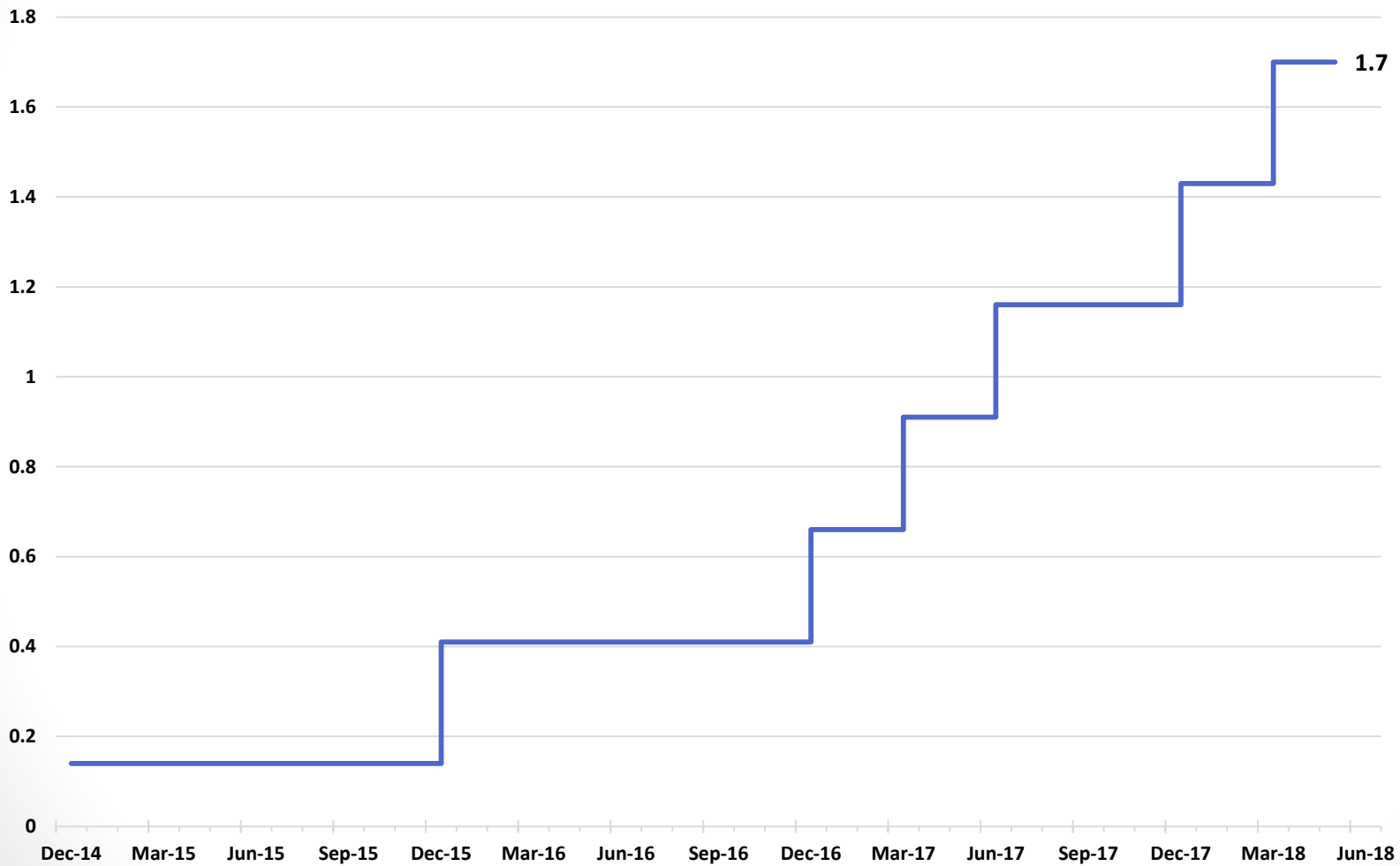
Economic Surprise Index



Data as of: 05/15/18

Source: Bloomberg L.P.

Fed Funds Rate



Data as of: 05/15/18

Source: Bloomberg L.P.

Federal Reserve Outlook

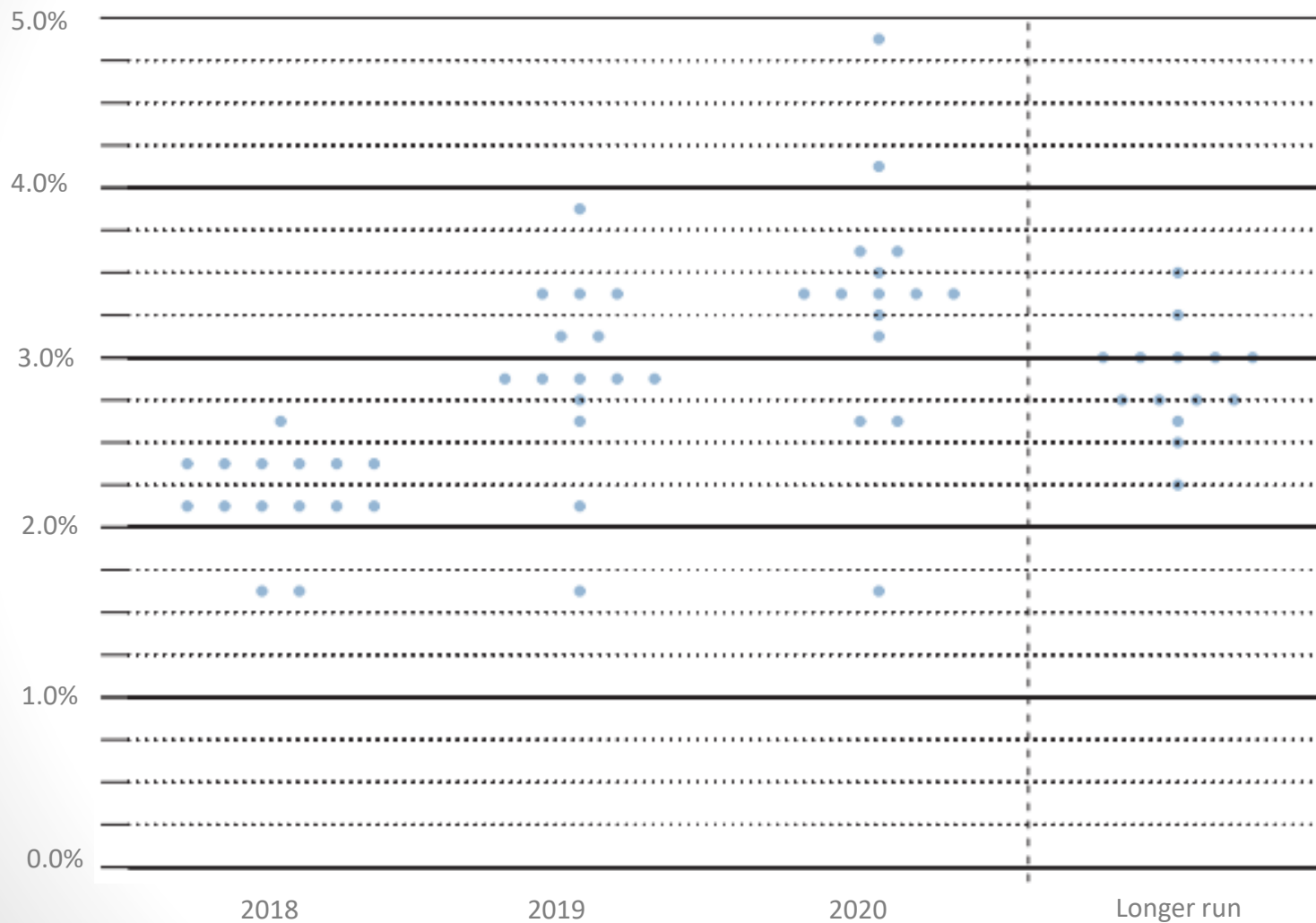
Near Term Policy Outlook

- 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

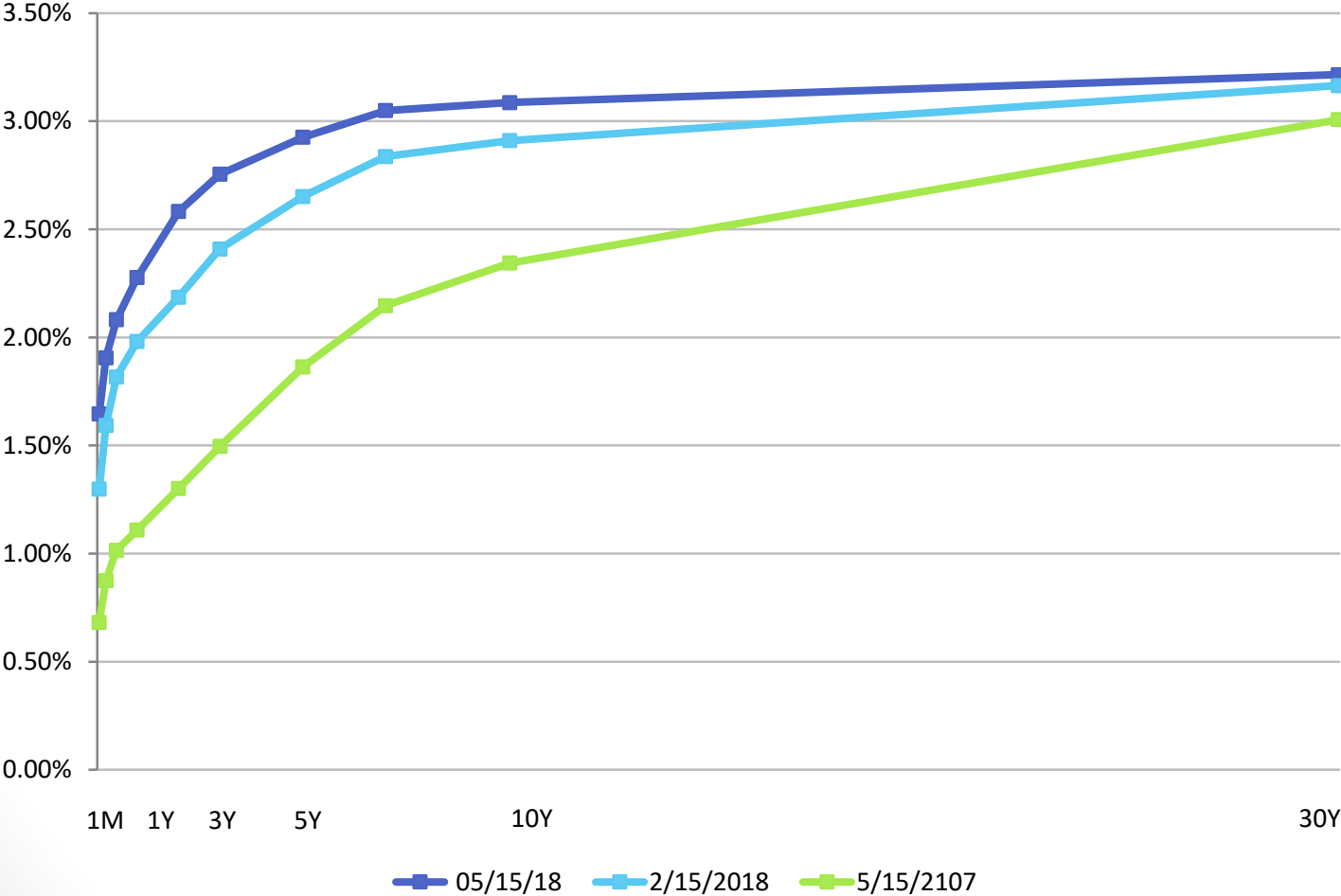
Project Path of Fed Funds



Source: Federal Reserve.

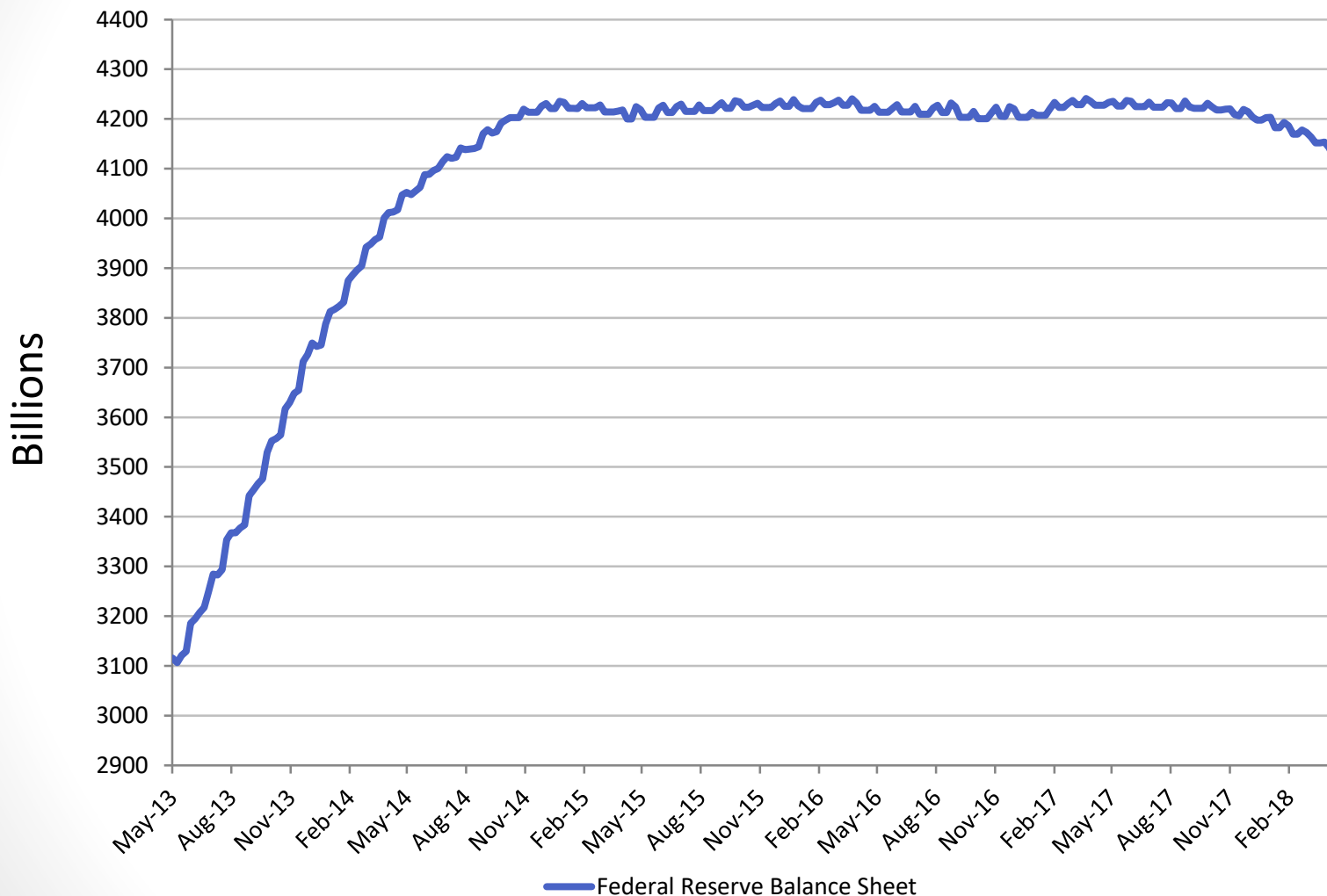
Interest Rate Environment

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



Source: Bloomberg L.P.

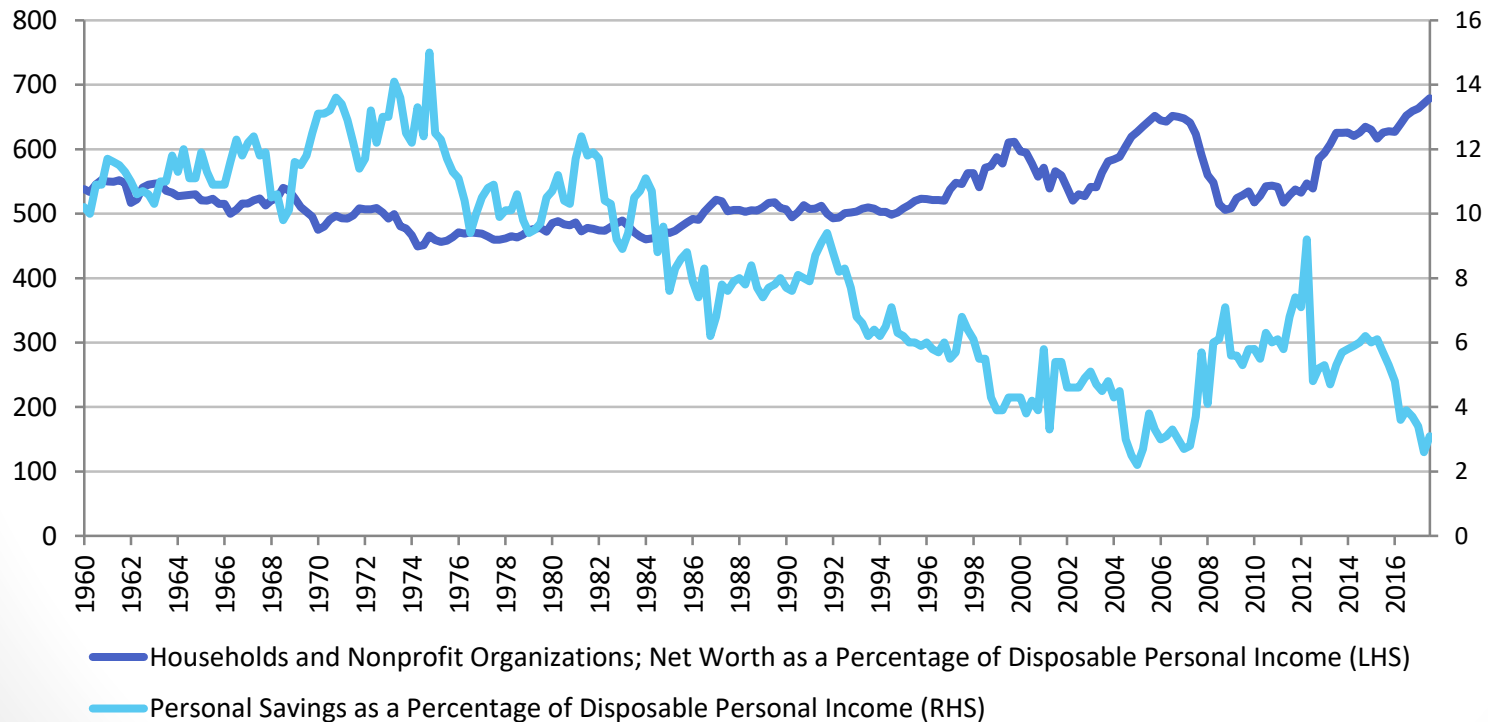
Fed Balance Sheet Unwinding



Source: Federal Reserve.

Other factors

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



Source: Federal Reserve.

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.

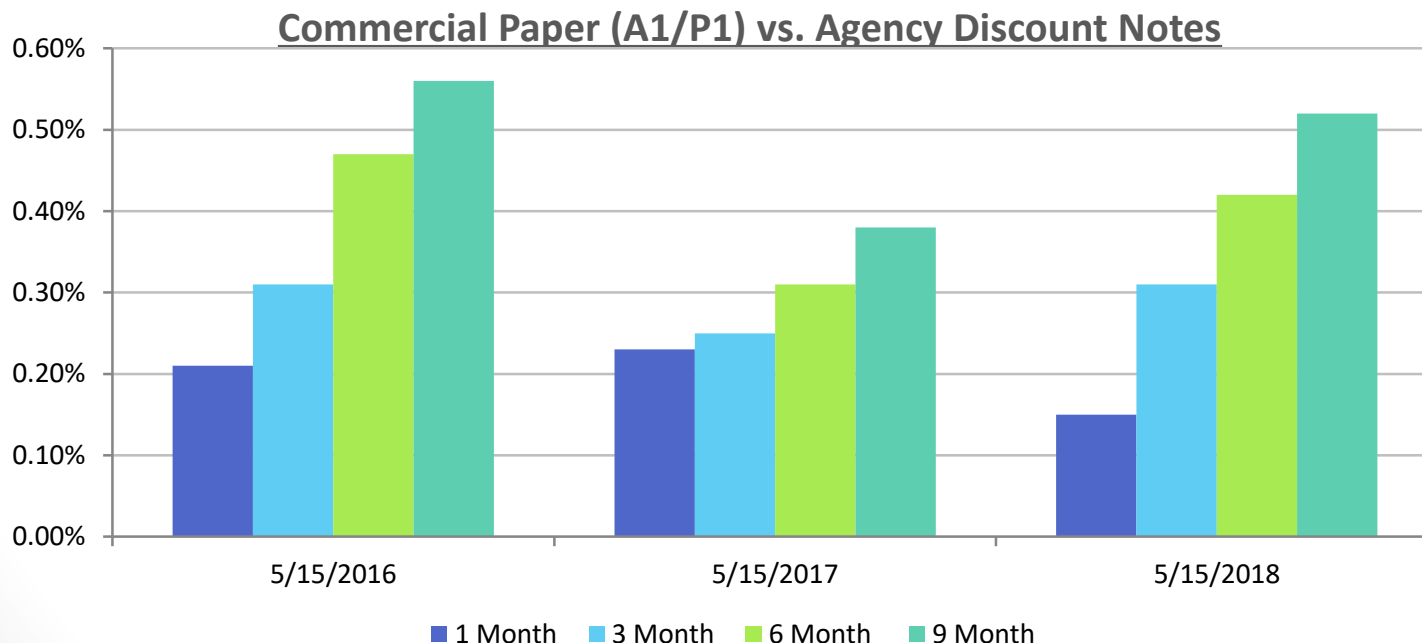
Be Flexible

- 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



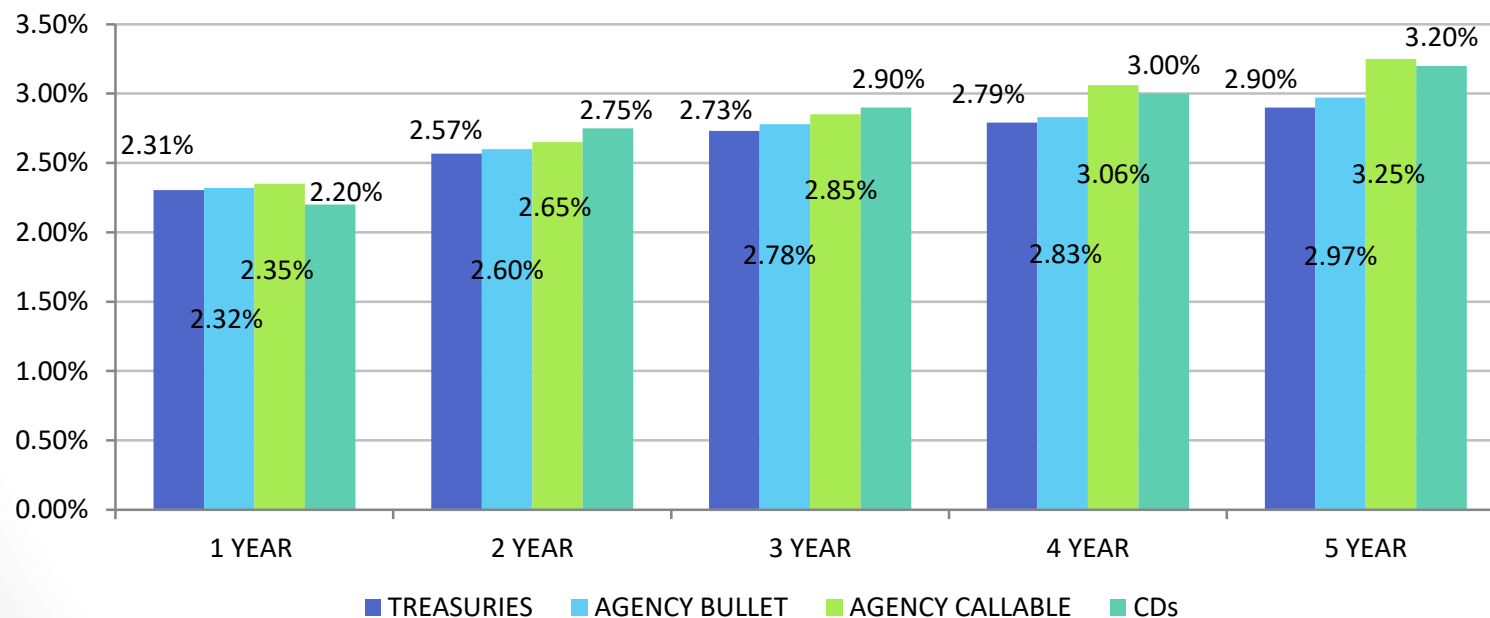
Source: Bloomberg, as of 05/15/2018.

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 15-20 bps higher than 2–5 year agency bullets

Benchmark Yields



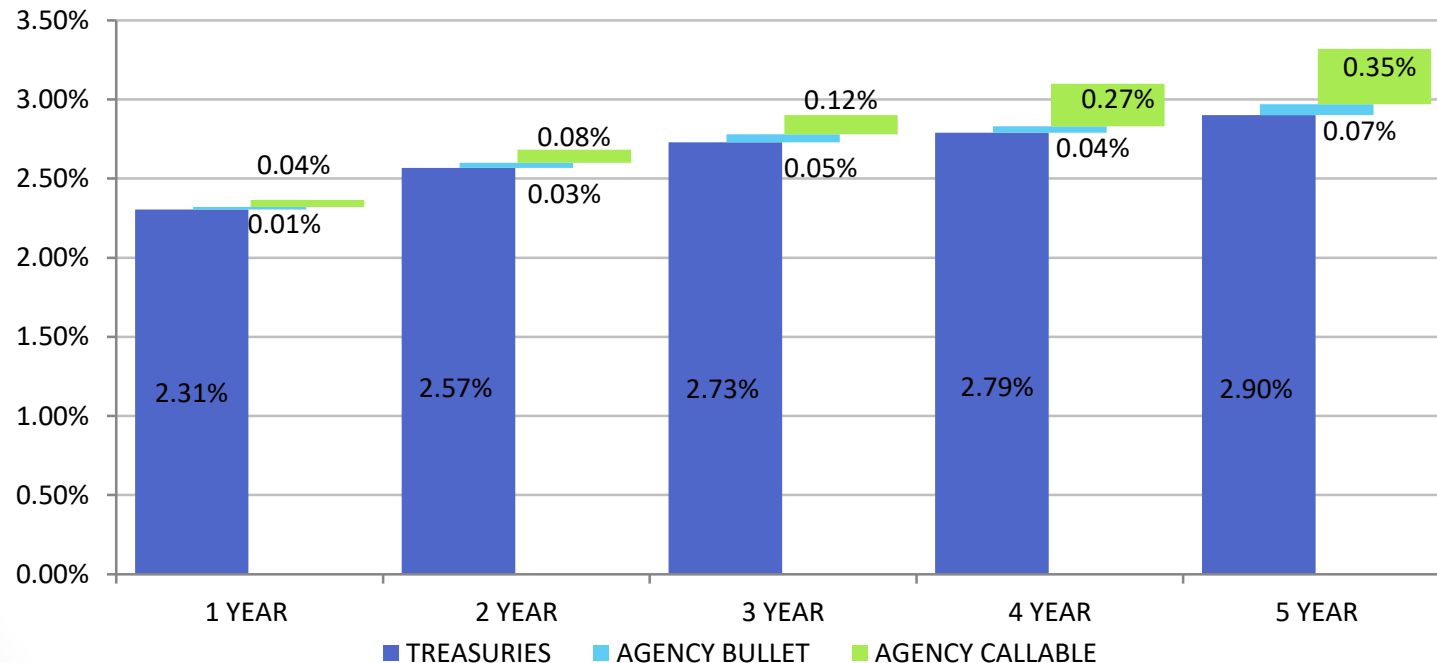
Source: Bloomberg, as of 05/15/2018.

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 05/15/2018.

Thank You!

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