

CPIM

CENTER FOR PUBLIC INVESTMENT MANAGEMENT



A PROGRAM BROUGHT TO YOU BY:

JOSH MANDEL

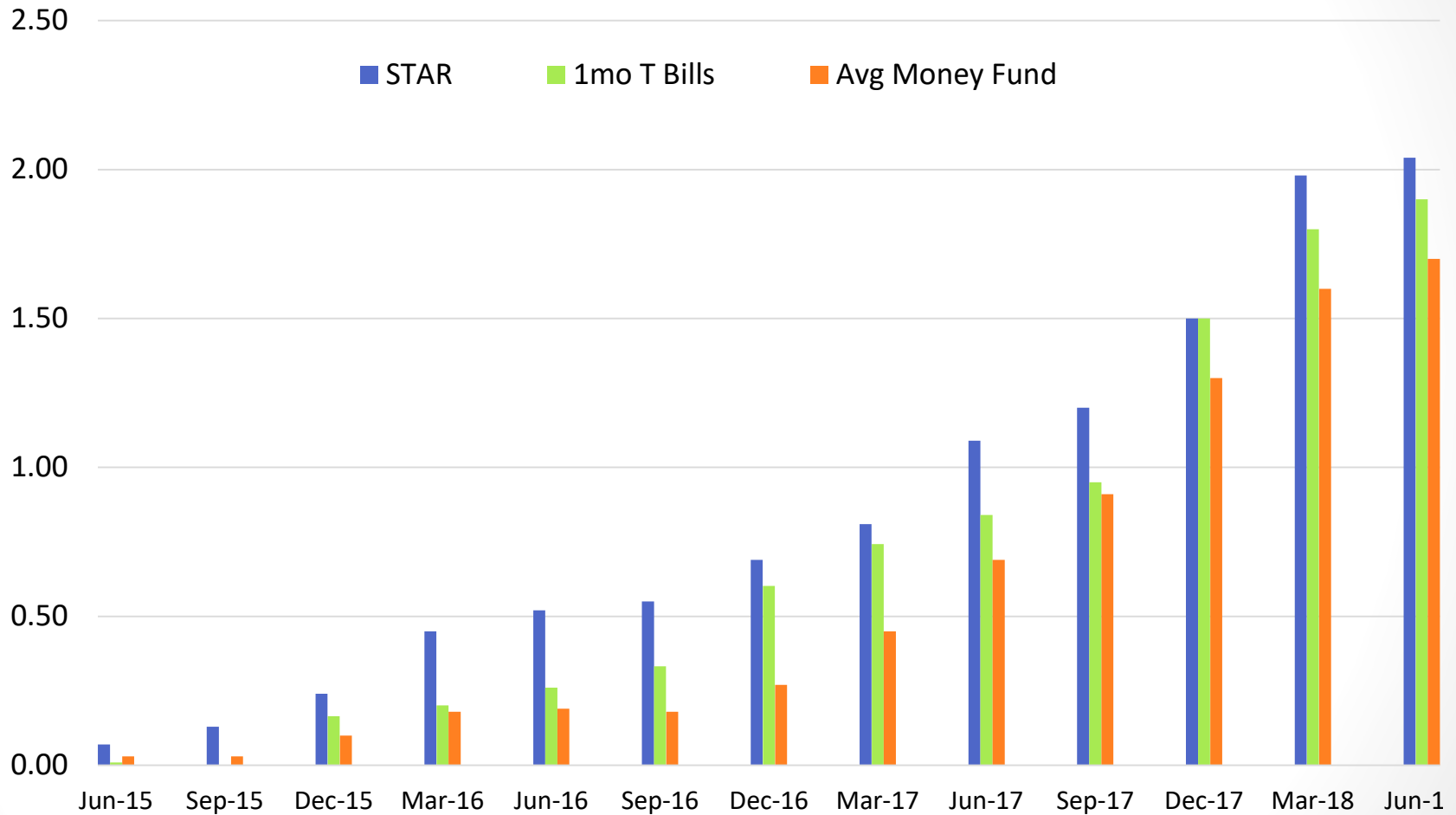
TREASURER OF OHIO

# General Session & Market Update

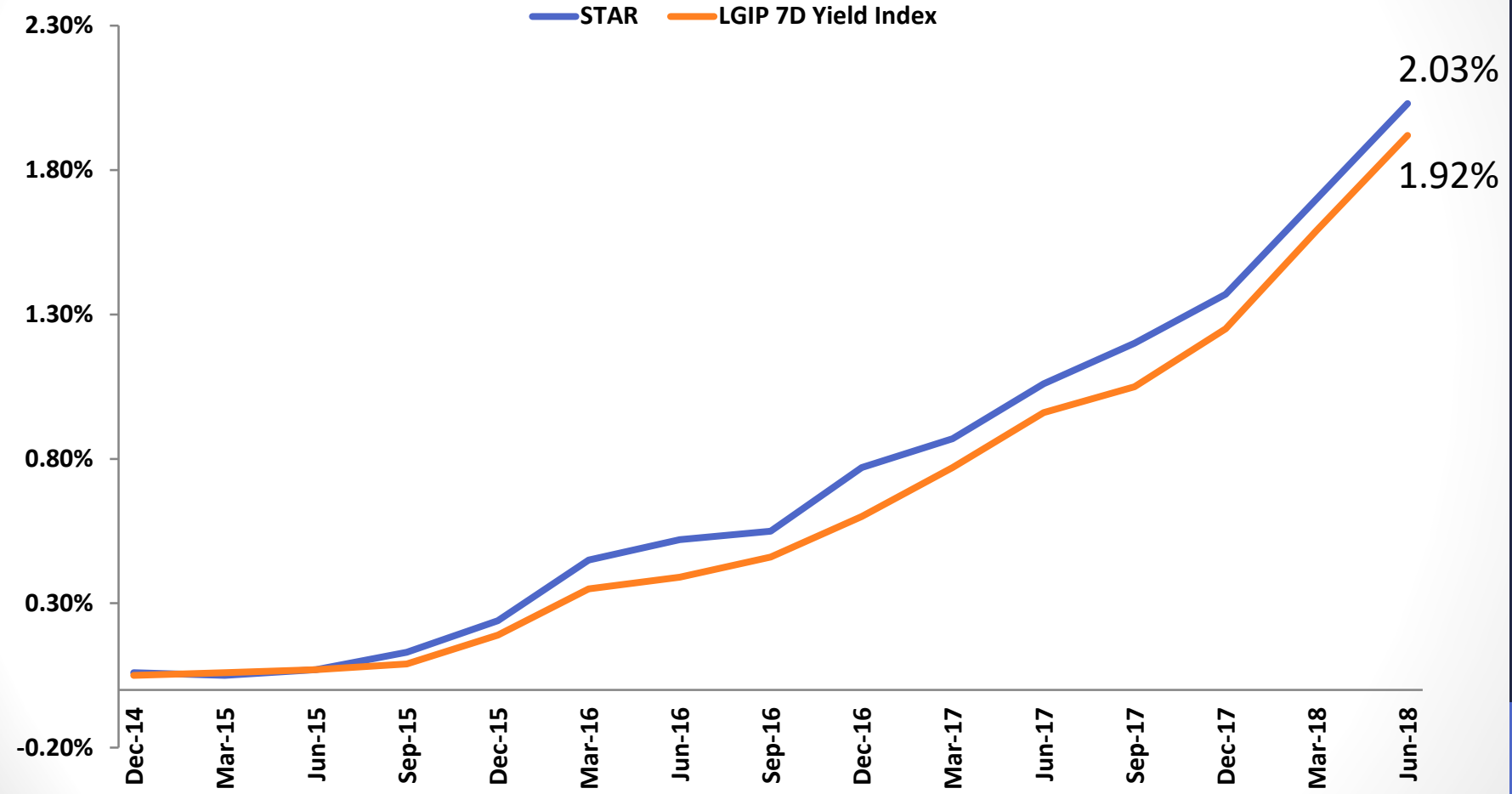
# Presenters

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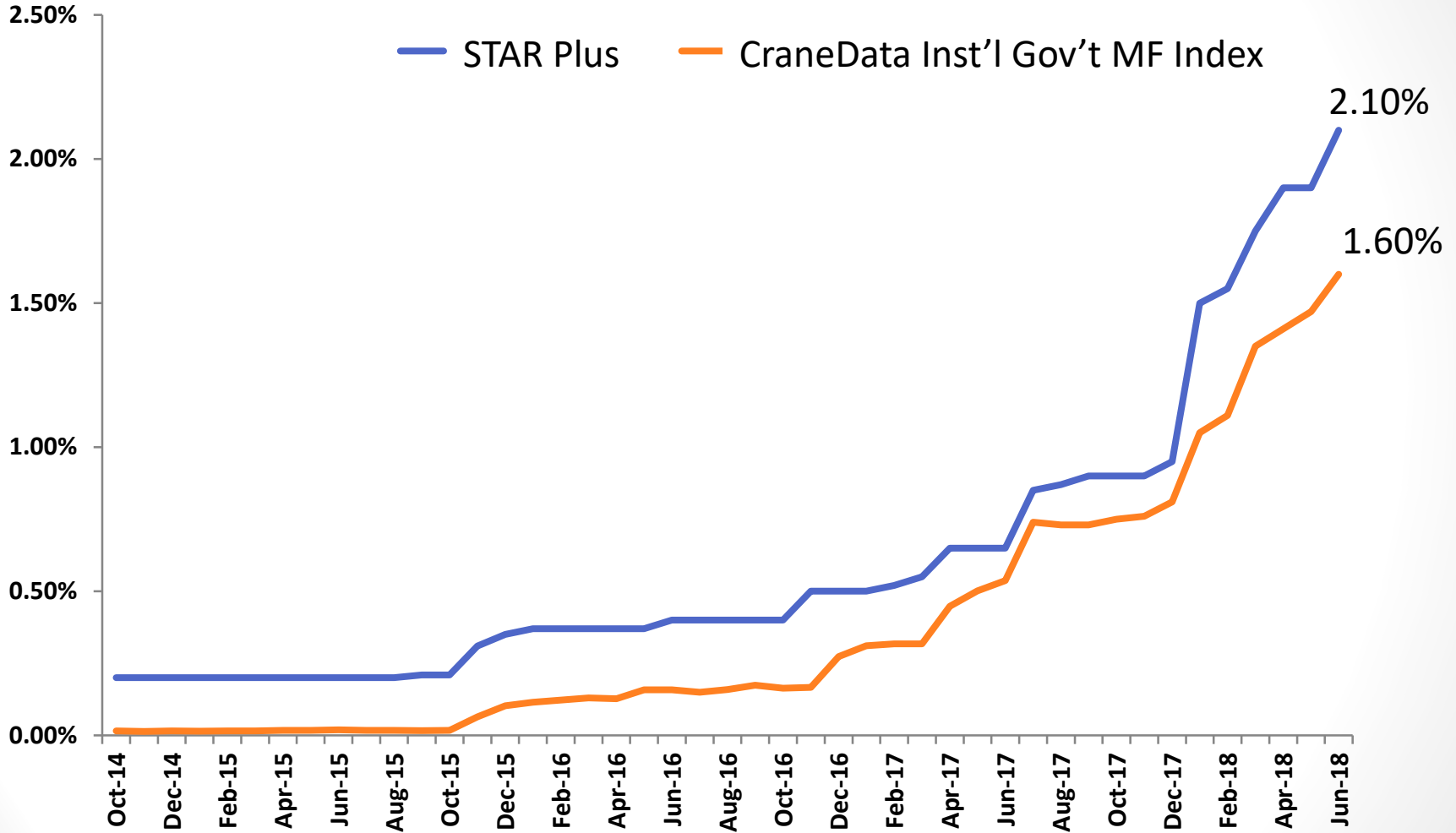
# Yield Comparison



# Yield Comparison



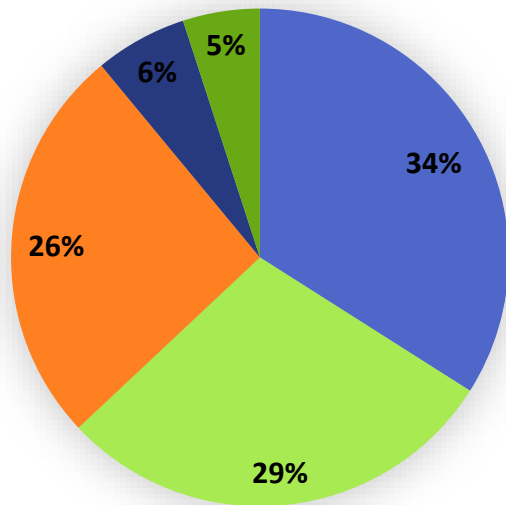
# Yield Comparison



# Over \$11 billion in Deposits

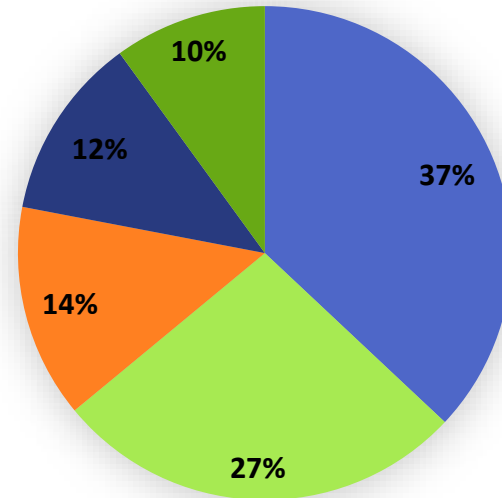
## Composition

**7/31/2017**



- Commercial Paper - 34%
- Money Market Funds - 29%
- Government Bonds - 26%
- Repurchase Agreements - 6%
- Corporate Bonds - 5%

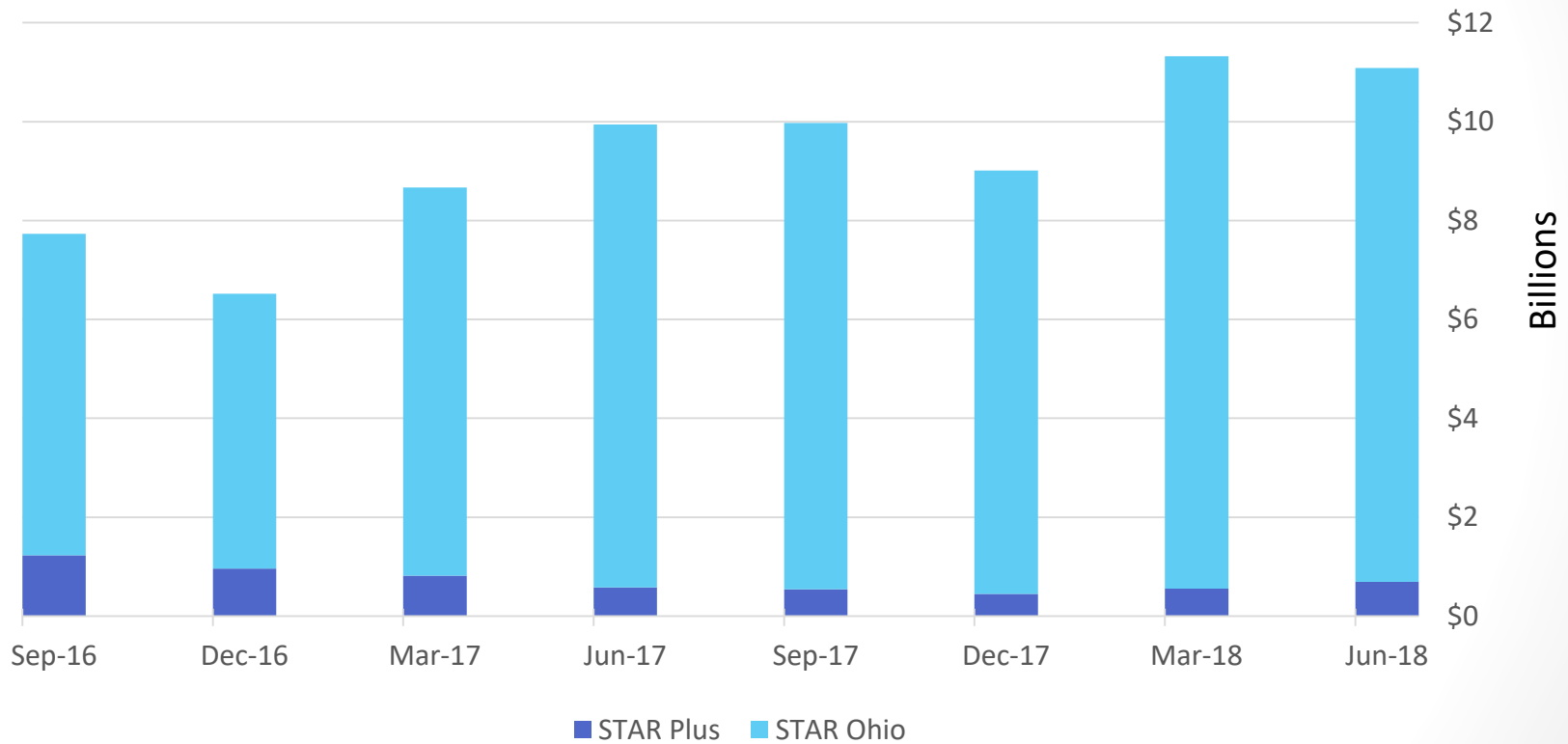
**7/31/2018**



- Commercial Paper - 37%
- Money Market Funds - 27%
- Government Bonds - 14%
- Repurchase Agreements - 12%
- Corporate Bonds - 10%

# Program Assets

## STAR Ohio & STAR Plus



Data as of 6/30/18

# STAR Ohio outlook

- Expect yields in STAR Ohio to continue to increase w/ subsequent rate hikes
  - LIBOR rates continue to look attractive
  - 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



# Driving Forces Behind Fed Policy

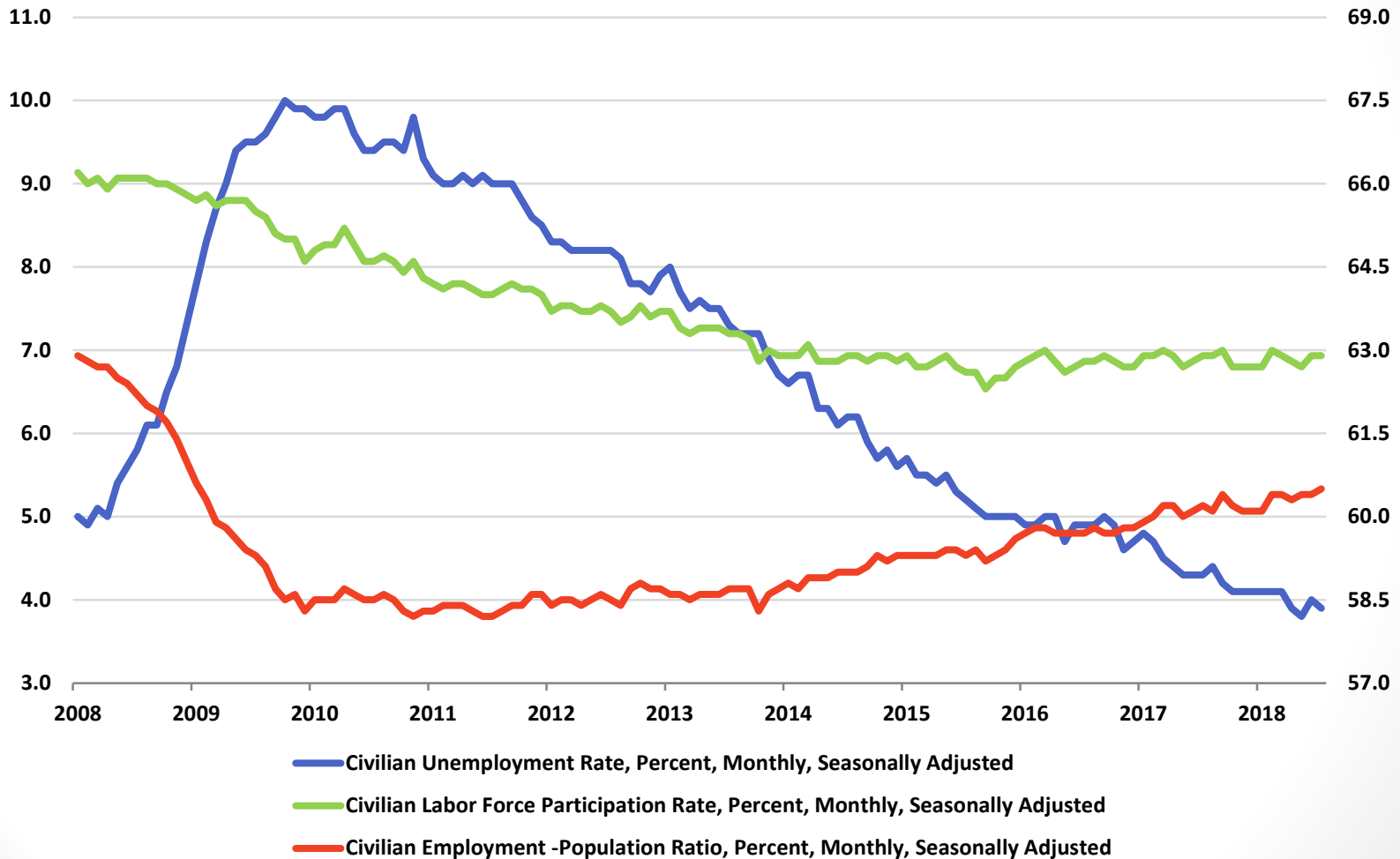
## **U.S. economy is betting on the consumer**

- 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

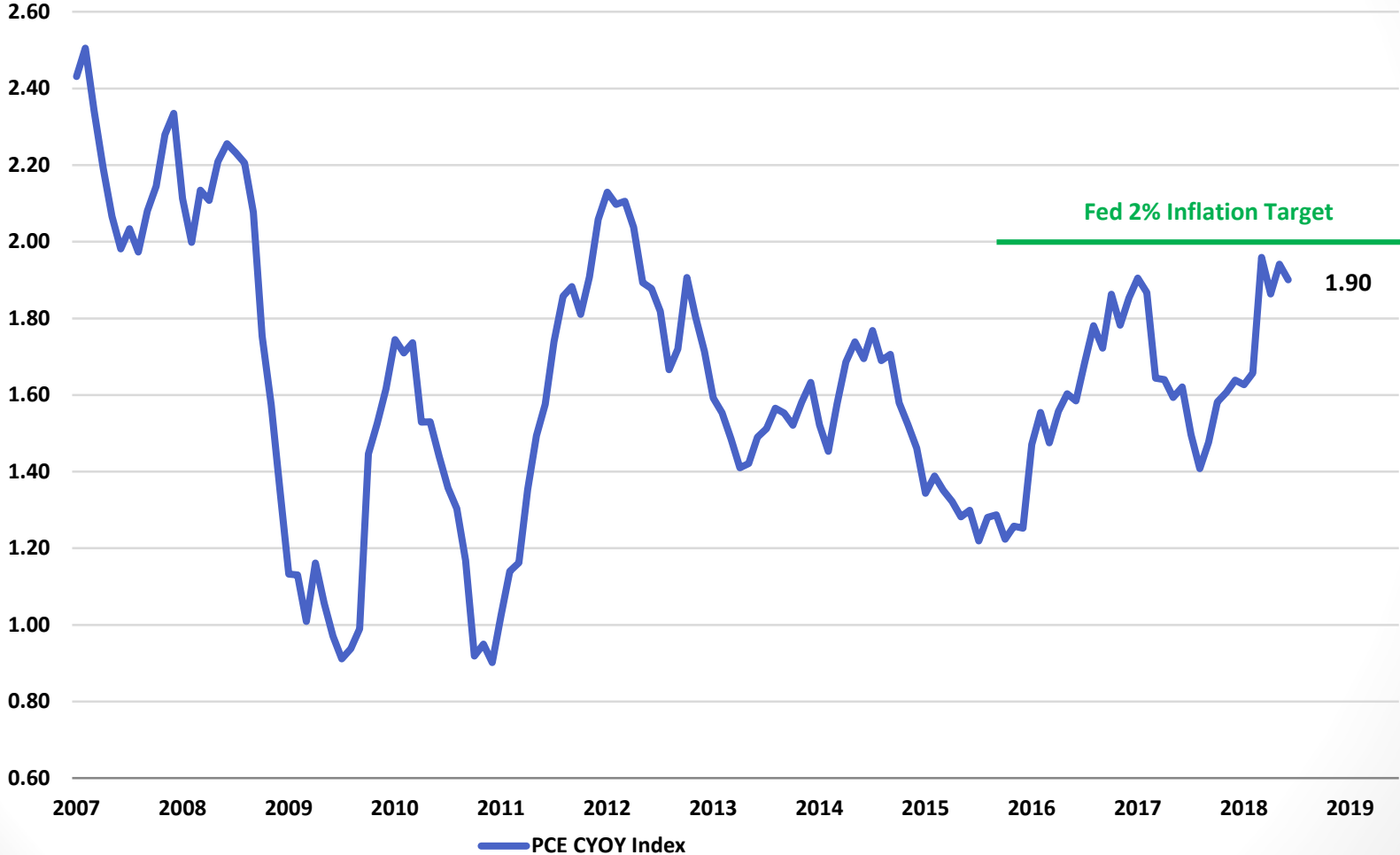


Data as of: 07/31/18

Source: Bloomberg L.P.

# Inflation

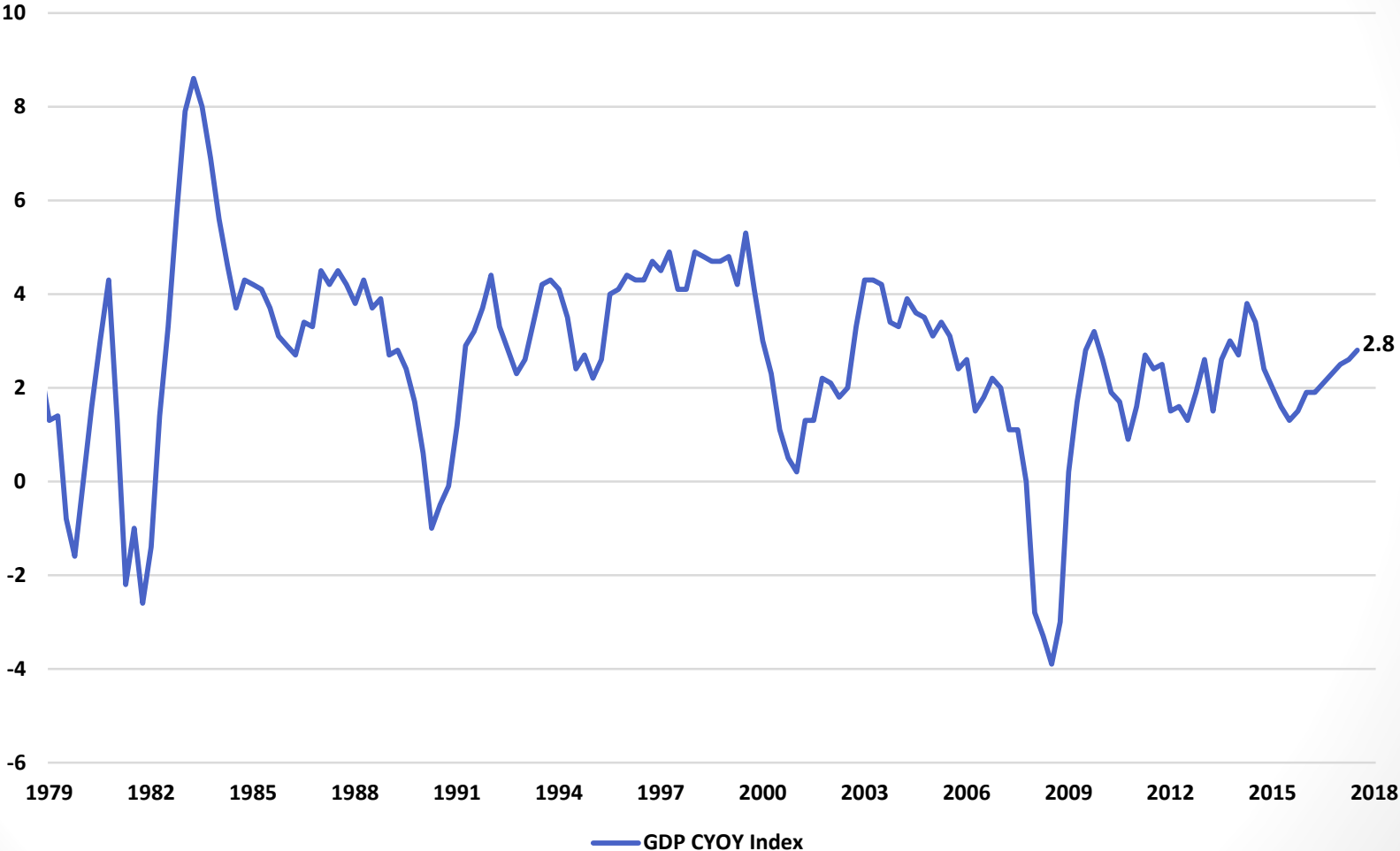
PCE (YoY%)



Data as of: 07/31/18

Source: Bloomberg L.P.

# GDP Growth

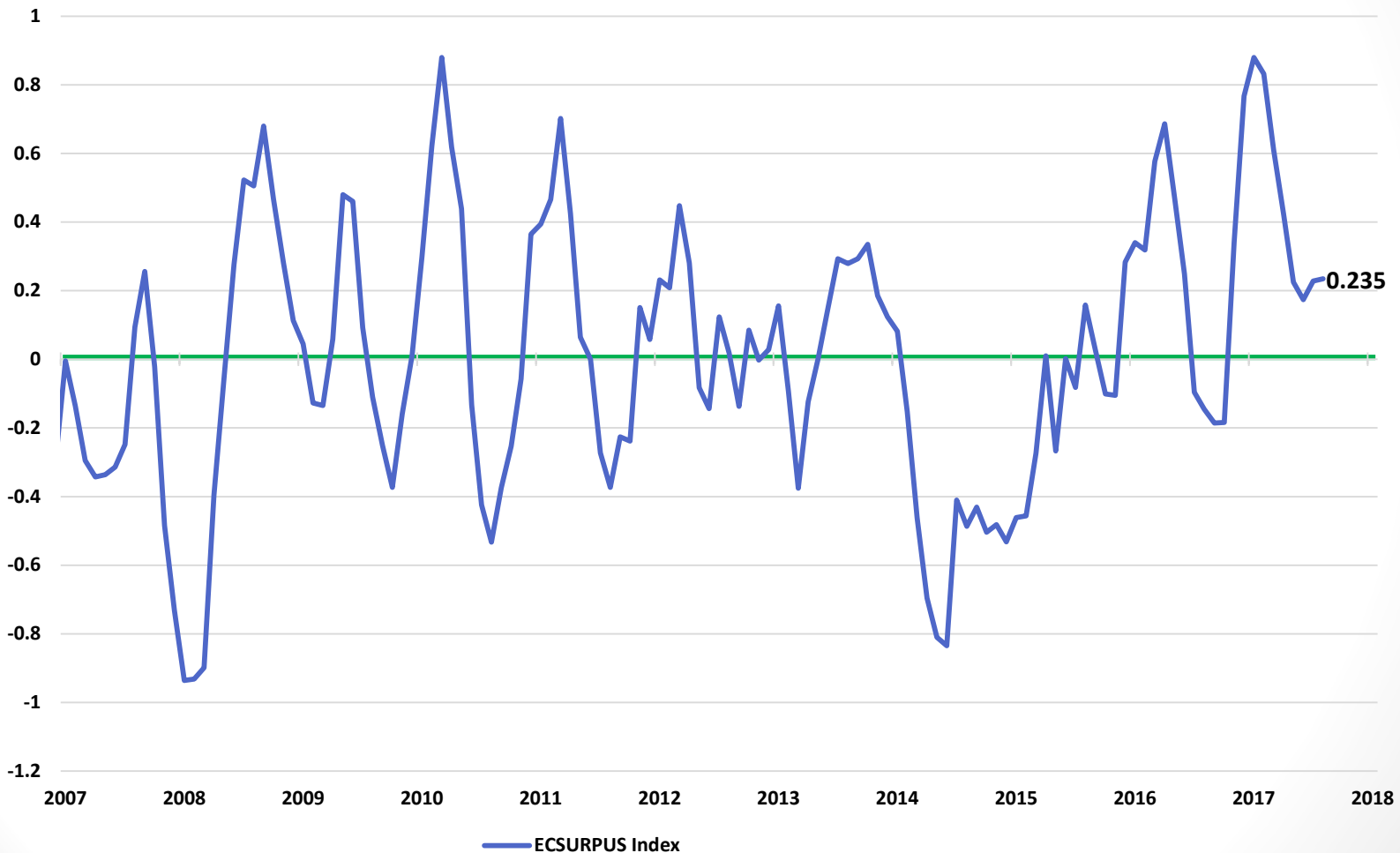


Data as of: 07/31/18

Source: Bloomberg L.P.

# Data Sentiment

## Economic Surprise Index



Data as of: 07/31/18

Source: Bloomberg L.P.

# Federal Reserve Outlook

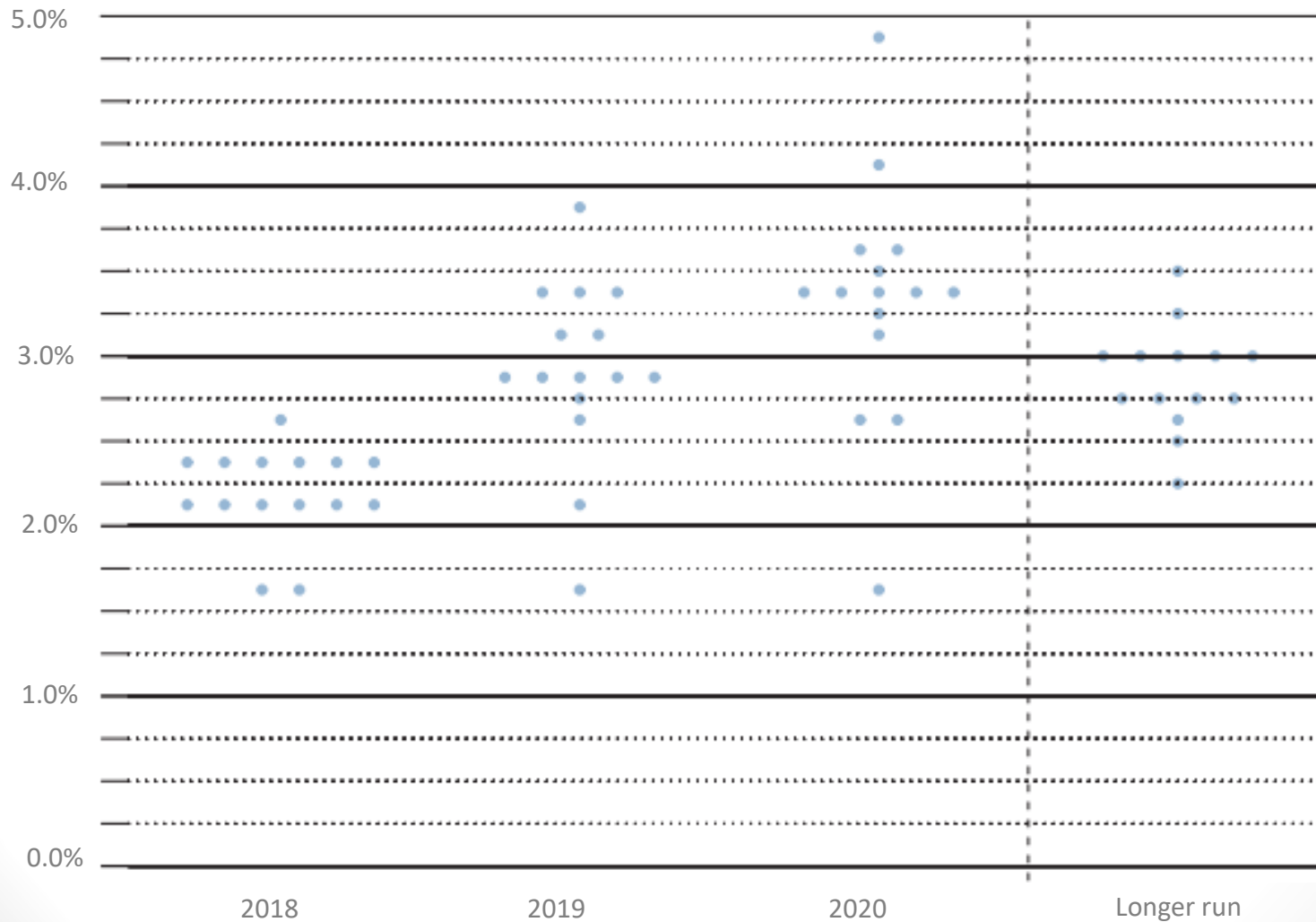
## Near Term Policy Outlook

- Most economists expecting 1-2 more hikes in 2018
- 90% chance of September hike as of 8/13/18

## Longer Term Policy Outlook

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

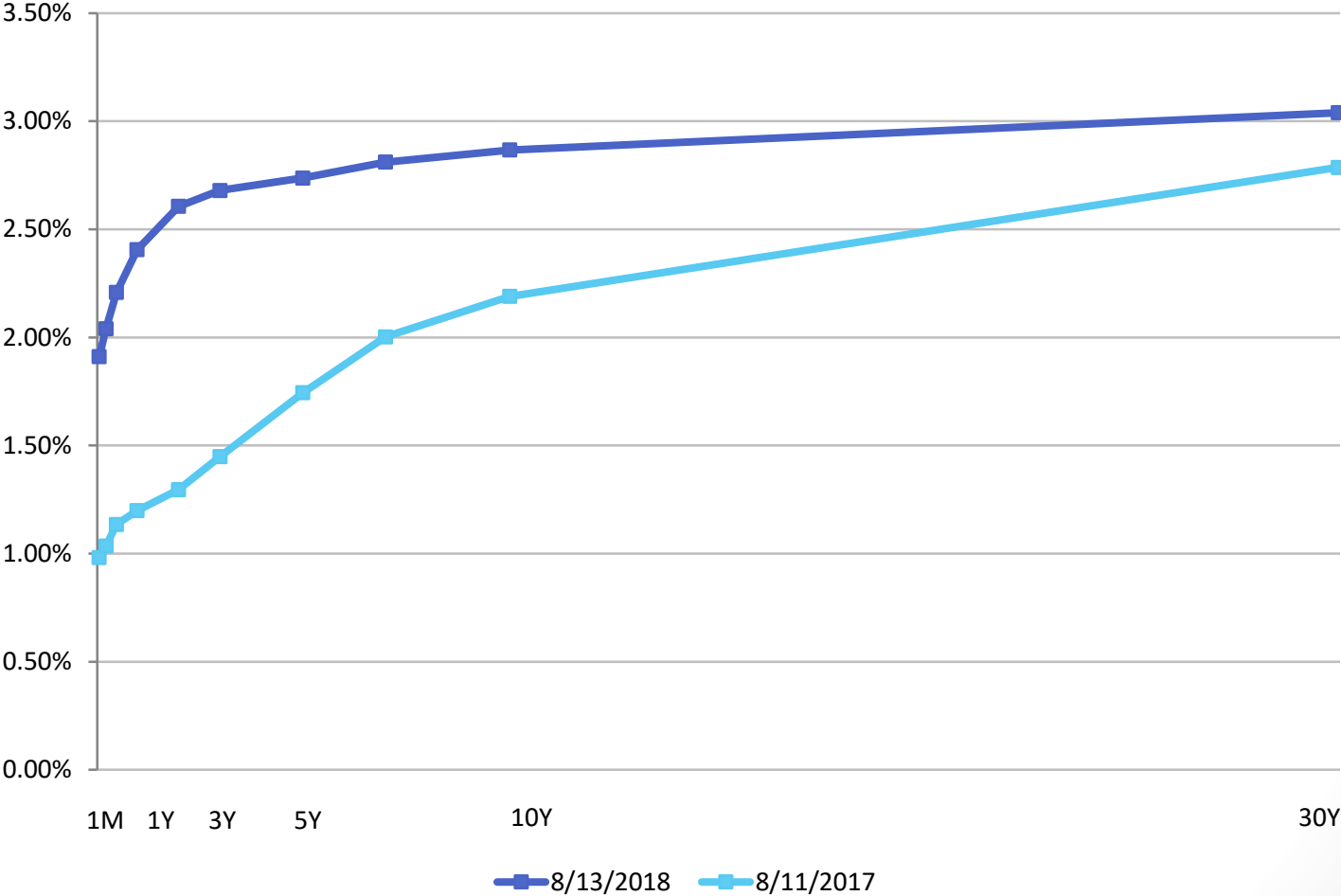
# Project Path of Fed Funds



Source: Federal Reserve.

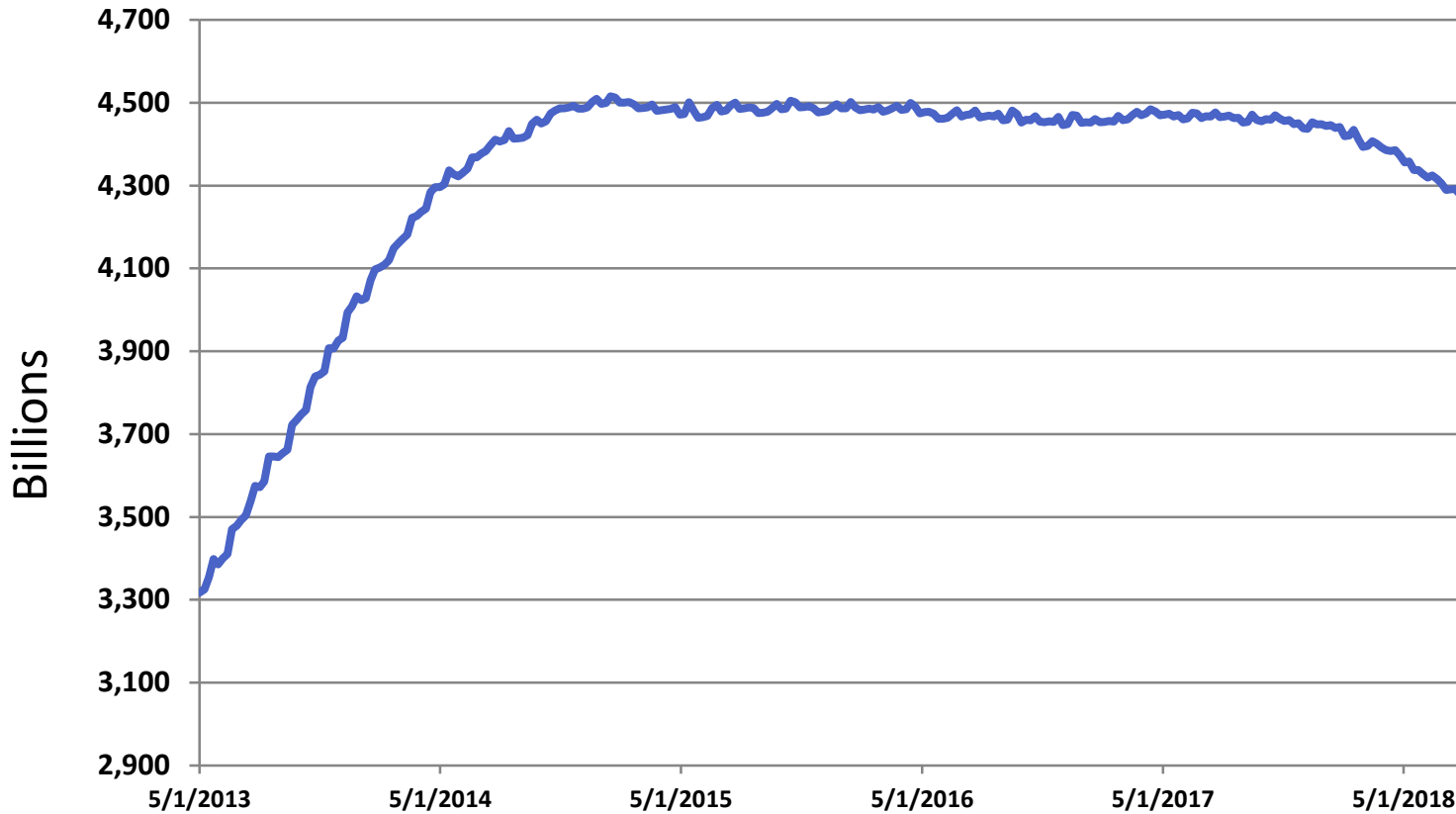
# Interest Rate Environment

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





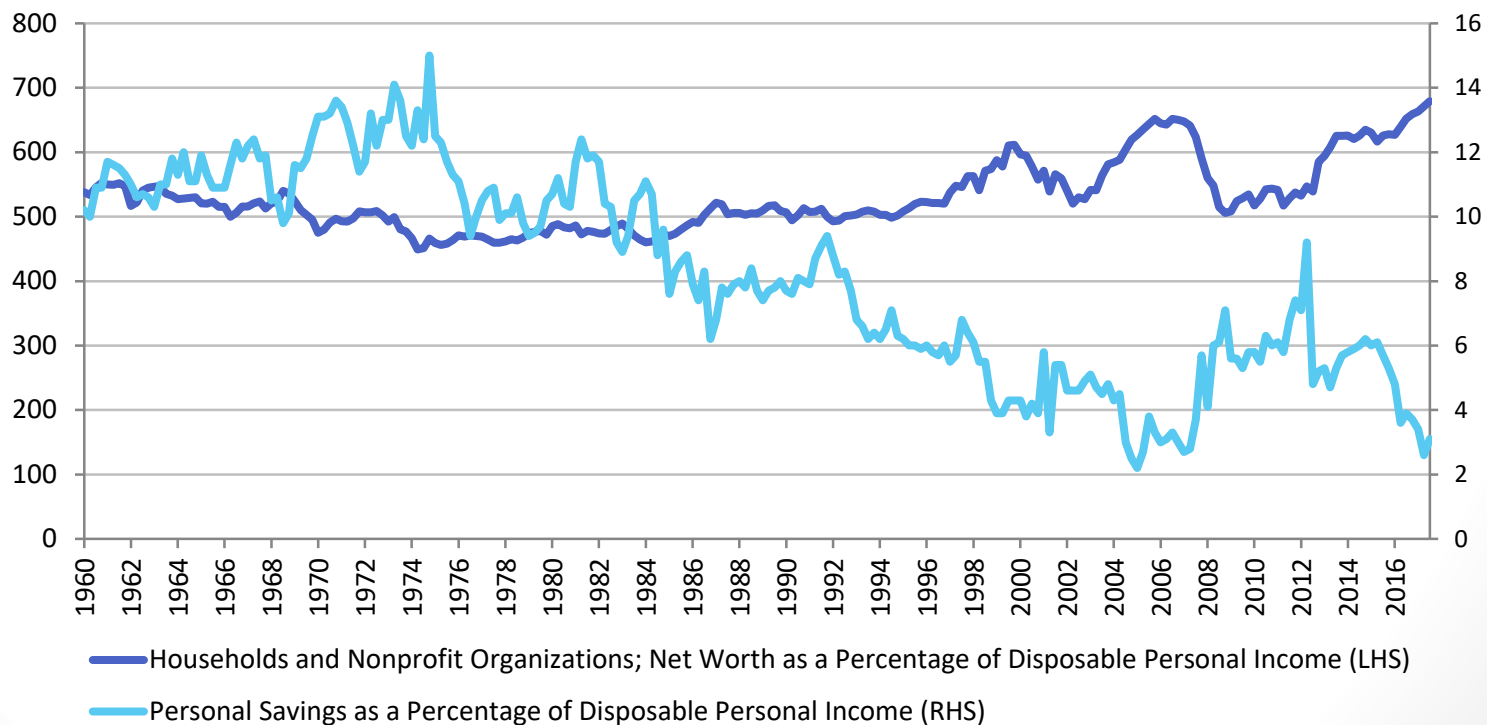
# Fed Balance Sheet Unwinding



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.

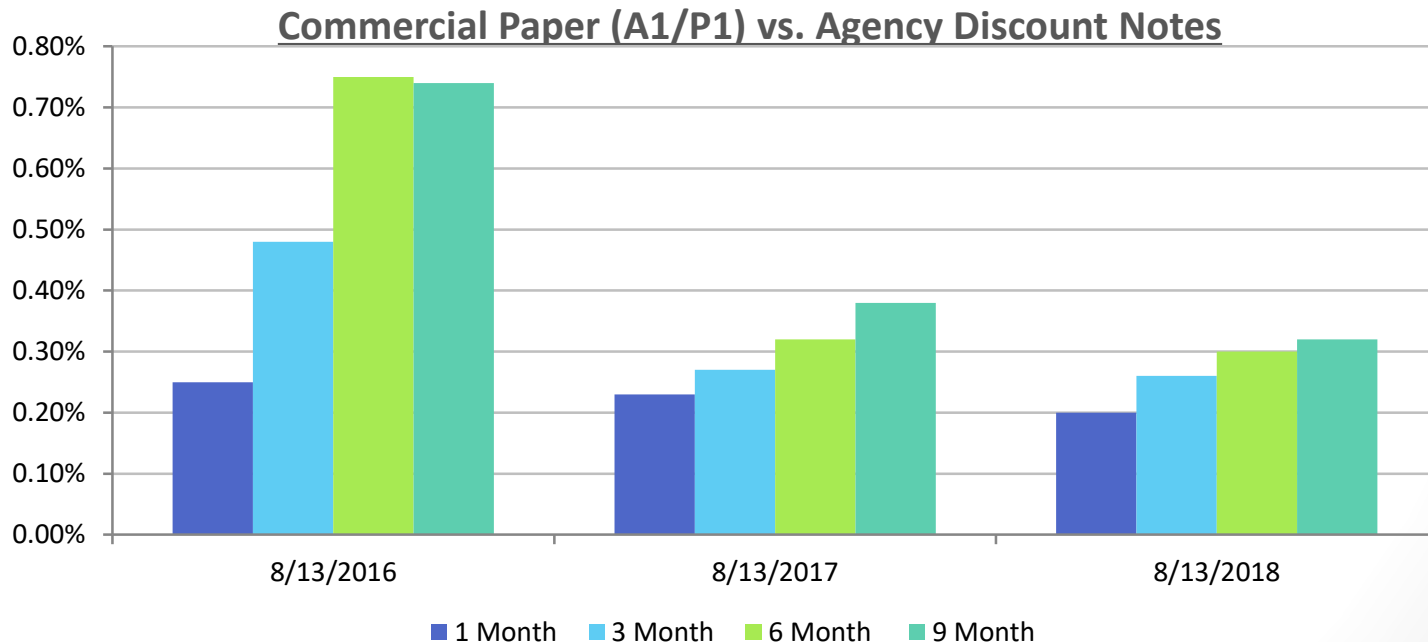
## Be Flexible

- 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



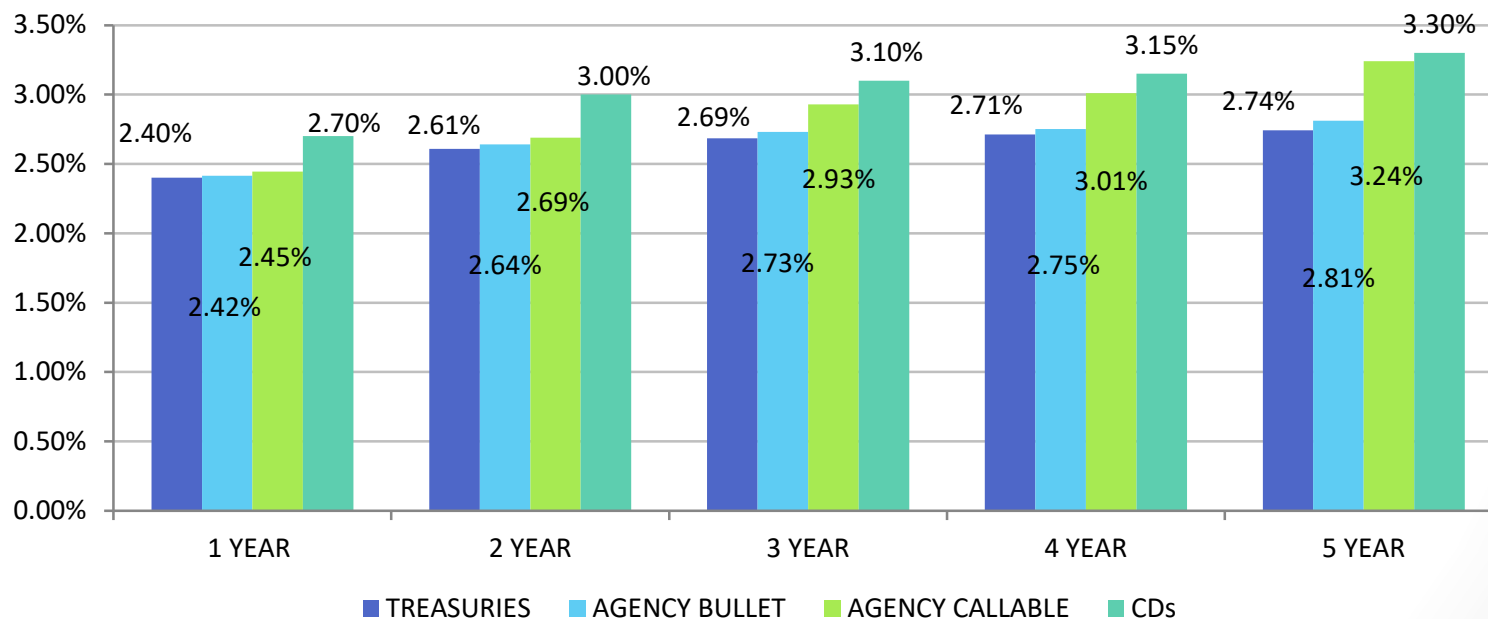
Source: Bloomberg, as of 08/13/2018.

# 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



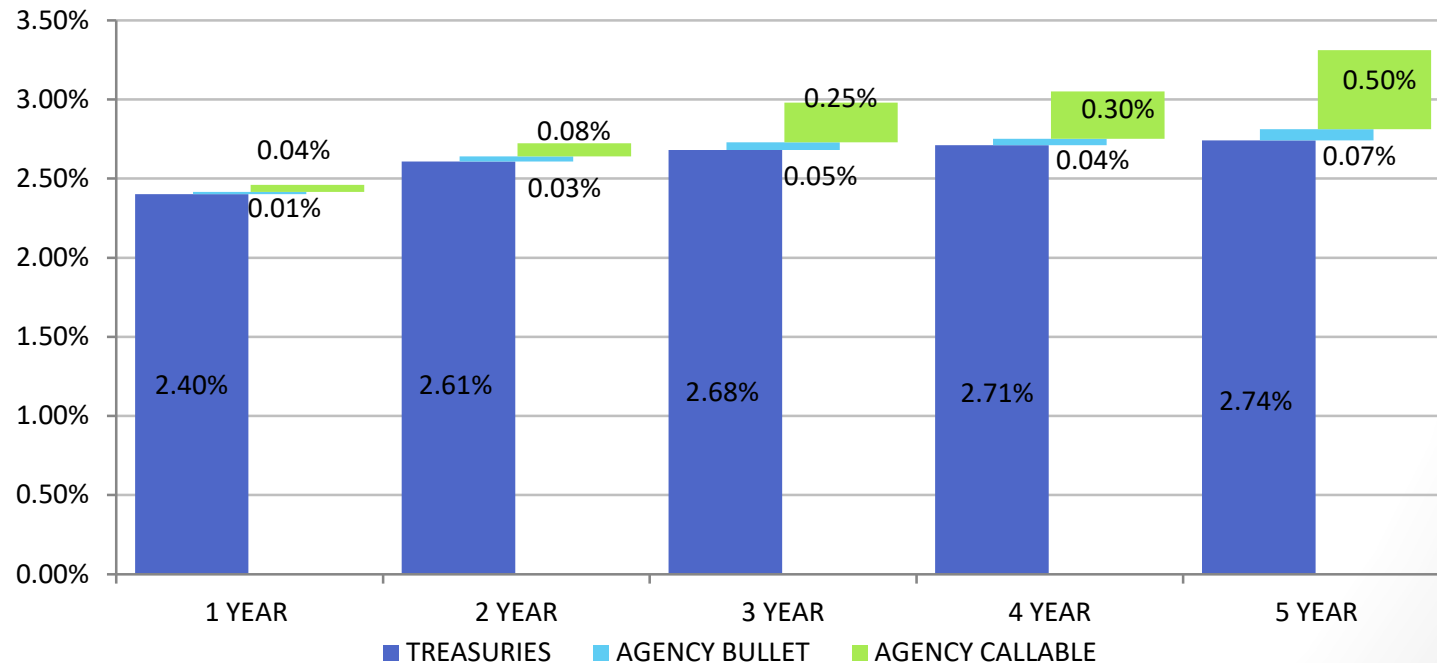
Source: Bloomberg, as of 08/13/2018.

# 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 08/13/2018.

# Thank You!

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**MARKET**