

CPIM

CENTER FOR PUBLIC INVESTMENT MANAGEMENT



A PROGRAM BROUGHT TO YOU BY:

JOSH MANDEL

TREASURER OF OHIO

General Session & Market Update

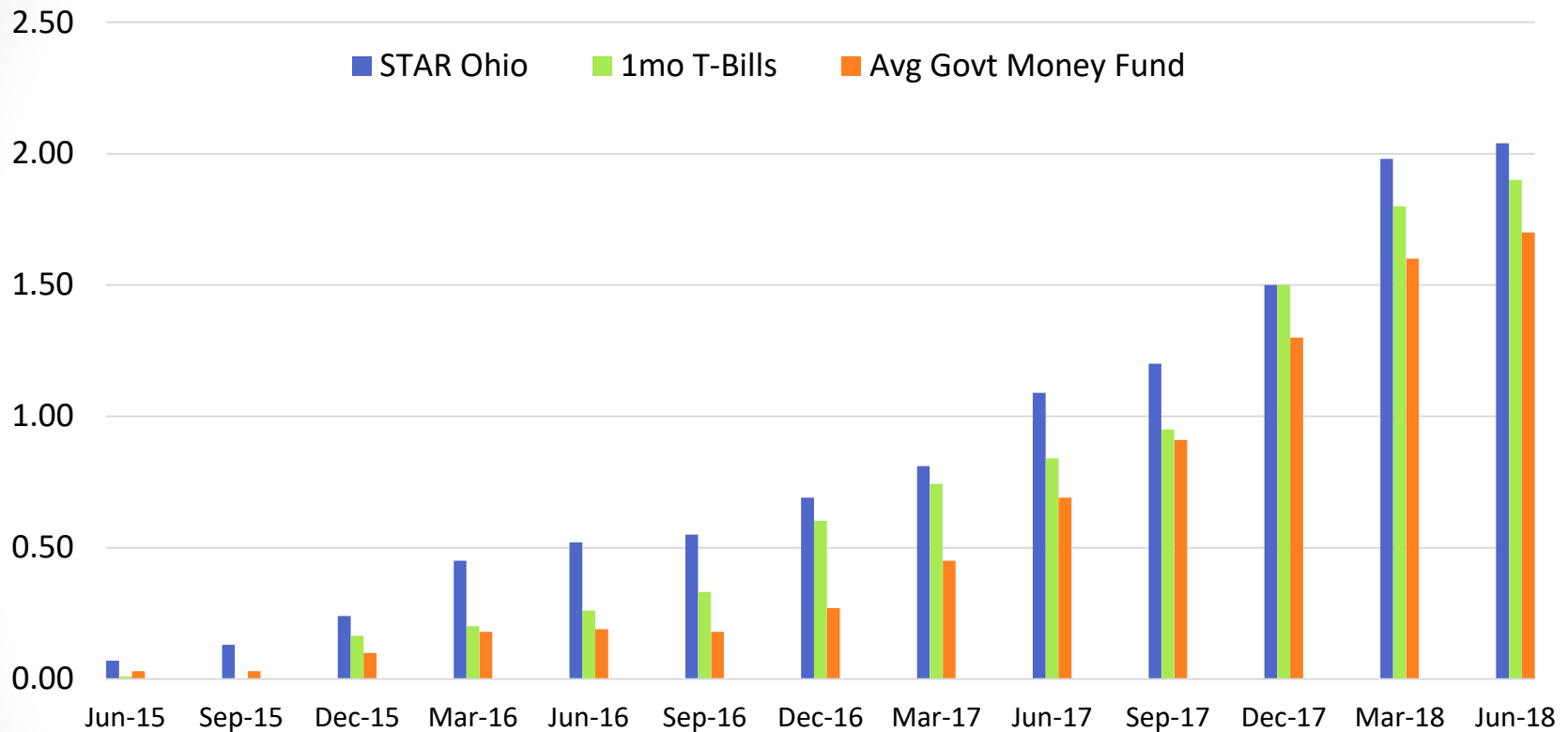
Presenters

- Jason Click, President, Public Funds
- Meeder Investment Management
- jclick@meederinvestment.com

- Jim McCourt, Vice President
- United American Capital Corporation
- jmccourt@uacc.com

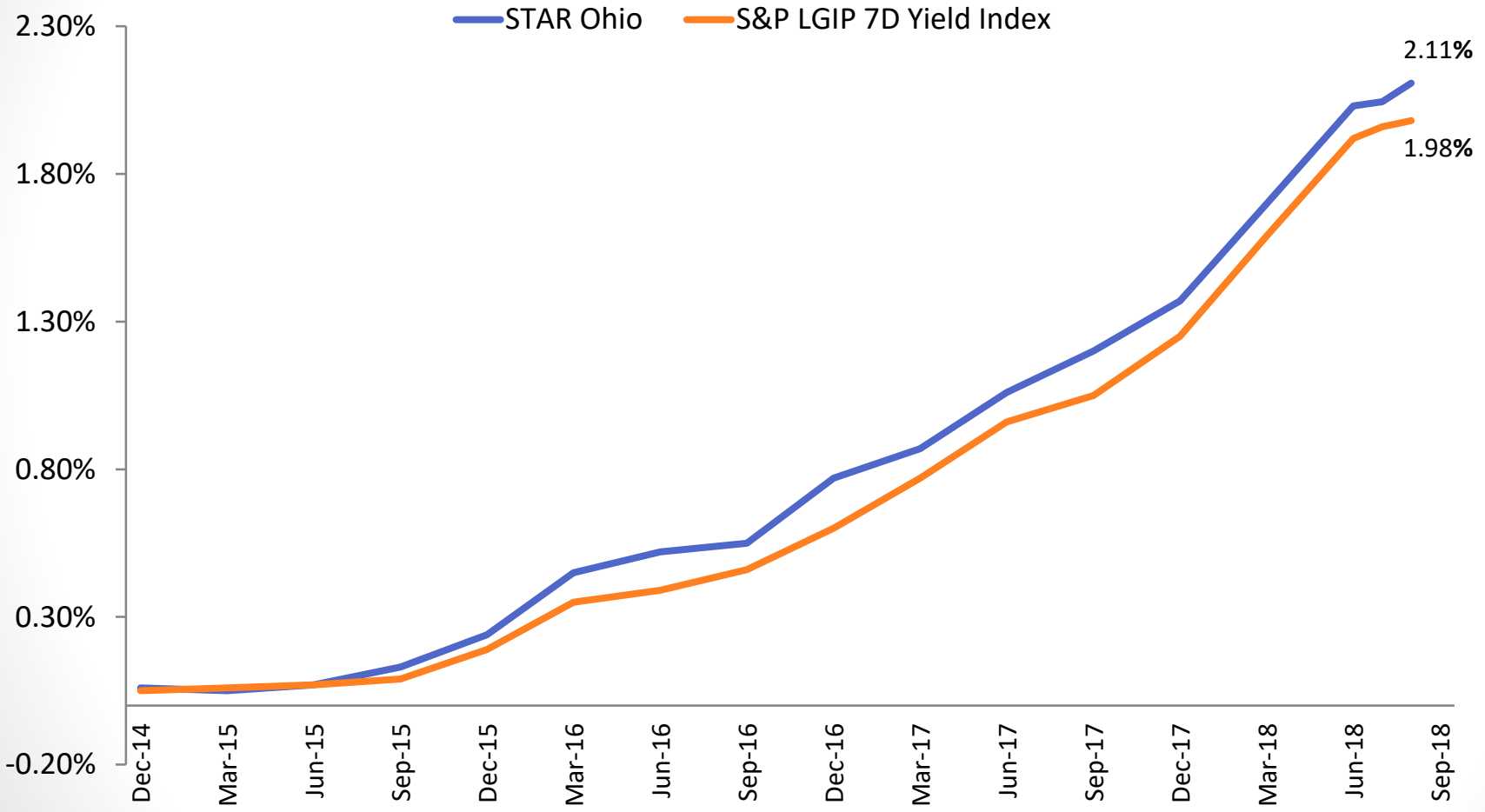
- Connor Chambers
- Huntington National Bank
- connor.chambers@huntington.com

Yield Comparison



As of 08/31/18		
STAR Ohio		2.11%
1mo T-Bills		1.94%
Avg. Govt. Money Fund		1.70%

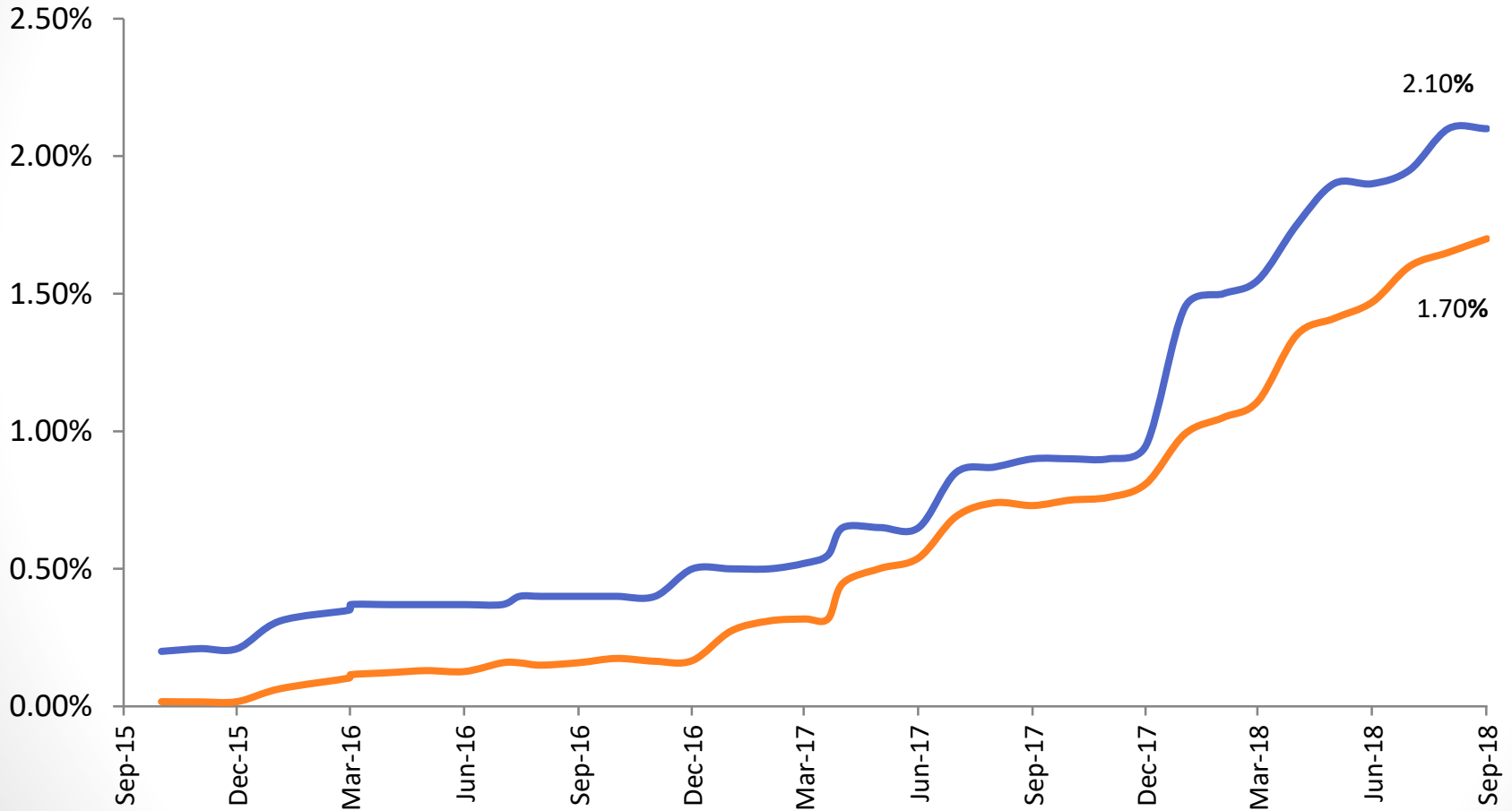
Yield Comparison



Data as of 08/31/18

Yield Comparison

— STAR Plus — CraneData Inst'l Gov't MF Index

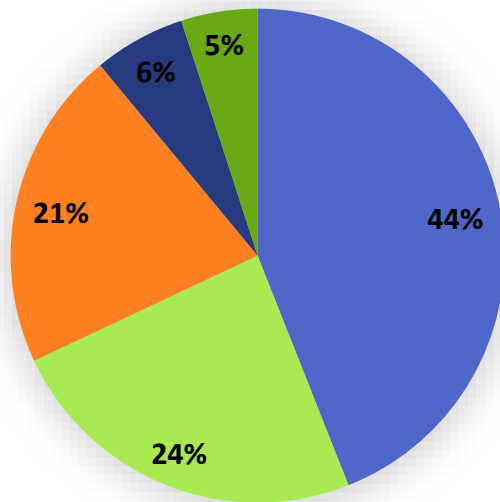


Data as of 08/31/18

Over \$11 billion in Deposits

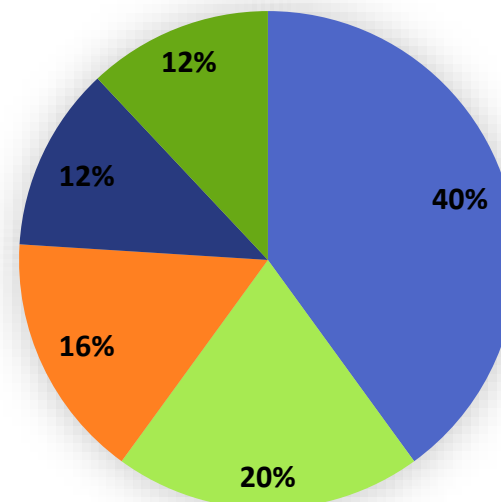
Composition

8/31/2017



- Commercial Paper - 44%
- Money Market Funds - 24%
- Government Bonds - 21%
- Repurchase Agreements - 6%
- Corporate Bonds - 5%

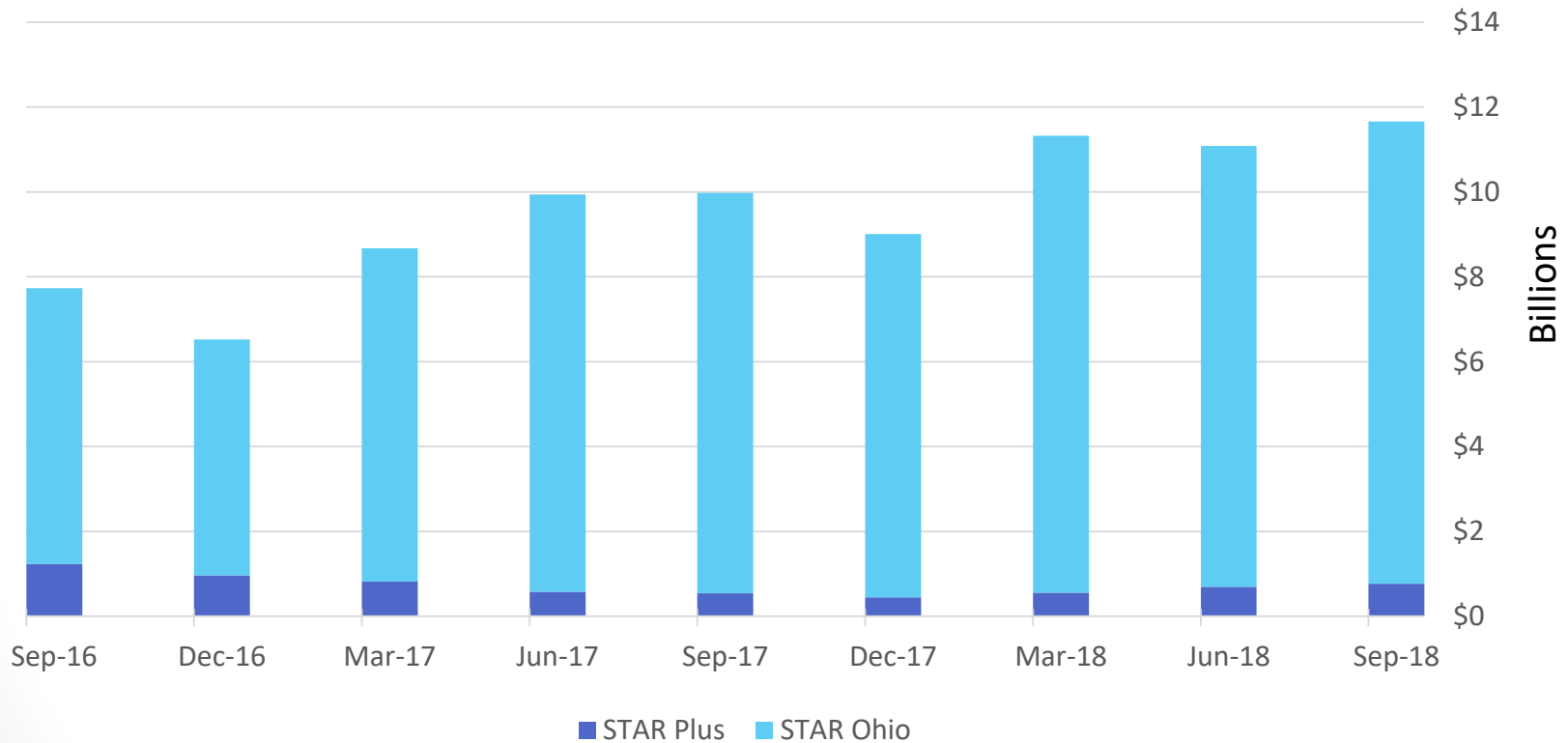
8/31/2018



- Commercial Paper - 40%
- Money Market Funds - 20%
- Government Bonds - 16%
- Repurchase Agreements - 12%
- Corporate Bonds - 12%

Program Assets

STAR Ohio & STAR Plus



Data as of 09/01/18

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

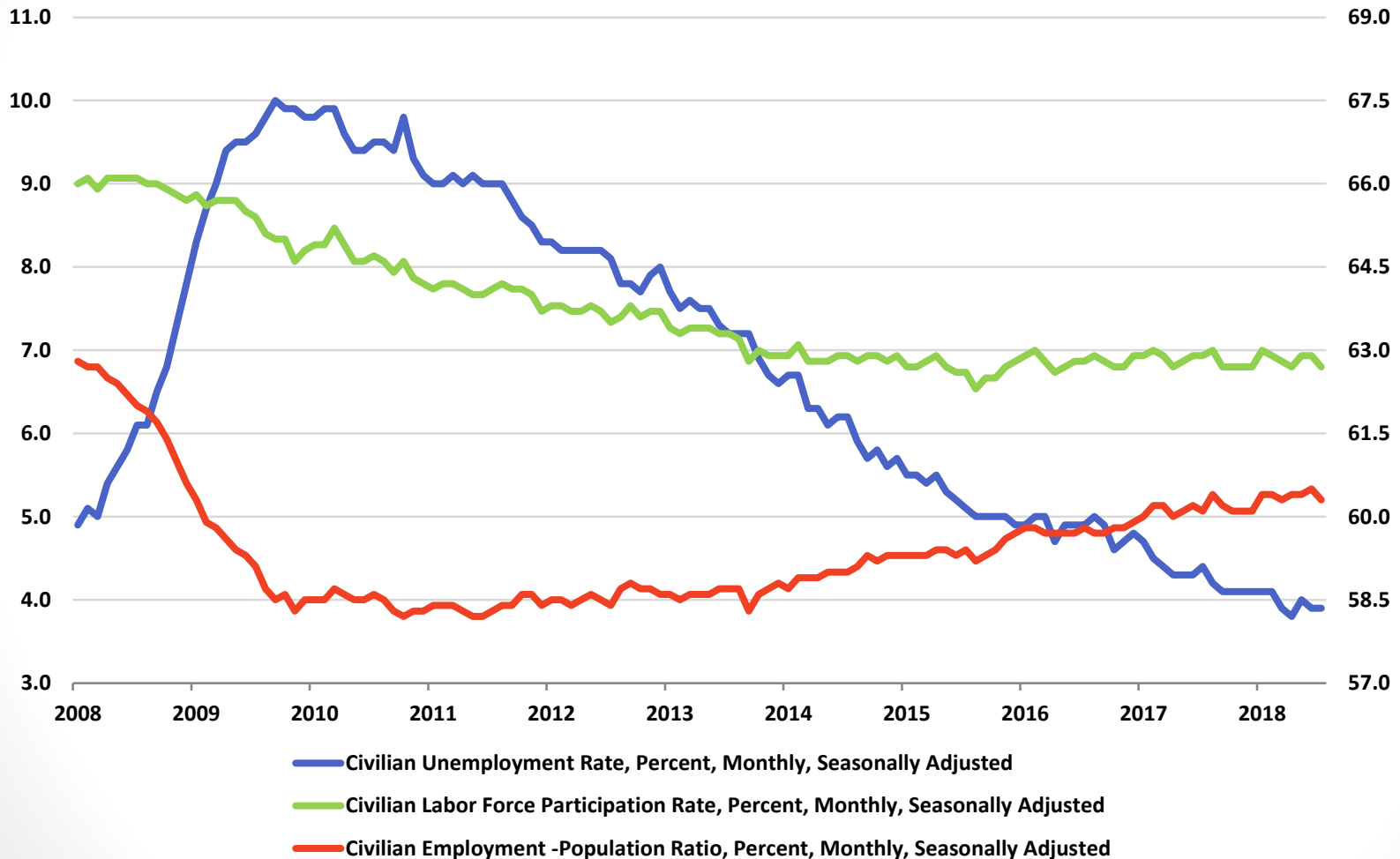
U.S. economy is betting on the consumer

- PCE is key figure to track for inflation data – reveals consumers' willingness to pay greater % amount for goods & 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

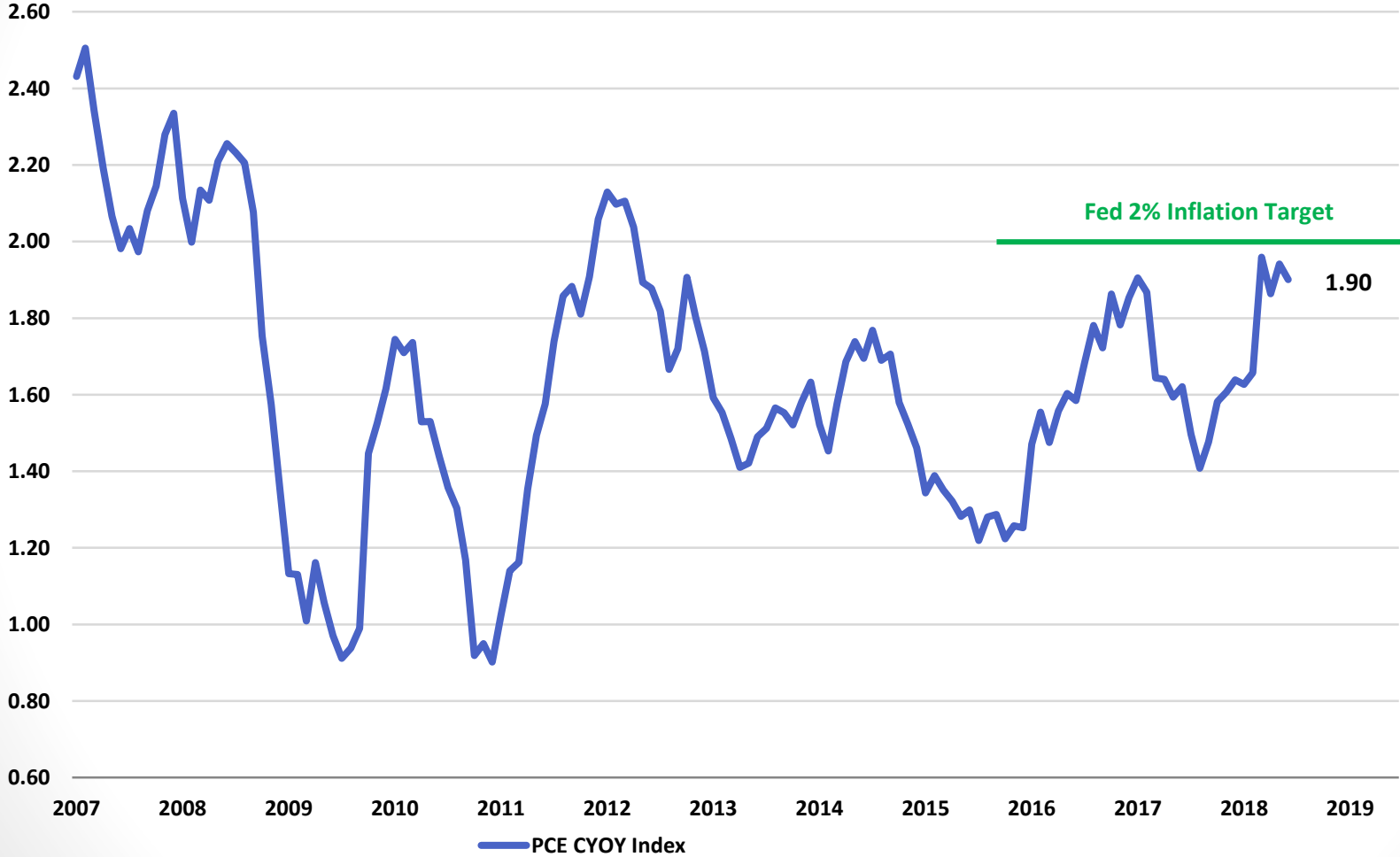


Data as of: 08/31/18

Source: Bloomberg L.P.

Inflation

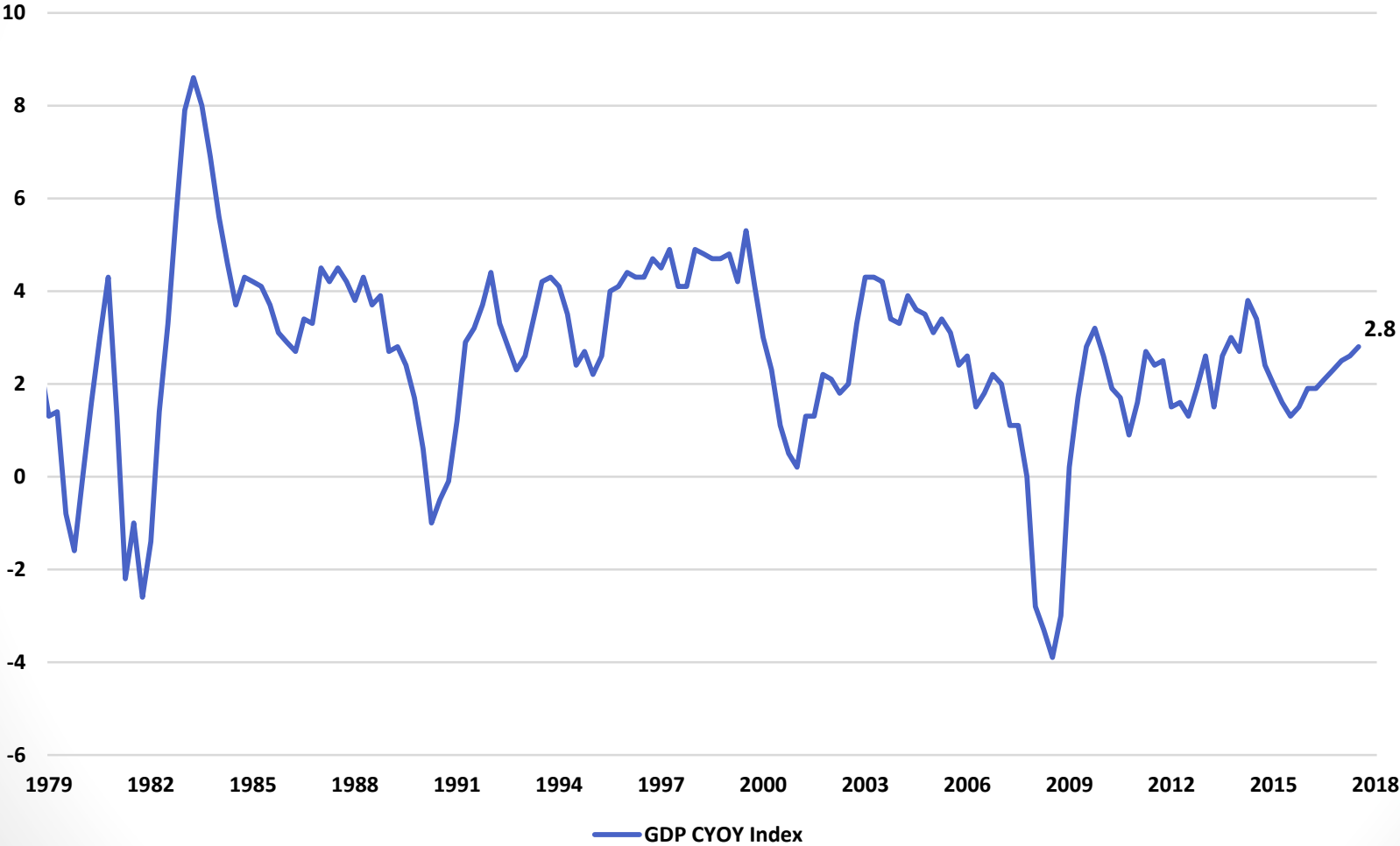
PCE (YoY%)



Data as of: 08/31/18

Source: Bloomberg L.P.

GDP Growth

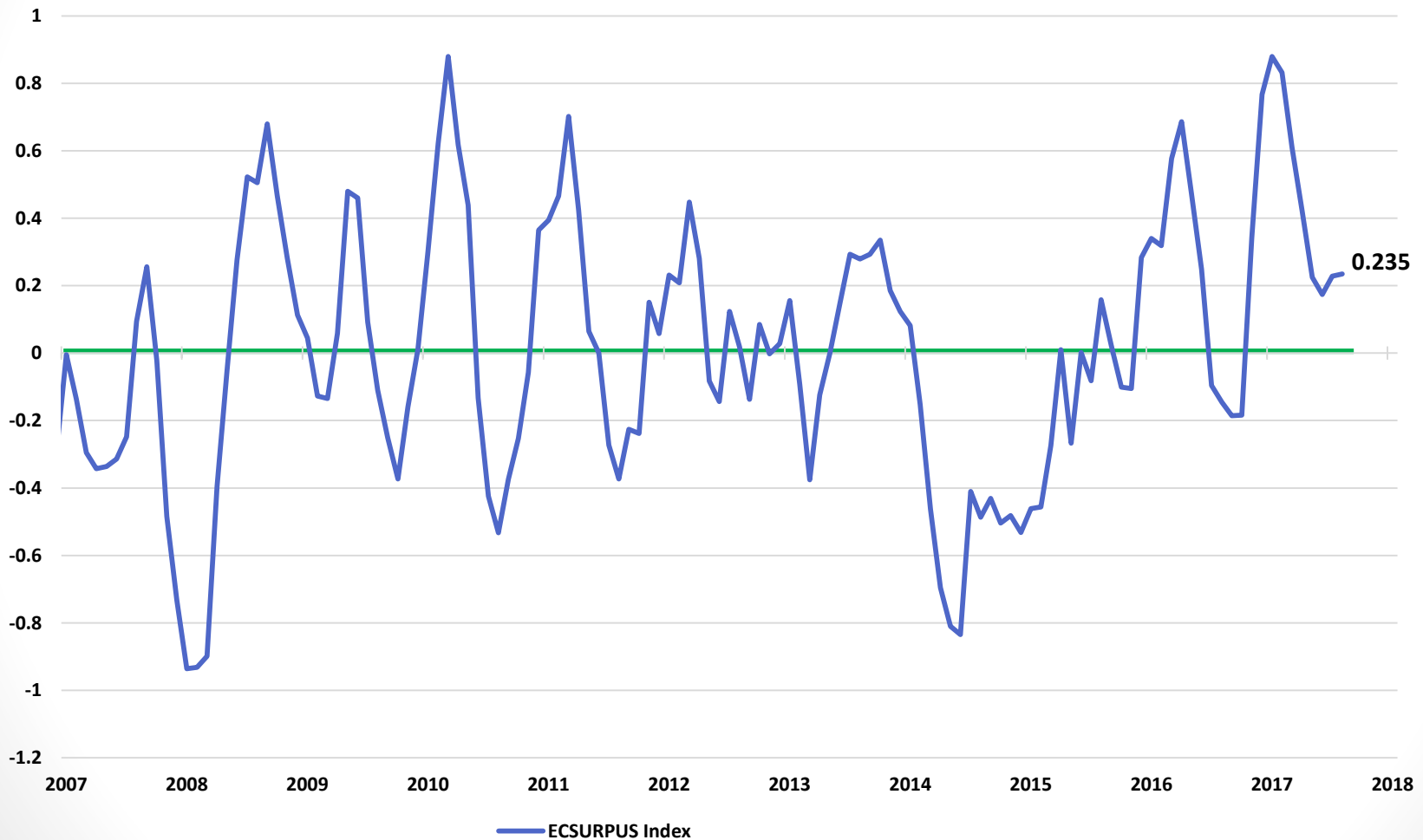


Data as of: 08/31/18

Source: Bloomberg L.P.

Data Sentiment

Economic Surprise Index



Data as of: 08/31/18

Source: Bloomberg L.P.

Federal Reserve Outlook

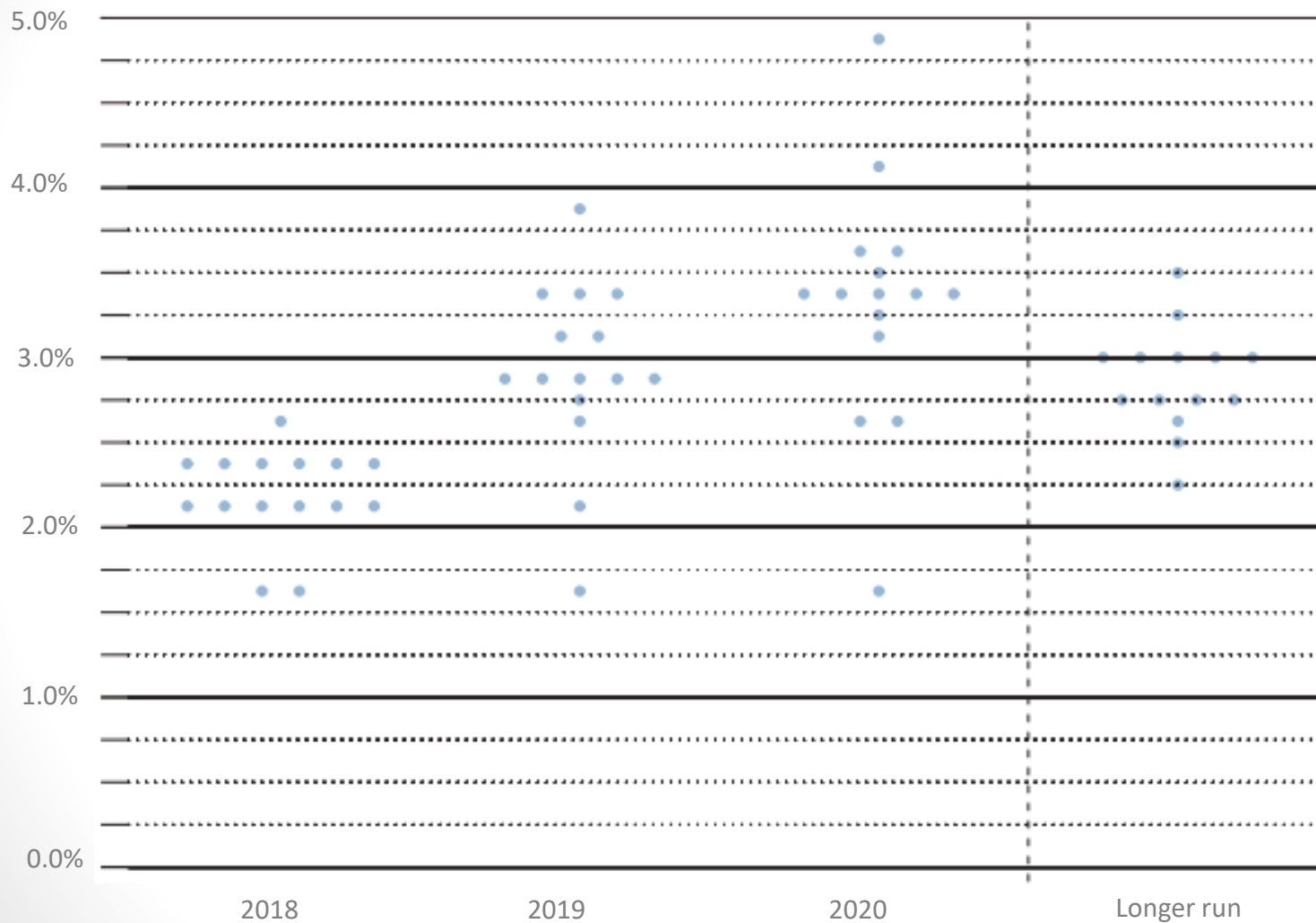
Near Term Policy Outlook

- Most economists expecting 1 more hike in 2018.
- 71% chance of December hike as of 9/24/18.

Longer Term Policy Outlook

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

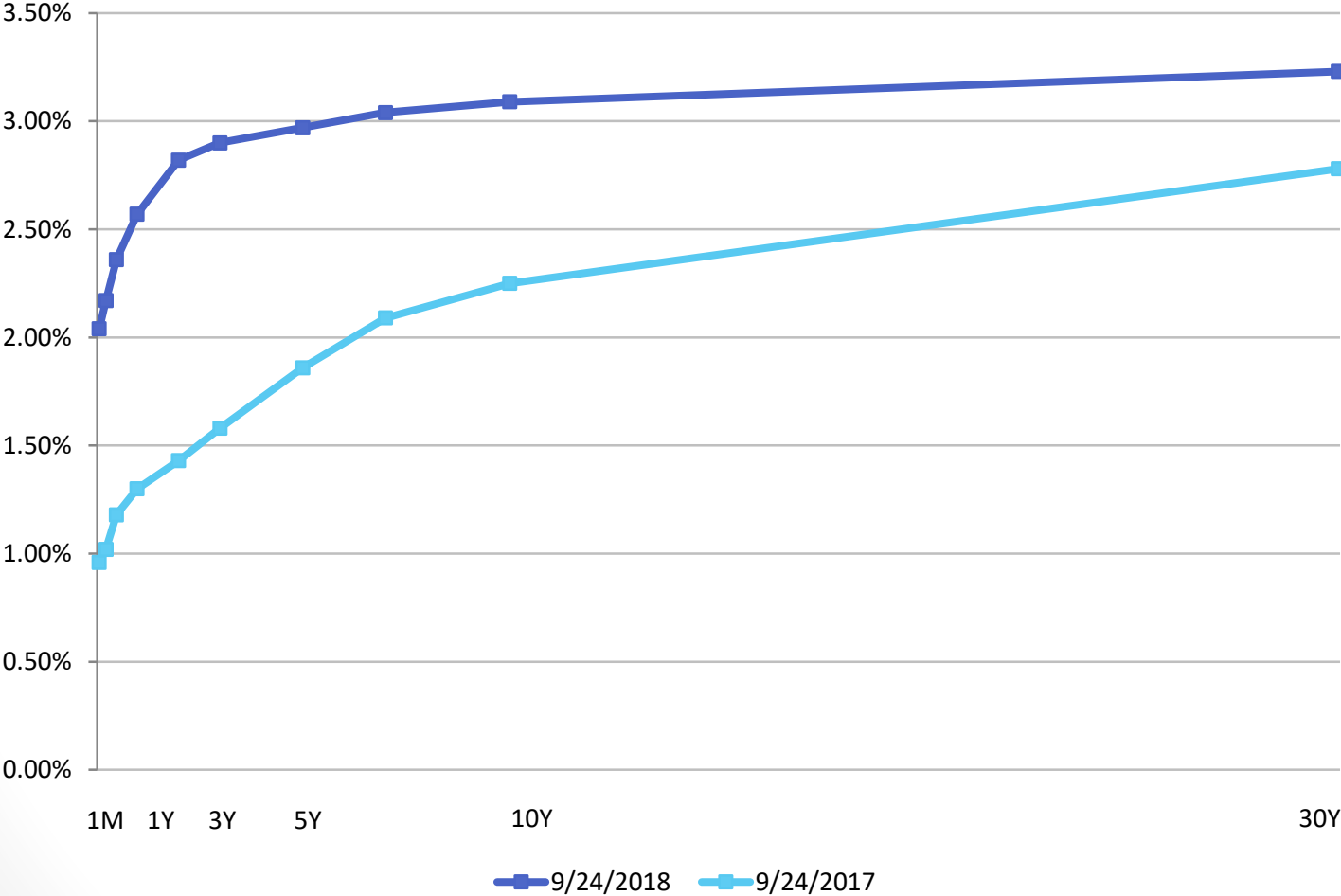
Project Path of Fed Funds



Source: Federal Reserve.

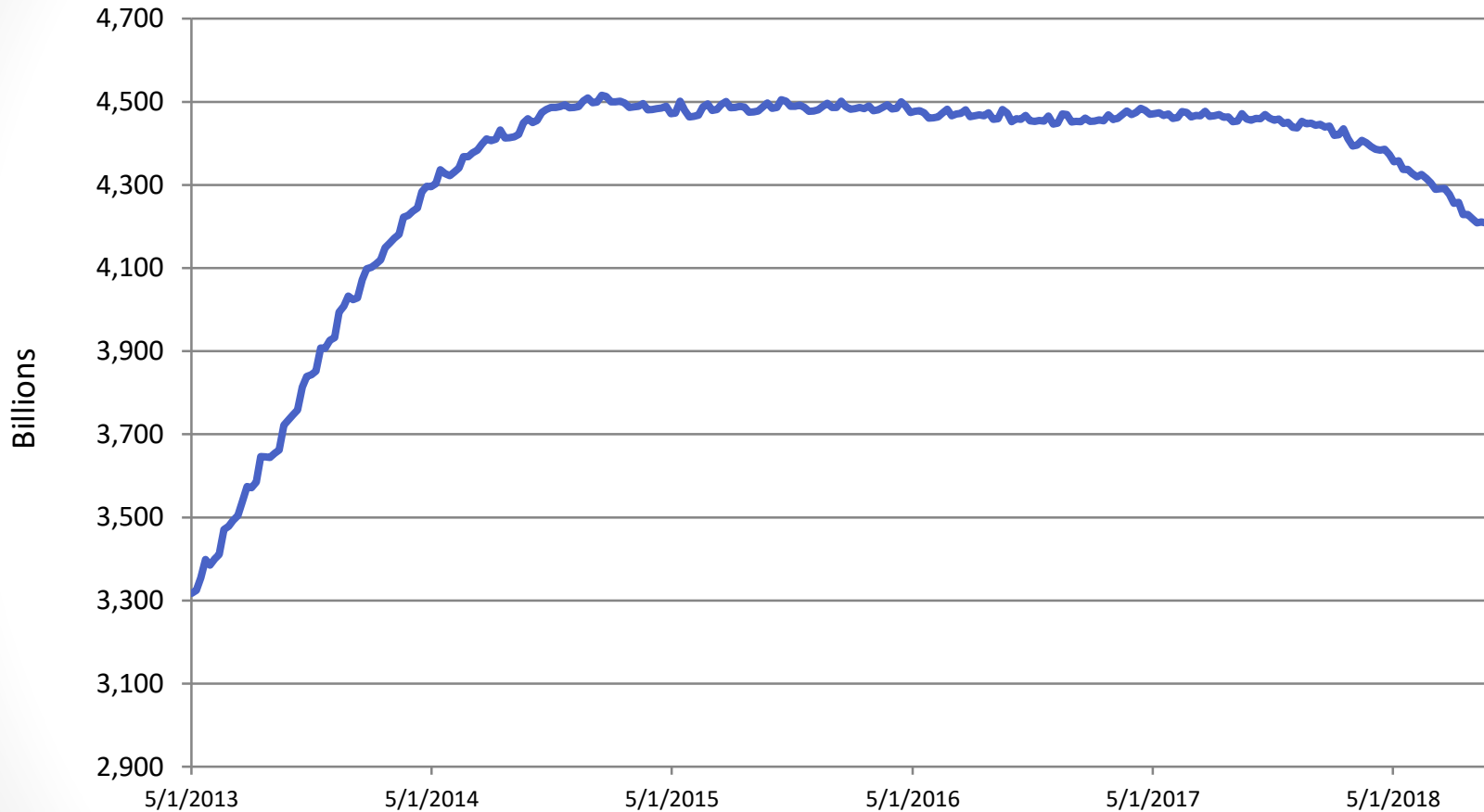
Interest Rate Environment

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



Source: Bloomberg L.P.

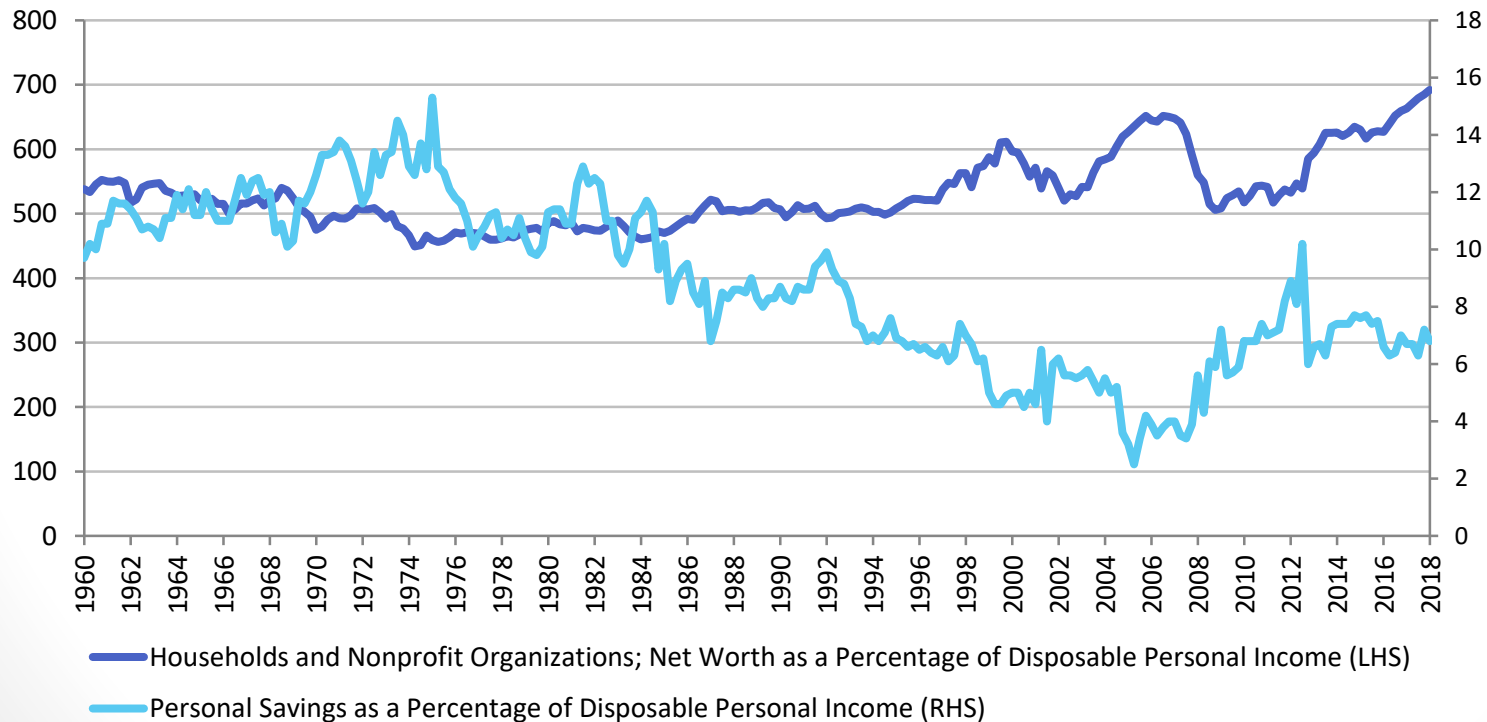
Fed Balance Sheet Unwinding



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

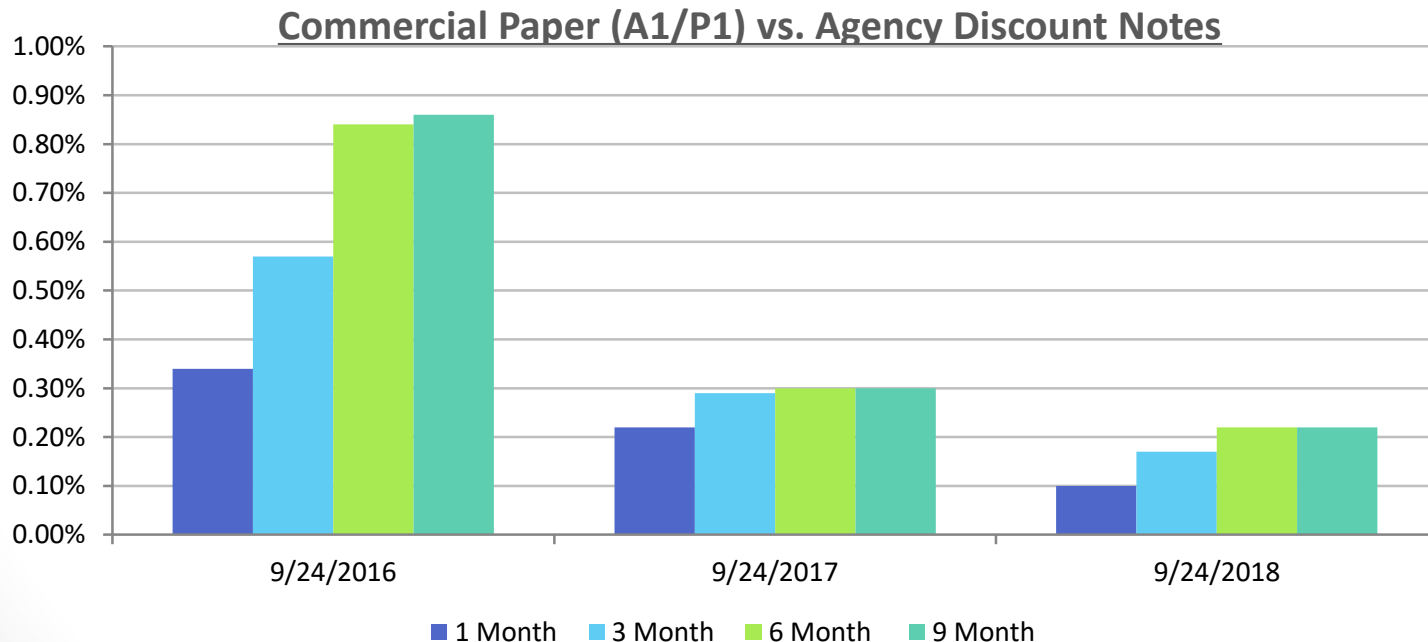
Be Flexible

- 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.



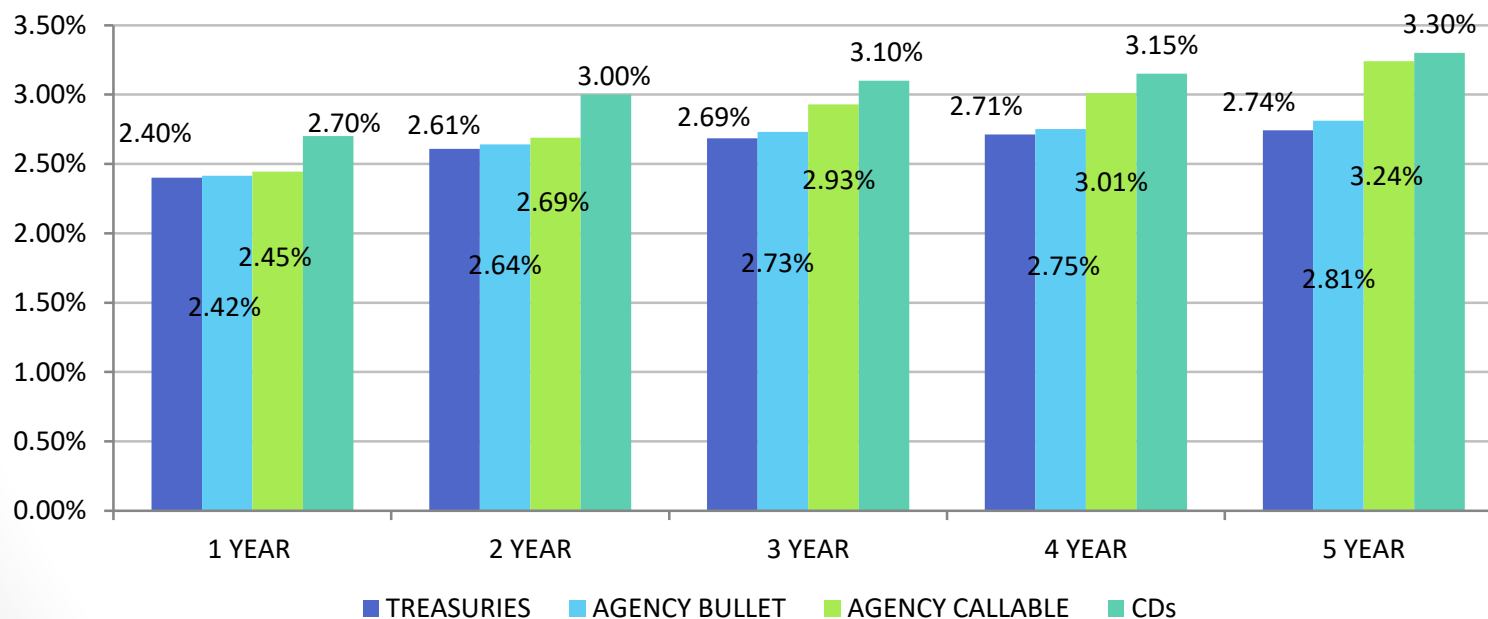
Source: Bloomberg, as of 09/24/2018.

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



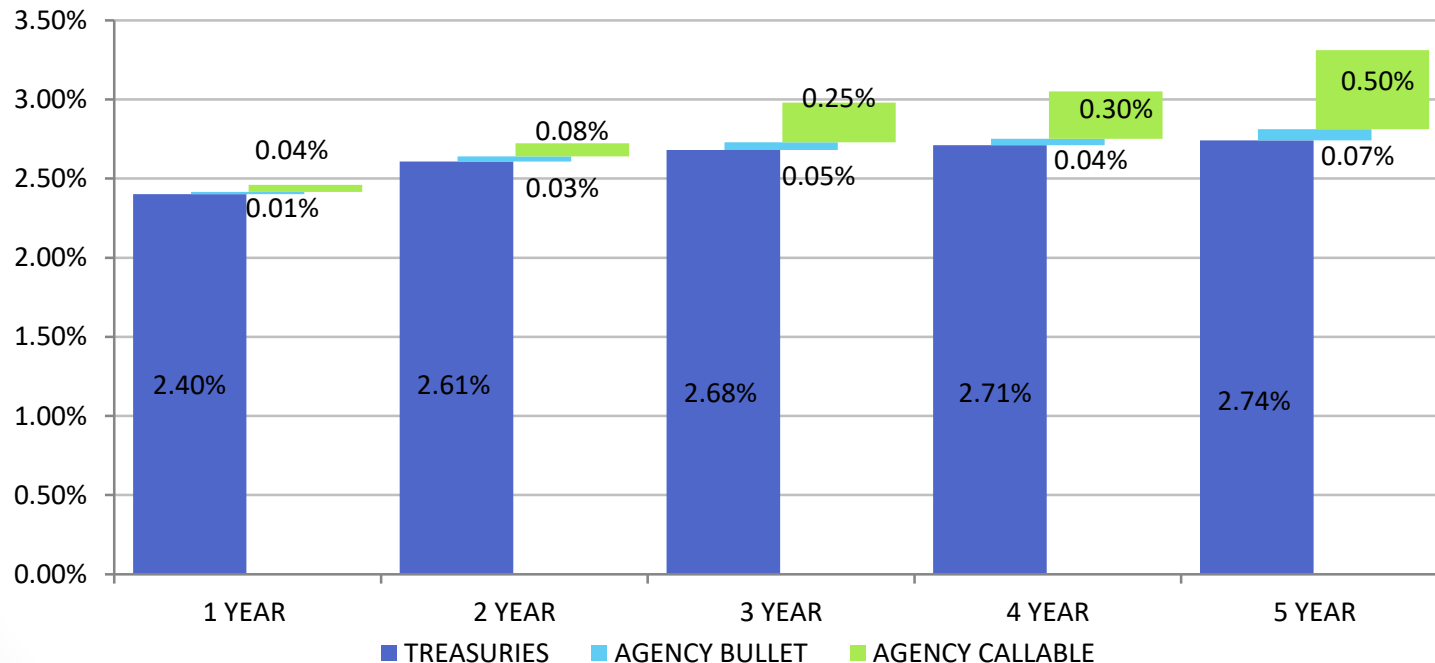
Source: Bloomberg, as of 08/13/2018.

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!

- Jason Click, President, Public Funds
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