CITY OF MADISON HEIGHTS
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FINANCE/TREASURER DEPARTMENT

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MEMORANDUM

DATE:	April 20, 2023
TO:	Mayor and City Council Melissa Marsh, City Manager
FROM:	Linda A. Kunath, Finance Director/Treasurer
SUBJECT:	Investment Report 3rd Quarter Fiscal Year 2023

In compliance with the City of Madison Heights Investment Policy and P.A. 20 of 1945, as amended, the following summary of investments as of March 31, 2023, for the City of Madison Heights, is being presented in this memorandum.

Investment Overview

The United States economy is projected to stagnate in 2023, with rising unemployment and falling inflation. Interest rates are projected to remain higher this year and then gradually decrease in the next few years as inflation continues to slow, according to the Congressional Budget Office (CBO). Gross domestic product (GDP) is projected to stop growing early this year in response to last year's sharp rise in interest rates, then rebound late in the year as falling inflation allows the Federal Reserve to reduce interest rates. GDP growth in 2023 is expected to be .4%. The Federal Reserve's long-term goal for inflation is 2 percent through 2024. Inflation was higher in 2021, 5.7 percent, and 2022, 5.5 percent, than other years during the previous four decades.

Interest rates on short-term Treasury securities move largely in concert with changes in the Federal Reserve's target range for the federal funds rate. The CBO projects that the long-term rate is driven by its projections of short-term interest rates and the term premium, which fell to historical low levels compared to the last 40 years. The Federal Reserve continued to increase interest rates, on March 22, 2023 the target range for its benchmark interest rate was raised by .25%, brining the range to 4.75% to 5.00%. Interest rates are projected to peak as high as 6.0% this year, but average 5.1% for the year, as projected by the Federal Reserve in December. Inflation is above policy targets and the post-COVID boom's economic resolution is still not finalized, as stated by Morgan Stanley Wealth Management publication. The bull market is ending, after a V-shaped market recovery accompanied by nominal annualized gross domestic product (GDP) of more than 12% and an increase in corporate profits to roughly 20% above the long-term trend, decades of high inflation arrived, peaking in June 2022 above 9% and ushering in a classic policy-driven bear market. The bear market rally that began in mid-October 2022 continued into the first quarter of 2023, the S&P 500 was up 7% year to date and NASDAQ was up 16.8% .

The 10-year U.S. Treasury note rate of 3.59% is lower compared to 3.78% at December quarter end. The daily 5-year Treasury yield this quarter is reduced to 3.69%, compared to 4.14% at the beginning of the quarter. CD rates were slightly reduced since the beginning of the quarter for 1-year term to 4.40% from 4.60%, The 30-year municipal bonds lowered to 3.28% from 3.39% during the quarter. Forecast for the 10-year Treasury yields over the next 12 months is 3.15% to 3.25%.

The City of Madison Heights's investments continue to be diversified and maturity dates are balanced with cash flow needs. Following a long-term view for fixed rate investments, a higher rate of return is realized by holding fixed rate vehicles, such as bonds and treasuries, until either the call date or maturity. As stated in previous reports, in any given quarter, the method of marking investments to market value (which refers to accounting for the fair value of an asset or liability based on its current market price) may result in loss; however, holding bonds until maturity would result in the total return of investment.

In accordance with the City's investment policy, the City limits its exposure to possible decline in fair market value by maintaining diversification and controlling maturity dates. The table on the following page details the amounts at March 31, 2023. There is a difference between the coupon rate (i.e. yield at issue date) and the estimated quarterly annual yield. When a bond is issued, it has a coupon rate until it matures. This rate is related to the current interest rates. When a bond is sold or called before maturity, the value of the bond, not the coupon, will be affected by the current market interest rates. If current interest rates are higher than the coupon, the bond will sell below its face value. When interest rates are lower, they are sold at a premium or higher than face value. A bond's estimated annual yield is related to the current prevailing interest rates. A bond's yield is its annual interest (coupon) divided by its current market price.

City of Madison Heights		**Investment Listing, by Security Type**							
Investment Analysis									
Qtr End:	3/31/2023								
Description	Amount	Adjusted Cost	Market Value	Unrealized Gain (Loss)	Accrued Interest	Estimated Annual Income	% of Total Portfolio	3/31/2023 Annual Yield to Maturity	3/31/2022 Annual Yield to Maturity
Fixed Income Assets									
Government Bonds	$ 3,238,271	$ 3,234,994	$ 3,196,325	$ (38,669)	$ 16,497	$ 95,340	11.4%	2.98%	1.33%
Government Asset Backed/CMO Securities	9,904,672	7,811,085	7,506,604	(304,481)	102,881	96,094	26.7%	2.74%	1.99%
Municipal Bonds	605,000	618,985	596,855	(22,130)	29,873	19,915	2.1%	3.34%	3.62%
Certificates of Deposit	1,975,689	1,926,227	1,961,106	34,879	-	11,757	7.0%	2.13%	0.37%
Local Government Investment Pool/Money Market	10,928,375	10,928,375	10,928,375	-	30,014	164,430	38.9%	3.00%	0.84%
Total Investments			$24,189,265						
Cash and Equivalents			3,904,440						
Total Cash and Investments			$28,093,705						

Risk

Interest rate risk is the risk that interest rates will change and adversely affect the fair value of the investment of the government's cash flows. The City attempts to limit exposure to a possible decline in fair market value by diversifying maturity dates.

Credit risk is the risk that the investment will not fulfill its promise to pay the investor when required. There is a credit risk associated with all financial institutions, brokers and investment vehicles. The City attempts to limit exposure to credit risk by diversifying the holders of investments, maintaining a high credit rating for investments, and restricting Certificates of Deposit investments to those with financial institutions that are members of the Federal Deposit Insurance Corporation (FDIC).

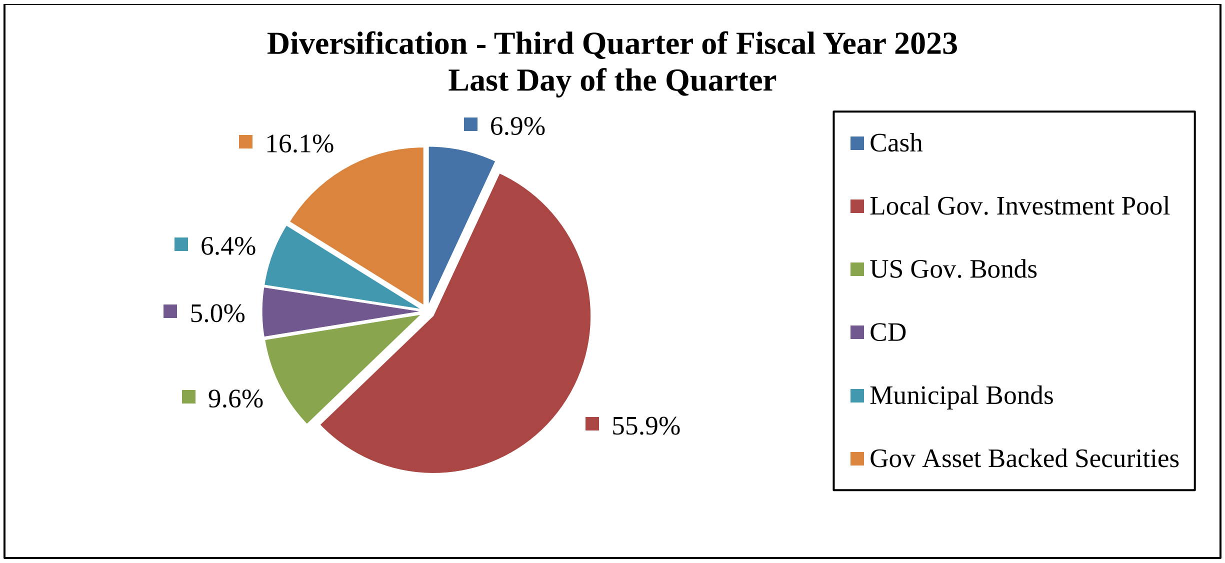
Concentration of risk occurs when the municipality is heavily invested in one issuer. The city's largest issuer is the Local Government Investment Pool managed by Oakland County. This pool is diversified with other County investments.

Quarter Investments

As of March 31, 2023, the City has the following Cash and Investment balances (combination of all funds, excluding pension and health care savings funds).

Total amount in the cash accounts	$ 3,588,870
Total amount in the investment accounts	24,504,834
	$ 28,093,705

The following chart details the diversification of City investments as of March 31, 2023.



Cash and Investment by Fund

Fund	Amount at 03/31/2023	Amount at 03/31/2022
General Fund	$16,251,576	$20,134,002
Major Road	2,999,903	2,325,038
Local Road	4,022,656	3,182,385
Downtown Development Authority	433,929	242,811
Drug Forfeiture	175,390	159,248
Community Development Block Grant	(8,940)	(5,335)
Special Assessment	264,730	254,746
Municipal Building Bond	174,180	0
Fire Station Bond	454,818	463,820
Water and Sewer	3,094,840	3,564,882
Escrow	230,623	259,165
Total Cash and Investments	**$28,093,705**	**$30,580,762**

* Amounts of cash/investments by fund are prior to year-end closing and subject to change with necessary month-end adjustments.