CITY OF MADISON HEIGHTS
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FINANCE/TREASURER DEPARTMENT

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MEMORANDUM

DATE:	July 24, 2023
TO:	Mayor and City Council Melissa Marsh, City Manager
FROM:	Linda A. Kunath, Finance Director/Treasurer
SUBJECT:	Investment Report 4th 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 June 30, 2023, for the City of Madison Heights, is being presented in this memorandum.

Investment Overview

The labor market remains strong. 1.67 million jobs have been created this year, which is a monthly average of 278,000. The unemployment rate of 3.6% remains historically low. Core Consumers Price Index (CPI), excludes volatile food and energy prices, remains high. According to Bakertilly Interest rate update, the CPI peaked at 6.6% last September and currently stands at 5.3%. The Core Personal Consumption Expenditure (PCE) Deflator is 4.9%. Both are about double their 2.00% target. The inflation rate is projected to trend around 3.9% for 2023 and is forecasted to average 2.5% in 2024 and 2.4% in 2025. The debt ceiling was raised by U.S. Congress in June, which avoided the potential of throwing global financial markets into chaos and shutting down the U.S. government, according to Deloitte Insights. They forecast the economy slowing substantially in the second half of 2023, but not a recession. There is too much positive news, particularly in the labor market.

The Federal Reserve is anticipated to increase 25 basis-point hike in the coming week, which will lift the target rate to 5.25% to 5.5%. Two more interest rate hikes are expected between now and the end of 2023. Investors expect the U.S. Federal Reserve to keep raising interest rates, with most not anticipating cuts to begin until well into 2024, according to Bloomberg.com. In the U.S. equities market, the S&P 500 is up 15% year-to-date, lead by consumer technology and media, which are up year-to-date 42.8% and 36.2% respectively, and the NASDAQ was up 32.3% year-to-date. Morgan Stanley Wealth Management also projects a greater chance of stagflation due to the Federal Reserve tighten interest rates, which modestly increases the risk of economic recession in 2023. Golman Sachs expects volatility that dominated the U.S. economy over the pandemic period to diminish. They forecast the second half of 2024 that overall growth will return to more stable pre-pandemic rates, inflation will drift closer to 2%, and the Federal Reserve will bring rates back below 4%.

The 10-year U.S. Treasury note rate of 3.59% was the same at March quarter end. The daily 5-year Treasury yield this quarter is increased to 4.07%, compared to 3.69% at the beginning of the quarter. CD rates were increased since the beginning of the quarter for 1-year term to 5.25% from 4.40%. The 30-year municipal bonds had a slight increase to 3.63% from 3.28% 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 June 30, 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:	6/30/2023								
Description	Amount	Adjusted Cost	Market Value	Unrealized Gain (Loss)	Accrued Interest	Estimated Annual Income	% of Total Portfolio	6/30/2023 Annual Yield to Maturity	6/30/2022 Annual Yield to Maturity
Fixed Income Assets									
Government Bonds	$ 2,941,166	$ 2,940,062	$ 2,861,826	$ (78,236)	$ 26,271	$ 99,543	11.1%	3.48%	2.09%
Government Asset Backed/CMO Securities	11,259,403	9,243,175	8,935,464	(307,711)	165,407	110,093	34.7%	2.67%	2.72%
Municipal Bonds	320,000	328,342	311,977	(16,365)	17,993	11,996	1.2%	3.85%	3.16%
Certificates of Deposit	279,240	279,240	279,240	-	-	14,589	1.1%	2.61%	0.69%
Local Government Investment Pool/Money Market	7,991,659	7,991,659	7,991,659	-	30,014	200,284	31.1%	0.80%	0.17%
Total Investments			$20,380,166						
Cash and Equivalents			5,346,208						
Total Cash and Investments			$25,726,374						

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).

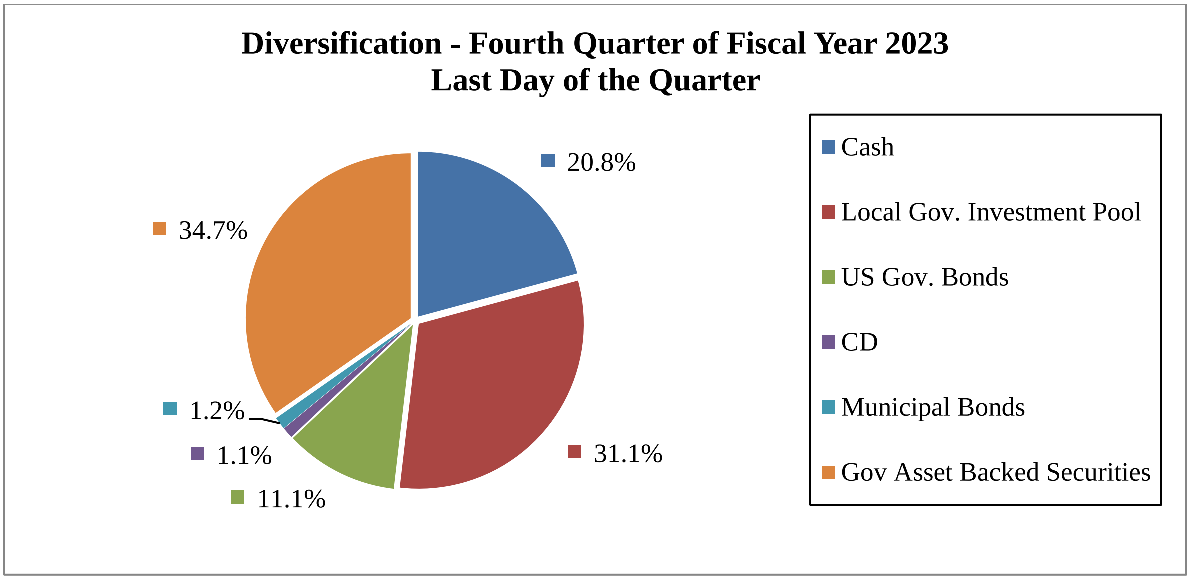
Concentration of risk occurs when the municipality is heavily invested in one issuer. The city's largest issuer is the Local Government Investment Pool managed by Oakland County. This pool is diversified with other County investments.

Quarter Investments

As of June 30, 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	$ 5,178,885
Total amount in the investment accounts	20,547,489
	$ 25,726,374

The following chart details the diversification of City investments as of June 30, 2023.



Cash and Investment by Fund

Fund	Amount at 06/30/2023	Amount at 06/30/2022
General Fund	$12,795,558	$18,051,517
Major Road	3,724,516	2,387,582
Local Road	4,481,015	3,582,971
Downtown Development Authority	423,973	288,832
Drug Forfeiture	135,943	164,613
Community Development Block Grant	(23,155)	(8,296)
Special Assessment	255,725	260,315
Municipal Building Bond	46,380	0
Fire Station Bond	543	27,908
Water and Sewer	3,587,394	3,495,933
Escrow	298,482	276,952
Total Cash and Investments	**$25,726,374**	**$28,528,327**

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