



CITY OF MADISON HEIGHTS
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FINANCE/TREASURER DEPARTMENT

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MEMORANDUM

DATE: July 27, 2025
TO: Mayor and City Council
Melissa Marsh, City Manager
FROM: Linda A. Kunath, Finance Director/Treasurer
SUBJECT: Investment Report 4th Quarter Fiscal Year 2025

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, 2025, for the City of Madison Heights, are being presented in this memorandum.

Investment Overview

The Federal Reserve elected to leave interest rates unchanged at both its May and June meetings, due to persistent inflationary pressures and continued labor market resilience, as stated by Morgan Stanley's Wealth Management Perspective. Despite the market's volatility that started in 2025, bond investors have been consistent in their expectation of two or three 0.25% rate cuts from the Federal Reserve starting the second half of the year, according to Robinson Capital June 2025 Bond Strategies report. The incoming summer data is said to play an important role in determining when the interest rate cut cycle will restart. Tariff policy has been particularly difficult to nail down, as stated by Deloitte.com June 2025 Economics report, as trade negotiations are ongoing and many of the tariffs are being adjudicated in the courts. The assumption is that tariffs are at least modestly higher than they were at the start of the year. Monetary policy, inflation, and treasury yields are interrelated. The Deloitte Economics article expects the average tariff rate to remain around 15%, with country and product-specific rates to change, like imports from Canada and Mexico to fall to about 3% by next year.

Longer-term interest rates have increased, with 10-year treasury yield near 4.5%. The 10-year treasury yield is expected to decline slowly in 2026 to 4.1% by 2027. Higher tariff cost are projected to elevate interest rates which will cause slower pace of investment and hiring in 2025 and 2026. This may lead to unemployment rates to rise to 4.6% in 2026. Gross Domestic Product (GDP) growth is expected to be 1.4% in 2025 and 1.5% in 2026, according to the Economics article. Morgan Stanley Wealth Management reported that since March 2025 and through the end of the second quarter, the NASDAQ Composite Index increased 18.0%, the Russell 2000 Index gained 8.5%, and the Dow Jones Industrial Average rose by 5.5%. The S&P 500 sectors that gained included Technology (23.7%), Communication Service (18.5%) and Industrials (12.9%).

The 10-year U.S. Treasury note rate of 4.39% is an increase from 4.20% at March quarter end. The 5-year Treasury yield in June increased slightly to 3.96% compared to 3.90% at the beginning of the quarter. The 1-year U.S. Treasury note is increased to 4.09% from 3.94% at end of last quarter. CD rates for 1-year term were 4.00%, down from 4.40% last quarter end. The 30-year municipal bonds decreased to 4.77% compared to 5.58% March quarter end.

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, 2025. 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 Analysis		Investment Listing, by Security Type							
Qtr End: 6/30/2025									
Description	Amount	Adjusted Cost	Market Value	Unrealized Gain (Loss)	Accrued Interest	Estimated Annual Income	% of Total Portfolio	6/30/2025 Annual Yield to Maturity	6/30/2024 Annual Yield to Maturity
Fixed Income Assets									
Government Asset Backed/CMO Securities	\$ 19,745,000	\$ 18,711,627	\$ 19,037,644	\$ 326,017	\$ 315,549	\$ 125,204	52.0%	3.84%	3.23%
Municipal Bonds	35,000	37,025	35,062	(1,963)	2,582	1,722	0.1%	4.91%	2.52%
Certificates of Deposit	309,221	309,221	309,221	-	-	13,515	0.8%	2.19%	2.70%
Local Government Investment Pool/Money Market	7,251,974	7,251,974	7,251,974	-	65,682	554,519	19.8%	4.10%	2.65%
Total Investments			\$26,633,901						
Cash and Equivalents			9,984,498						
Total Cash and Investments			\$36,618,399						

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).

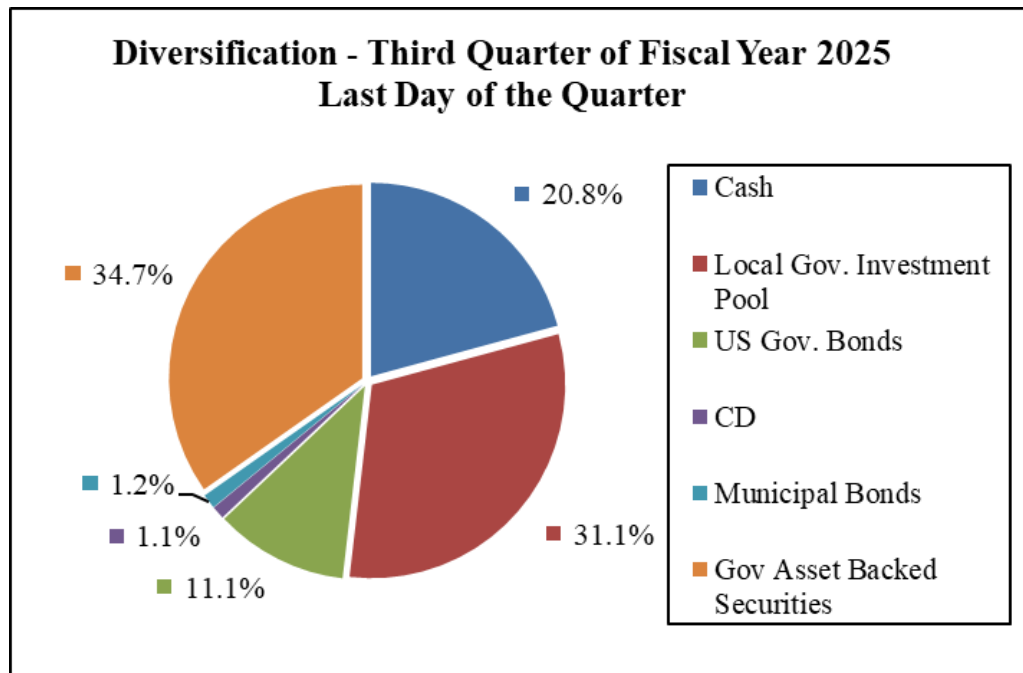
Concentration of risk occurs when the municipality is heavily invested in one issuer. The city's largest issuer is the Local Government Investment Pool managed by Oakland County. This pool is diversified with other County investments.

Quarter Investments

As of June 30, 2025, 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	\$ 8,254,518
Total amount in the investment accounts	<u>28,363,881</u>
	\$ 36,618,399

The following chart details the diversification of City investments as of June 30, 2025.



Cash and Investment by Fund

Fund	Amount at 06/30/2025	Amount at 06/30/2024
General Fund	\$17,073,118	\$15,939,756
Major Road	5,765,746	4,325,461
Local Road	6,032,238	5,094,437
Downtown Development Authority	882,357	526,963
Drug Forfeiture	121,712	165,660
Community Development Block Grant	(7,640)	(30,280)
Special Assessment	248,977	253,992
Municipal Building Bond	49,380	47,880
Fire Station Bond	0	24,568
Water and Sewer	6,187,282	4,403,809
Escrow	265,229	443,067
Total Cash and Investments	\$36,618,399	\$31,195,313

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