



CITY OF MADISON HEIGHTS
300 WEST 13 MILE ROAD, MADISON HEIGHTS, MI 48071
FINANCE/TREASURER DEPARTMENT

Linda A. Kunath,
Finance Director/Treasurer

(248) 837-2639
LindaKunath@Madison-Heights.org

MEMORANDUM

DATE: October 23, 2025
TO: Mayor and City Council
Melissa Marsh, City Manager
FROM: Linda A. Kunath, Finance Director/Treasurer
SUBJECT: Investment Report 1st Quarter Fiscal Year 2026

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 September 30, 2025, for the City of Madison Heights, are being presented in this memorandum.

Investment Overview

Interest rates were cut .25% by the Federal Reserve at the September meeting. Robinson Capital's Strategies reported the rate cut move was justified by inflation moving well off its peak. Further rate cuts will shift to a focus on employment, given the recent negative job reports and major downward labor revisions. Federal Reserve Chair Jerome Powell stated in September, that rate policy is being driven by employment, not inflation. The economy is expected to slow from 2.8% annual pace in 2024 to the 2% range in 2025 and 2026, which will be the two weakest back-to-back years since the early 2010s, according to KPMG Economic Compass article. Income and wealth inequality shifts are reshaping the economy and the risks to growth. KPMG goes on to say the economy is becoming more dependent upon the most affluent to keep spending and is more susceptible to stock market corrections. The expectation is for the Federal Reserve Board to cut short-term interest rates twice before year-end. A prolonged government shutdown would increase those odds, while a quick resolution lowers them.

Compared to a year ago, bond yields have pivoted around the 2-year Treasury yield, which is mostly unchanged, according to Robinson Capital Strategies. As the Federal Reserve has resumed interest rate cut cycle, short rates are down while bond investors have pushed longer rates higher with the 10-year Treasury yield up 0.37% over the last 12 months. The 3-Month T-Bill had a higher yield than the 2-year Treasury. Mortgage rates and the 10-year Treasury yield move together, but mortgage rates are always higher due to the riskiness of the homebuyer. Consumer spending is expected to slow to 1.4% in 2026 from 1.8% in 2025 according to Deloitte.com Economics report. This report projects the possibility of a short-recession in fourth quarter of 2026 due to higher inflation and interest rates. The 10-year Treasury yield dropped during this past quarter, but as of today have added 4 basis points to 3.993%, the 2-year Treasury note was up more than 3 basis points at 3.478%, and the 30-year bond rose more than 3 basis points to 4.577%.

The 10-year U.S. Treasury note rate of 4.16% at September quarter end is a decrease from 4.24% at June quarter end. The 5-year Treasury yield at end of this quarter decreased slightly to 3.74% compared to 3.79% at the end of last quarter. The 1-year U.S. Treasury note at September quarter end is decreased to 3.68% from 3.96% at June quarter end. CD rates for 1-year term were 3.65%, down from 3.90% June quarter end. The 30-year municipal bonds decreased to 4.27% end of quarter compared to 4.77% last 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 September 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		<u>Investment Listing, by Security Type</u>							9/30/2025	9/30/2024 Annual Yield to Maturity
Description	Amount	Adjusted Cost	Market Value	Unrealized Gain (Loss)	Accrued Interest	Estimated Annual Income	% of Total Portfolio	Annual Yield to Maturity	9/30/2024 Annual Yield to Maturity	
Fixed Income Assets										
Government Bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.0%	0.00%	0.00%	
Government Asset Backed/CMO Securities	\$ 16,730,000	\$ 15,714,528	\$ 16,164,566	\$ 450,038	\$ 219,650	\$ 534,732	28.2%	4.36%	3.23%	
Municipal Bonds	20,000	21,157	20,056	(1,101)	1,477	985	0.0%	4.91%	4.92%	
Certificates of Deposit	9,858,690	9,858,690	9,858,690	-	-	13,389	17.2%	2.77%	2.62%	
Local Government Investment Pool/Money Market	19,352,236	19,352,236	19,352,236	-	65,682	620,722	33.8%	3.90%	3.64%	
Total Investments			\$45,395,548							
Cash and Equivalents			11,920,032							
Total Cash and Investments			\$57,315,580							

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).

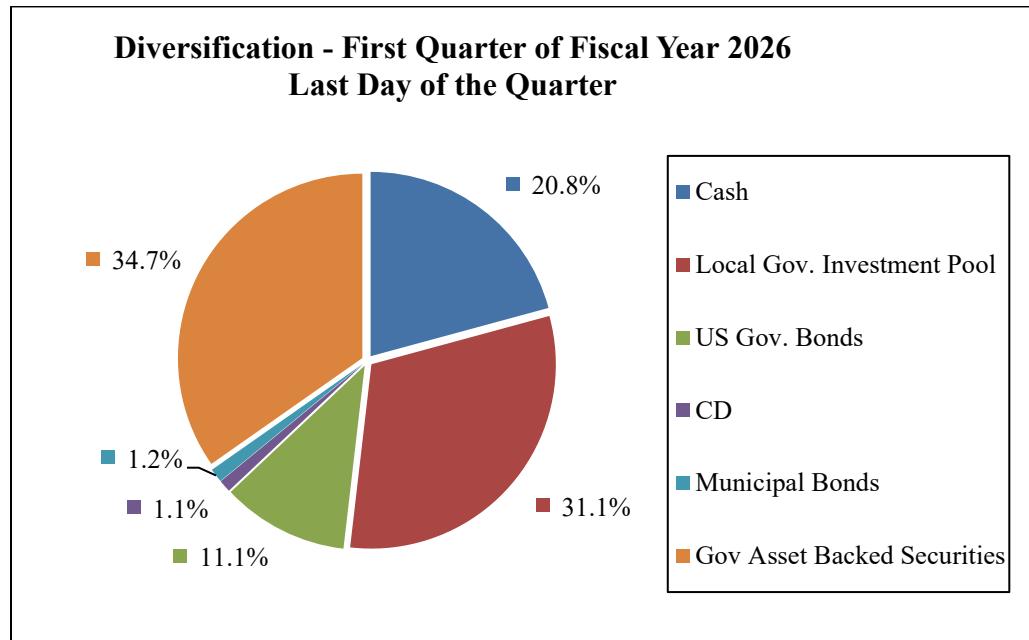
Concentration of risk occurs when the municipality is heavily invested in one issuer. The city's largest issuer is the Local Government Investment Pool managed by Oakland County. This pool is diversified with other County investments.

Quarter Investments

As of September 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	\$ 7,033,847
Total amount in the investment accounts	<u>50,281,733</u>
	\$ 57,315,580

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



Cash and Investment by Fund

Fund	Amount at 09/30/2025	Amount at 09/30/2024
General Fund	\$34,802,861	\$32,752,529
Major Road	6,549,274	4,205,309
Local Road	7,840,429	6,257,178
Downtown Development Authority	520,765	717,663
Drug Forfeiture	145,278	198,607
Community Development Block Grant	(20,822)	(45,468)
Special Assessment	256,105	257,755
Municipal Building Bond	49,380	(309,920)
Fire Station Bond	0	0
Water and Sewer	6,909,792	4,705,086
Escrow	262,518	433,918
Total Cash and Investments	\$57,315,580	\$49,172,657

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