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:	January 28, 2025
TO:	Mayor and City Council Melissa Marsh, City Manager
FROM:	Linda A. Kunath, Finance Director/Treasurer
SUBJECT:	Investment Report 2nd 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 December 31, 2024, for the City of Madison Heights, are being presented in this memorandum.

Investment Overview

The Michigan Class January 2025 Economic Review states increased uncertainty around the new Trump administration's trade and fiscal policies and a lack of progress on the final push to the Federal Reserve's 2% inflation target have driven treasury bond yields back up to multi-month highs. The 2-year treasury yield hovers near its November and December highs while the 10-year yield remains near 2024's highs and within shouting distance of the multi-decade high set in October of 2023. The most recent consumer price index (CPI) report ahs helped to partially quell concerns about a potential reacceleration of inflation, The month-over-month change in headline CPI of 0.4% was attention grabbing; however, it is the "core" CPI (ex-food and energy) month-over-month reading of 0.2% that is the focus for market participants. This 0.2% increase was less than the 0.3% increase expected and much more in line with the Federal Reserve's 2% annual inflation target.

The Federal Open Market Committee (FOMC) reduced the federal funds target rate as a range between 4.25% to 4.50% at the December meeting. Fed fund futures are currently only pricing in one more 25 basis point cut in the latter half of this year. The 3 month/10-year Treasury yield spread has moved back into positive territory according to Charles Schwab January 2025 Bond Market Update. The Treasury yield curve is no longer inverted. Investors in intermediate to long-term securities are now getting compensation for taking more interest rate risk. However, the yield spread is still low compared to pre-pandemic levels, and further steepening is likely in 2025.

The 10-year U.S. Treasury note rate of 4.67% is a increased from 4.21% at September quarter end. The 5-year Treasury yield this quarter increased to 4.46% compared to 3.93% at the beginning of the quarter. A 1-year U.S. Treasury note is slightly decreased at 4.17% at end of quarter compared to 4.21% at September quarter end. CD rates for 1-year term were 3.85% this quarter decreased from 3.95% last quarter end. The 30-year municipal bonds increased to 3.89% compared to 3.65% at September quarter end. The 10-year bond rate average yield is currently 4.54%, which is more than 3.81% last quarter.

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 December 31, 2024. 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: 12/31/2024

Description	Amount	Adjusted Cost	Market Value	Unrealized Gain (Loss)	Accrued Interest	Estimated Annual Income	% of Total Portfolio	12/31/2024 Annual Yield to Maturity	12/31/2023 Annual Yield to Maturity
Fixed Income Assets									
Government Bonds	$ 3,000,000	$ 2,903,980	$ 2,987,760	$ 83,780	$ -	$ -	6.9%	0.00%	3.54%
Government Asset Backed/CMO Securities	8,080,000	7,234,584	7,373,236	138,652	201,297	107,145	17.1%	3.47%	2.79%
Municipal Bonds	35,000	37,025	34,669	(2,356)	2,585	1,723	0.1%	4.97%	2.01%
Certificates of Deposit	302,515	302,515	302,515	-	-	14,179	0.7%	2.34%	2.76%
Local Government Investment Pool/Money Market	19,946,579	19,946,579	19,946,579	-	65,682	278,492	46.3%	3.90%	1.69%
Total Investments			$30,644,759						
Cash and Equivalents			12,461,116						
Total Cash and Investments			$43,105,875						

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.

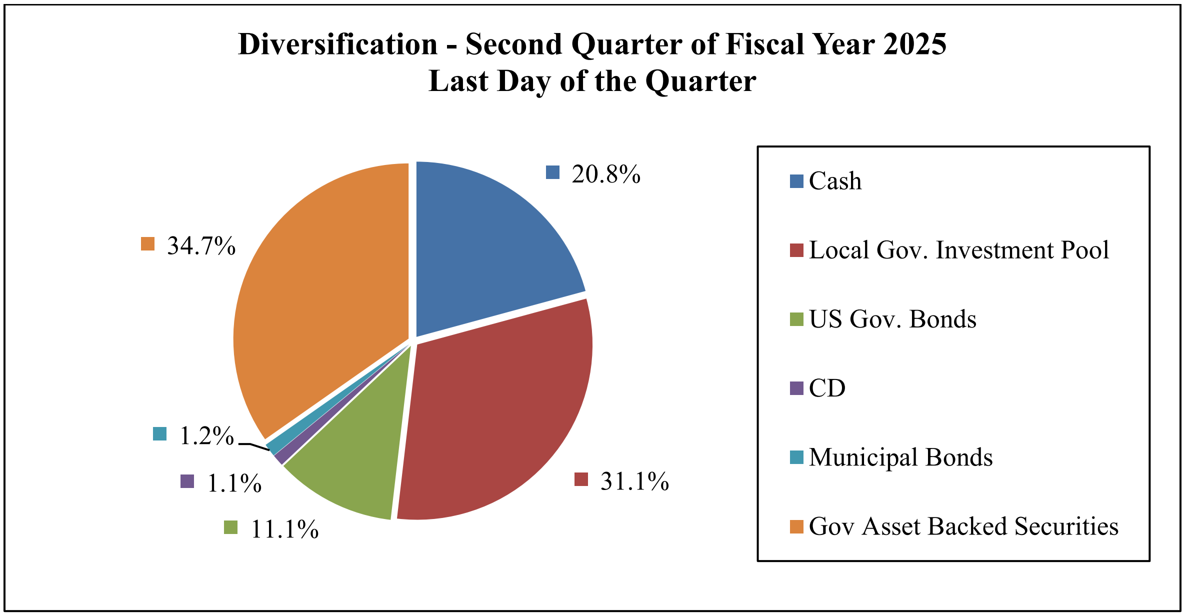
Credit risk is the risk that the investment will not fulfill its promise to pay the investor when required. There is a credit risk associated with all financial institutions, brokers and investment vehicles. The City attempts to limit exposure to credit risk by diversifying the holders of investments, 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 December 31, 2024, 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	$ 2,598,810
Total amount in the investment accounts	40,507,065
	$ 43,105,875

The following chart details the diversification of City investments as of December 31, 2024.



Cash and Investment by Fund

Fund	Amount at 12/31/2024	Amount at 12/31/2023
General Fund	$26,327,274	$23,961,085
Major Road	4,680,476	3,195,501
Local Road	5,901,288	4,761,081
Downtown Development Authority	985,579	692,892
Drug Forfeiture	203,151	157,620
Community Development Block Grant	(82,135)	(22,454)
Special Assessment	243,781	251,014
Municipal Building Bond	(309,920)	175,680
Fire Station Bond	0	24,568
Water and Sewer	4,974,284	2,921,056
Escrow	182,097	322,925
Total Cash and Investments	**$43,105,875**	**$36,440,968**

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