CITY OF MADISON HEIGHTS
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FINANCE/TREASURER DEPARTMENT

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MEMORANDUM

DATE:	April 16, 2025
TO:	Mayor and City Council Melissa Marsh, City Manager
FROM:	Linda A. Kunath, Finance Director/Treasurer
SUBJECT:	Investment Report 3rd 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 March 31, 2025, for the City of Madison Heights, are being presented in this memorandum.

Investment Overview

The US economic outlook forecasted during March 2025 painted a picture of continued growth but with a potential slowdown and persistent inflation. A modest growth rate of around 1.7%-2.2% was projected in 2025, the Federal Reserve was expected to keep interest rates steady with a potential cut the second half of the year, and the labor market anticipated to remain tight, but unemployment expected to rise slightly. Sweeping tariffs imposed by President Trump on April 2nd "Liberation Day" increased the effective rate on imports to 17%-22%, the highest in history, as reported by Morgan Stanley's Wealth Management Perspective. Tariffs are typically paid by the importer of record, which increases costs for businesses and consumers. The Perspective goes on to say that the end game is not fully understood, as maximum revenue collection, reshoring investment and leveling the playing field for US exporters are mutually exclusive. The average consumer, inflation and demand disruption outweigh any immediate opportunities for new middle-class jobs. The fixed income bond market warrants being monitored closely, as spreads above 400 basis points have historically been associated with earnings recessions.

Escalating trade wars and tariffs are seen as a major threat to economic growth, potentially leading to a slowdown or even a recession. Experts now predict the economy will stall in 2025, growing 0.8%. Economist estimate there is a 47% chance of a recession, up from 25% in February. The Federal Open Market Committee (FOMC) expects inflation to reach between 2.7% and 2.8%, the unemployment rate is expected to rise to 4.4% to 4.5%, and interest rates to be cut, but beyond 3.75%-4% range would be difficult. The expected U.S. Gross Domestic Product (GDP) growth is to fall below 1% and core inflation to end the year near 4%, according to Vanguard. Outside the U.S., Vanguard foresees weakening growth with softening demand potentially tempering inflationary pressures.

The 10-year U.S. Treasury note rate of 4.20% is a decrease from 4.67% at December quarter end. The 5-year Treasury yield in March decreased to 3.90% compared to 4.46% at the beginning of the quarter.
The 1-year U.S. Treasury note is decreased to 3.94 from 4.17% at end of last quarter. CD rates for 1-year term were 4.40%, up from 3.85% last quarter end. The 30-year municipal bonds increased to 5.58% compared to 4.47% December quarter end. The 10-year bond rate average yield is currently 4.33%, a decrease from 4.54% 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 March 31, 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 Listing, by Security Type**							
Investment Analysis									
Qtr End:	3/31/2025								
Description	Amount	Adjusted Cost	Market Value	Unrealized Gain (Loss)	Accrued Interest	Estimated Annual Income	% of Total Portfolio	3/31/2025 Annual Yield to Maturity	3/30/2024 Annual Yield to Maturity
Fixed Income Assets									
Government Asset Backed/CMO Securities	$ 6,990,000	$ 6,163,999	$ 6,426,584	$ 262,585	$ 210,728	$ 124,679	16.5%	3.47%	2.82%
Municipal Bonds	35,000	37,025	34,825	(2,200)	2,586	1,724	0.1%	4.95%	2.01%
Certificates of Deposit	305,863	305,863	305,863	-	-	13,468	0.8%	2.20%	2.71%
Local Government Investment Pool/Money Market	13,130,543	13,130,543	13,130,543	-	65,682	441,466	33.6%	3.84%	2.03%
Total Investments			$19,897,815						
Cash and Equivalents			19,141,676						
Total Cash and Investments			$39,039,491						

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).

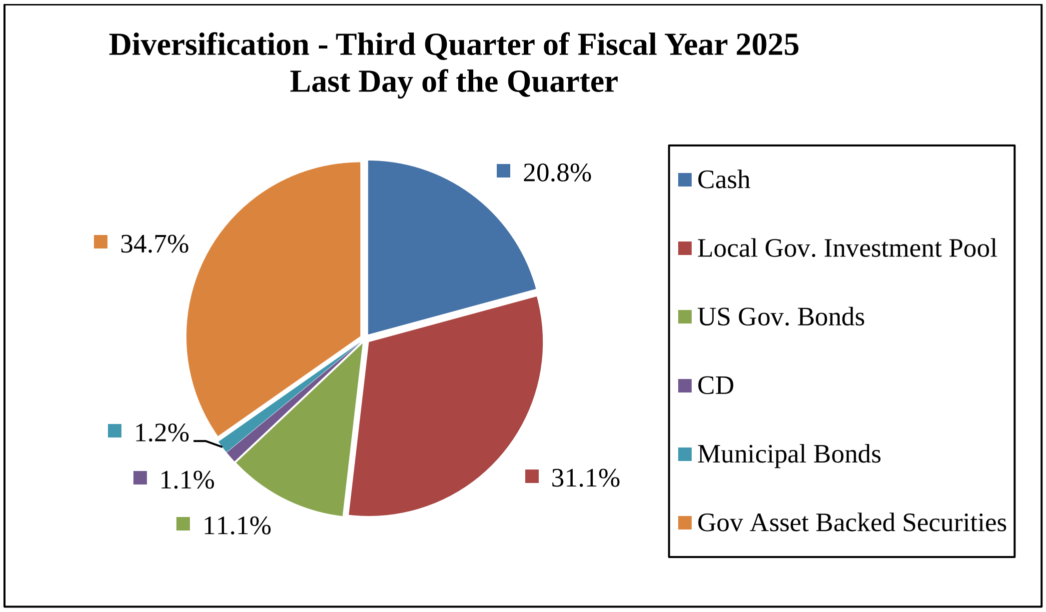
Concentration of risk occurs when the municipality is heavily invested in one issuer. The city's largest issuer is the Local Government Investment Pool managed by Oakland County. This pool is diversified with other County investments.

Quarter Investments

As of March 31, 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	$ 5,007,323
Total amount in the investment accounts	34,032,169
	$ 39,039,491

The following chart details the diversification of City investments as of March 31, 2025.



Cash and Investment by Fund

Fund	Amount at 03/31/2025	Amount at 03/31/2024
General Fund	$20,912,475	$19,989,399
Major Road	5,379,778	3,880,122
Local Road	6,029,316	4,894,819
Downtown Development Authority	919,078	627,893
Drug Forfeiture	206,151	167,105
Community Development Block Grant	(12,296)	(24,920)
Special Assessment	247,090	252,279
Municipal Building Bond	(433,120)	47,880
Fire Station Bond	0	24,568
Water and Sewer	5,474,062	3,492,575
Escrow	316,957	317,984
Total Cash and Investments	**$39,039,491**	**$33,669,704**

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