Agenda Report

MEETING DATE: **Tuesday, October 26, 2021**

TO: **City Council**

FROM: **ADMINISTRATIVE SERVICES DIRECTOR CZERWIN**
MARISSA DURAN ASSISTANT FINANCE DIRECTOR

SUBJECT: **MOTION TO ACCEPT APRIL 2021 THROUGH JUNE 2021 INVESTMENT REPORT**

STATEMENT OF ISSUES:
The City Council is asked to accept the quarterly Investment Report.

RECOMMENDED ACTION:
It is recommended that Council accept the Investment Report for the period of April 2021 through June 2021 by motion.

DISCUSSION:
The City's idle funds are invested to earn a competitive yield and to accommodate the City's need for liquidity. Investments of idle funds are only made in investment types/instruments approved by the Council. Every year in January, the Council re-adopts the City's Investment Policy. As shown on Table 1 below, the City's Investment Portfolio in June 2021 was 74.1 million dollars. Our current holdings include: City Investments, Street Assessments, Local Agency Investment Fund (LAIF) and the California Asset Management Program (CAMP).

Two years ago, the City added a new Investment Instrument to its portfolio: the California Asset Management Program. This Program has been around since 1989 and has been serving the investment needs of public agencies. CAMP is a pool, which is a short-term cash reserve portfolio and cash management vehicle. The investment is AAA rated by Standard & Poor's. They offer same-day liquidity, competitive yield, and monthly interest payments and zero out of pocket expenses. The City's current investment in CAMP is in the amount of $28.3 million dollars.

The City has used Local Agency Investment Fundas a primary benchmark for the last several years. LAIF is a good benchmark for the City as the average days to maturity of its investments is similar to the City's investment maturity. Currently we are a little below LAIF earnings rates as interest rates are very strained.

PORTFOLIO RESULTS:

The results from the last several months are shown below on Table 1.

Table I

	April	May	June
Cash Invested ($MM)	101.1	97.6	104.0
City's Average Maturity (Days)	27.5	27.9	23.8
City's Average Yield	0.32%	0.31%	0.28%
LAIF Yield	0.34%	0.32%	0.29%
LAIF Cash Invested ($MM)	74.1	74.1	74.1

THE ECONOMY:

On the inflation front, while the PPI index is still elevated, the pace of the increase of 0.5% M/M (0.6% expected) was the smallest increase this year. Ex-food and energy, the M/M PPI came in at 0.2%, which was a sizeable difference from the 0.5% expected increase. According to the BLS: "Leading the advance in the index for final demand goods, prices for gasoline rose 3.9 percent. The indexes for beef and veal, residential electric power, fresh and dry vegetables, gas fuels, and primary basic organic chemicals also moved higher. In contrast, prices for plastic resins and materials decreased 3.9 percent. The indexes for corn and for residual fuels also fell." While inflation expectations have helped push interest rates in the bond market up recently, expectations have not risen above the range they've been in since June. It is hard to rationalize the current rise in rates, other than the debt ceiling issue. There is optimism that the Delta variant may be waning and growth may yet come back.

Applications for U.S. state unemployment benefits fell last week to a fresh pandemic low, showing employers are having some success in retaining workers in a tight labor market. Initial unemployment claims in regular state programs totaled 293,000 (320,000 expected) in the week ended Oct. 9, a decrease of 36,000 from the prior week, Labor Department data showed. Continuing claims for state benefits dropped to 2.6 million.

A tropical storm that's lashing southern China mixed with Covid-related supply chain issues is causing a ship backlog from Shenzhen to Singapore, intensifying fears retail shelves may look rather empty come Christmas. Shipping data compiled by Bloomberg show there are currently 67 container ships anchored off Hong Kong and Shenzhen, around 22% more congested than median daily counts from April through October 14. It's the middle of October, just the start of what the retail world simply calls "peak", but the industry is already in various forms of panic that usually don't take hold until the weeks before Christmas. Early in the year, the hope was that the bottlenecks that gummed up the global supply chain in 2020 would be mostly cleared by now. They've actually only gotten worse — much worse — and evidence is mounting that the holiday season is at risk. Covid outbreaks have idled port terminals. There still aren't enough cargo containers, causing prices to spike 10-fold from a year ago. Labor shortages have stalled trucking and pushed U.S. job openings to all-time highs. And that was before UPS, Walmart and others embark on hiring hundreds of thousands of seasonal workers to take on the peak of peak season.

FINANCIAL IMPACT:

The decline in money growth and velocity indicate that the inflation induced supply side shocks will eventually be reversed. In this environment Treasury bond yields could temporarily be pushed higher in response to inflation. However, these sporadic moves will not be maintained. The trend in longer yields remain downward. This will most likely cause low interest earning yields in the 2021 year.

ATTACHMENTS AND/OR REFERENCES (If any):

1) April through June 2021 Investment Portfolio