

February 6, 2024

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**Treasurer & Tax Collector**  
CITY AND COUNTY OF SAN FRANCISCO

# Treasury Oversight Committee

Presented by: Hubert R White , III CFA CTP, Chief Investment Officer

Tajel Shah, Chief Assistant Treasurer



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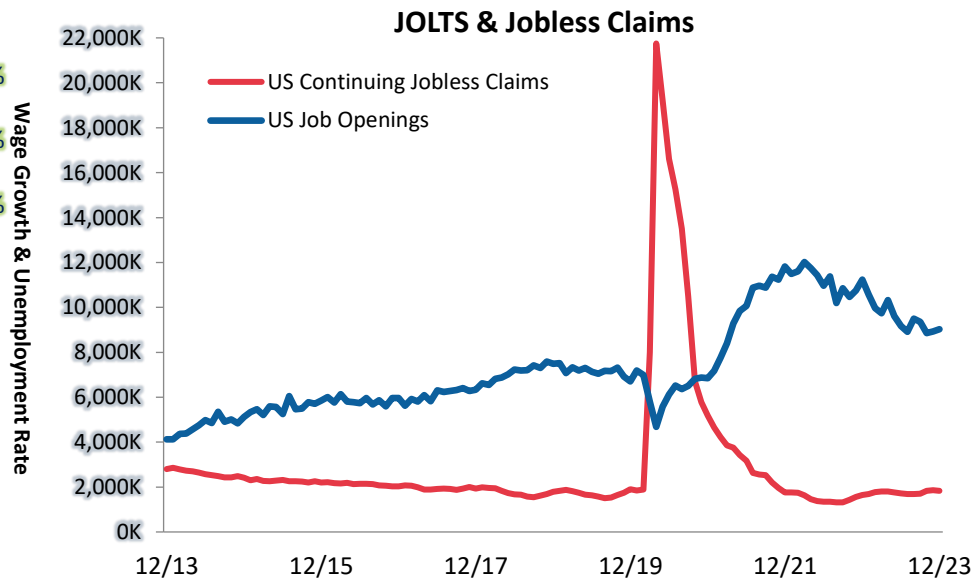
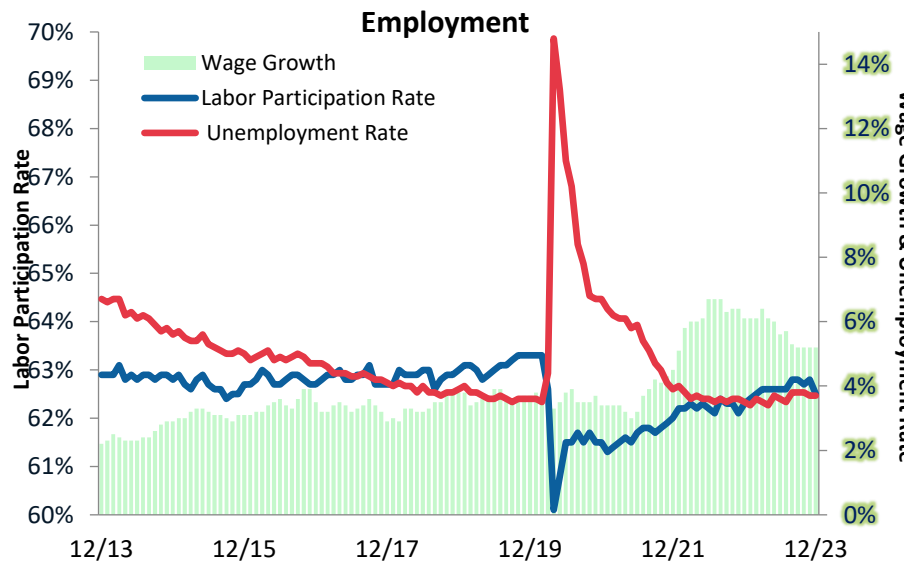
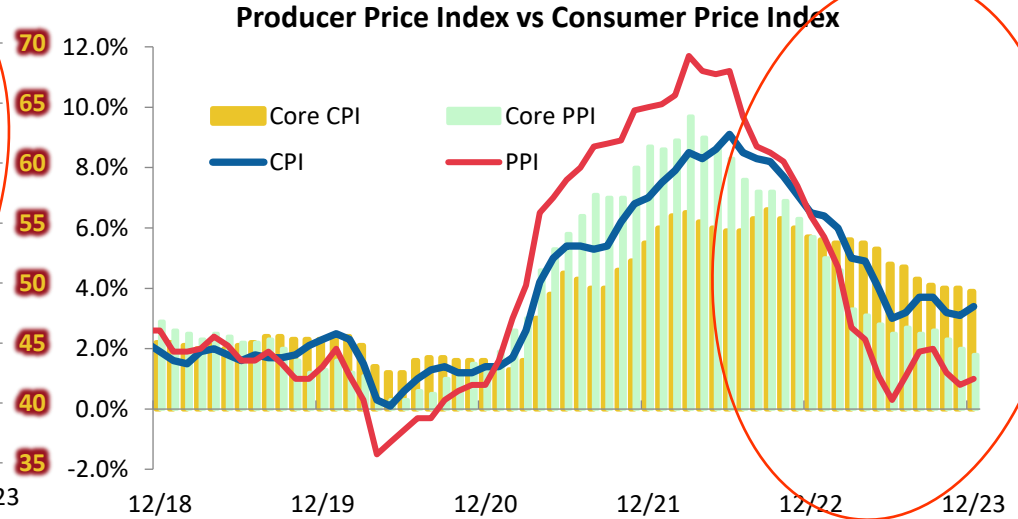
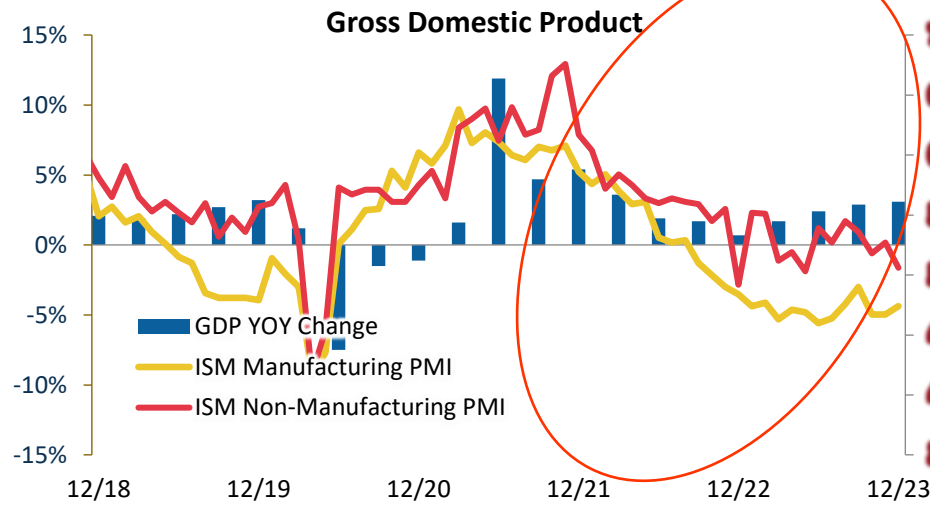
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1. Economic & Market Overview
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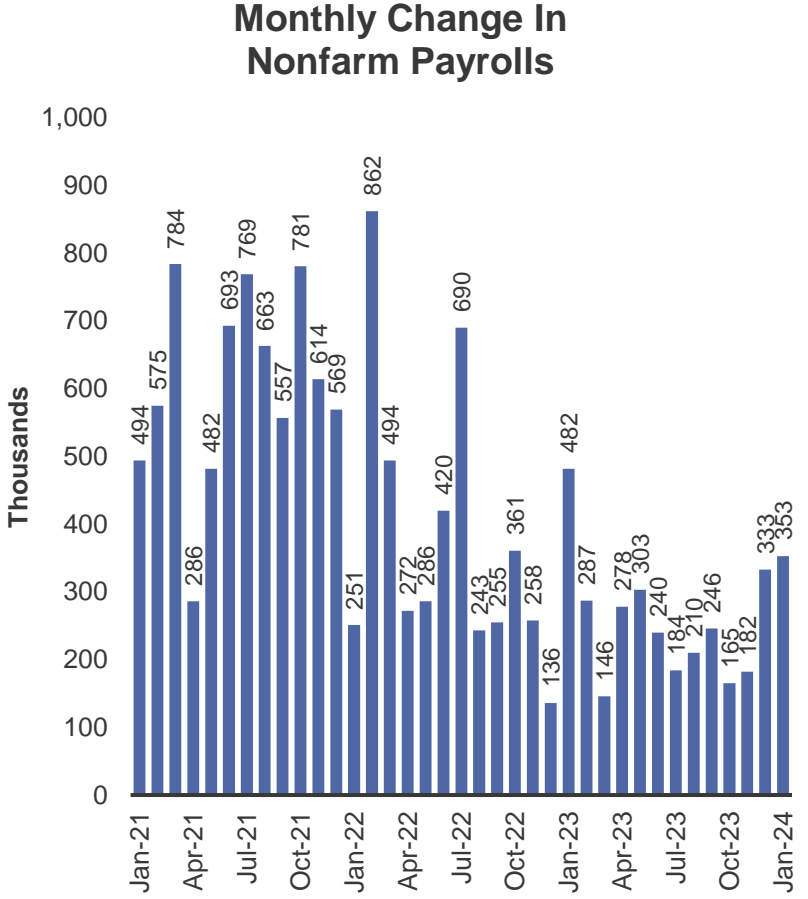
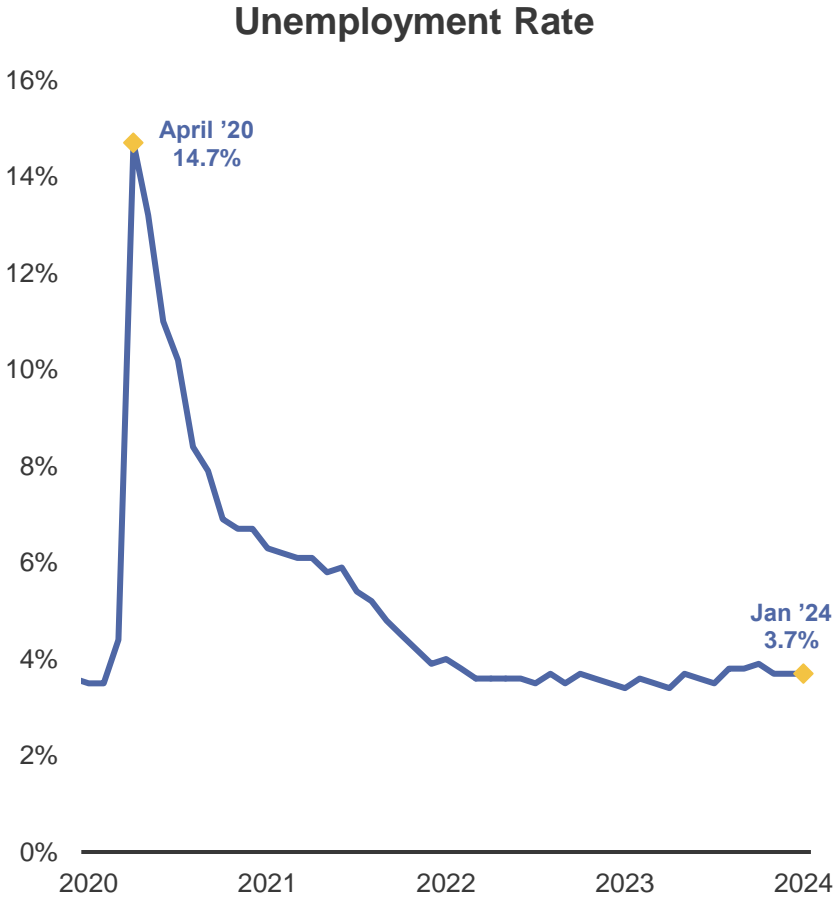


# Key Economic Data



Source: Bloomberg

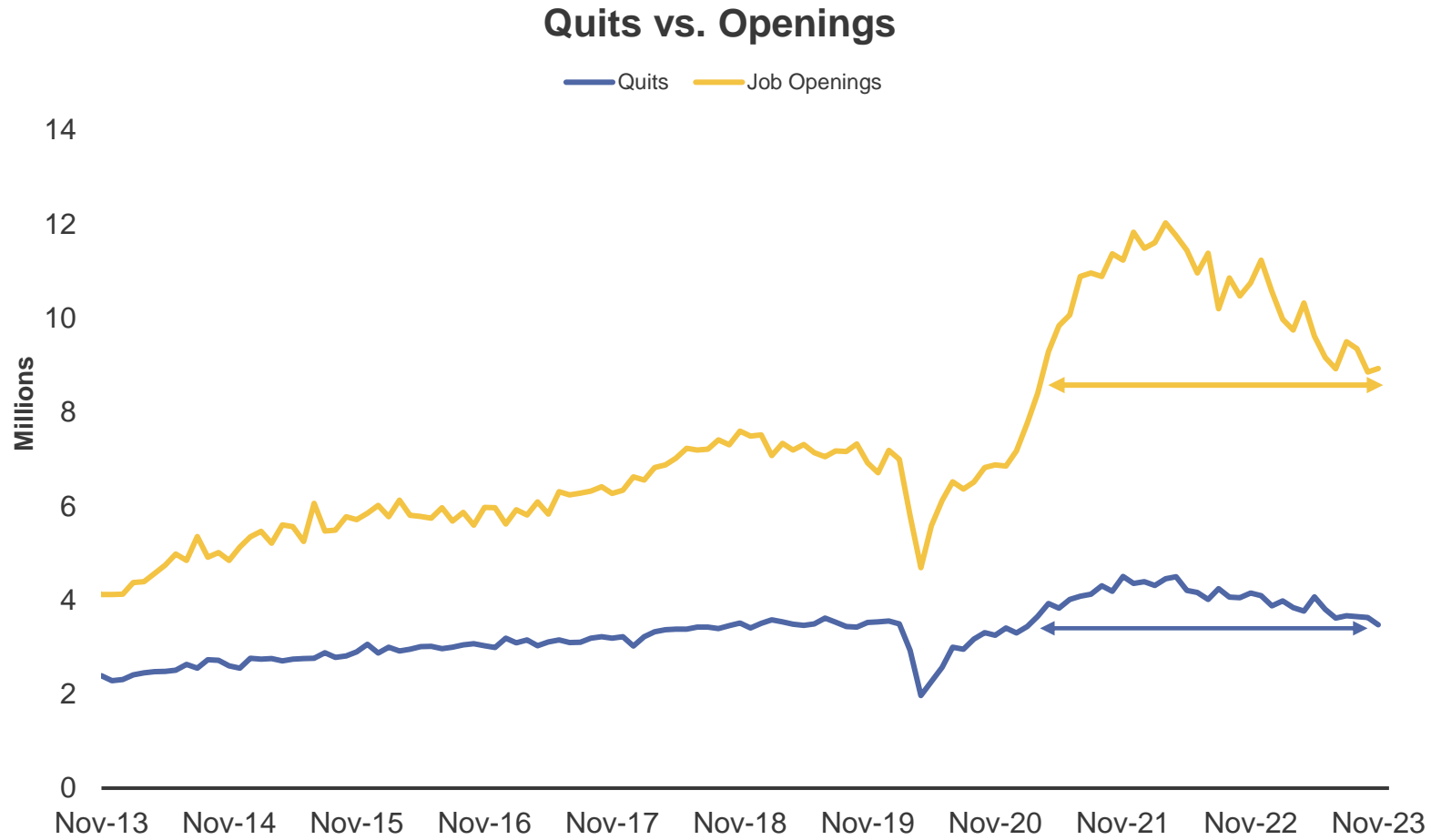
# Economy Added 353k Jobs in January to Start the Year on a Strong Note



Source: Bloomberg, as of January 2024. Data is seasonally adjusted.

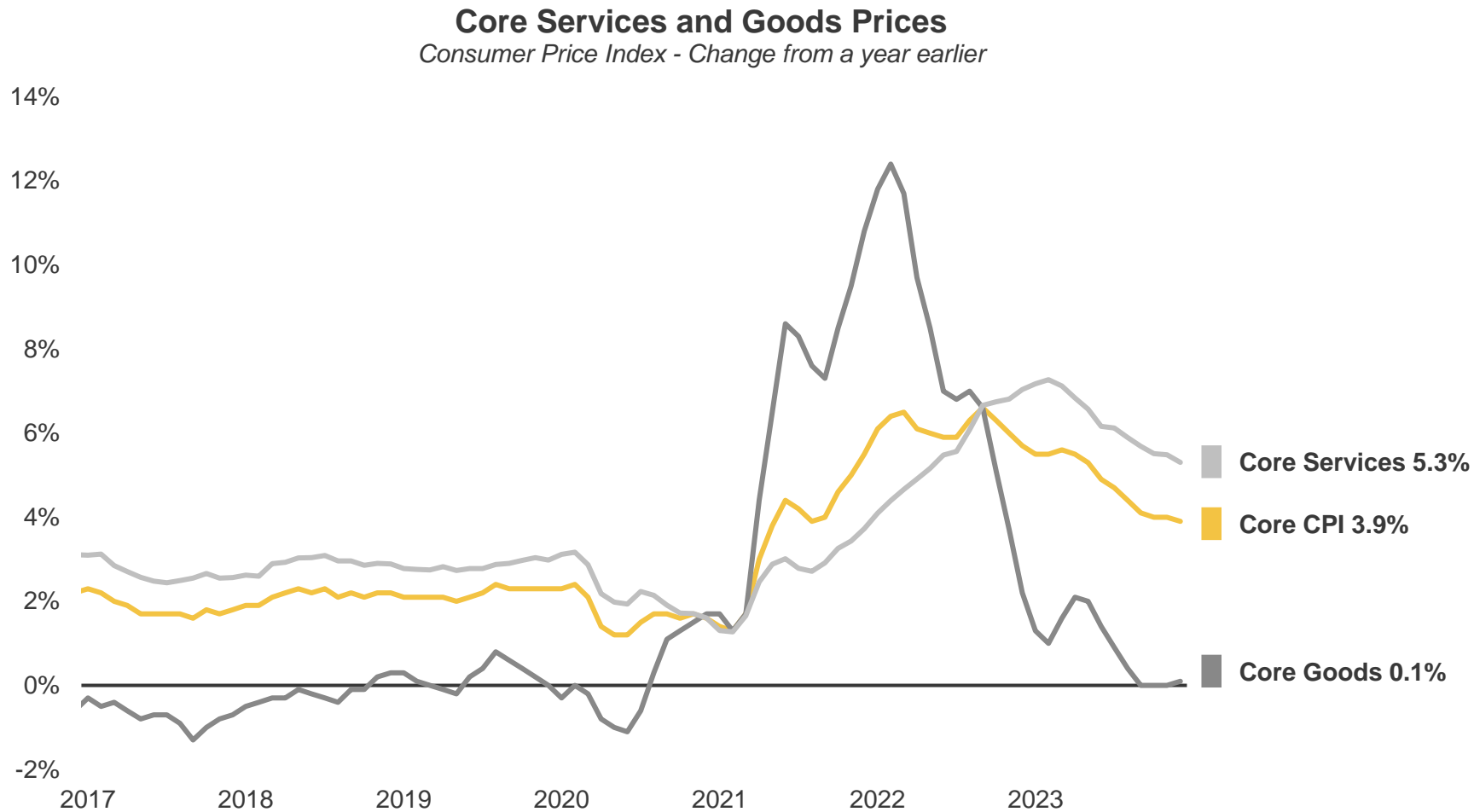


# Job Openings Remained Robust in December



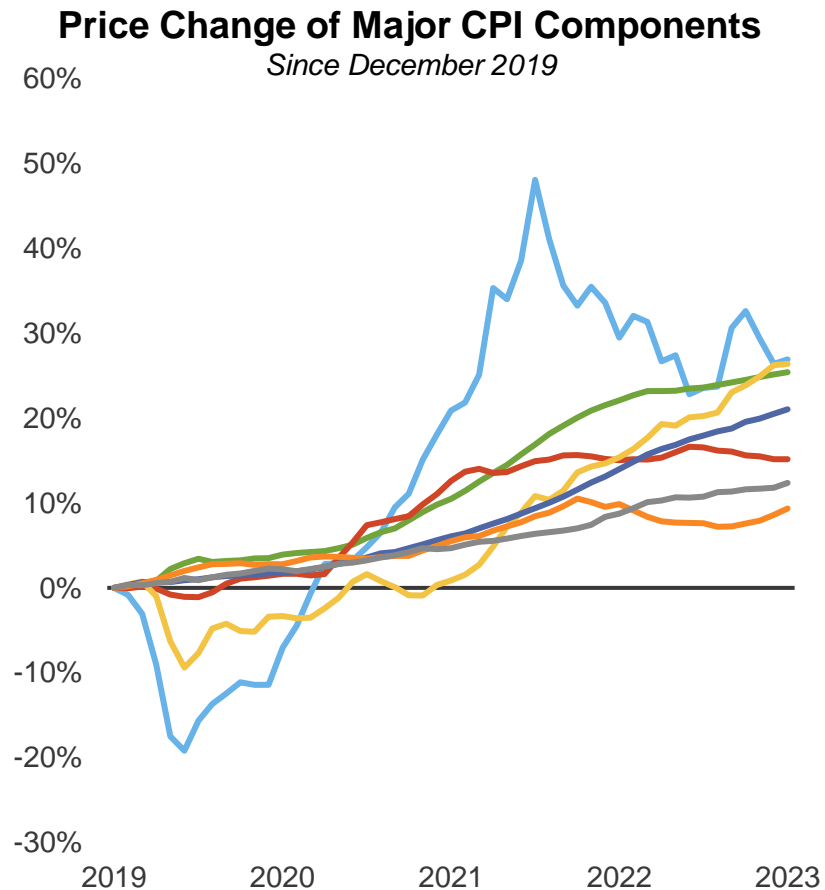
Source: JOLT's report, FRED, as of December 2023

# Core Inflation Continues to Moderate



Source: Bloomberg, Bureau of Labor Statistics as of December 2023.

# Housing Drove More Than Half of Consumer Price Gain



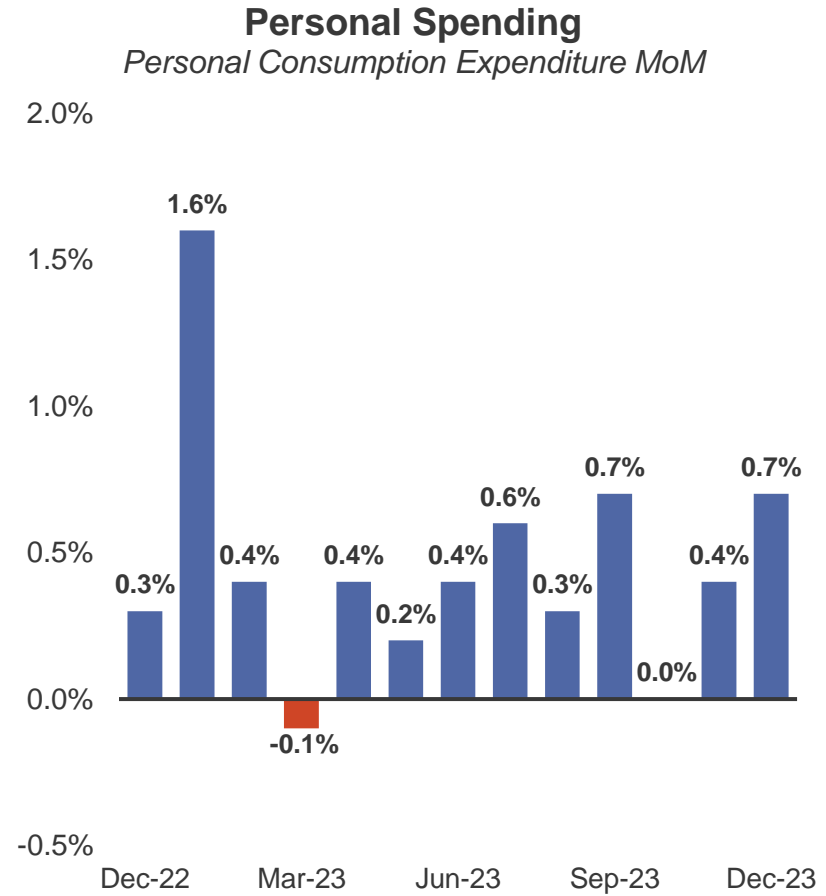
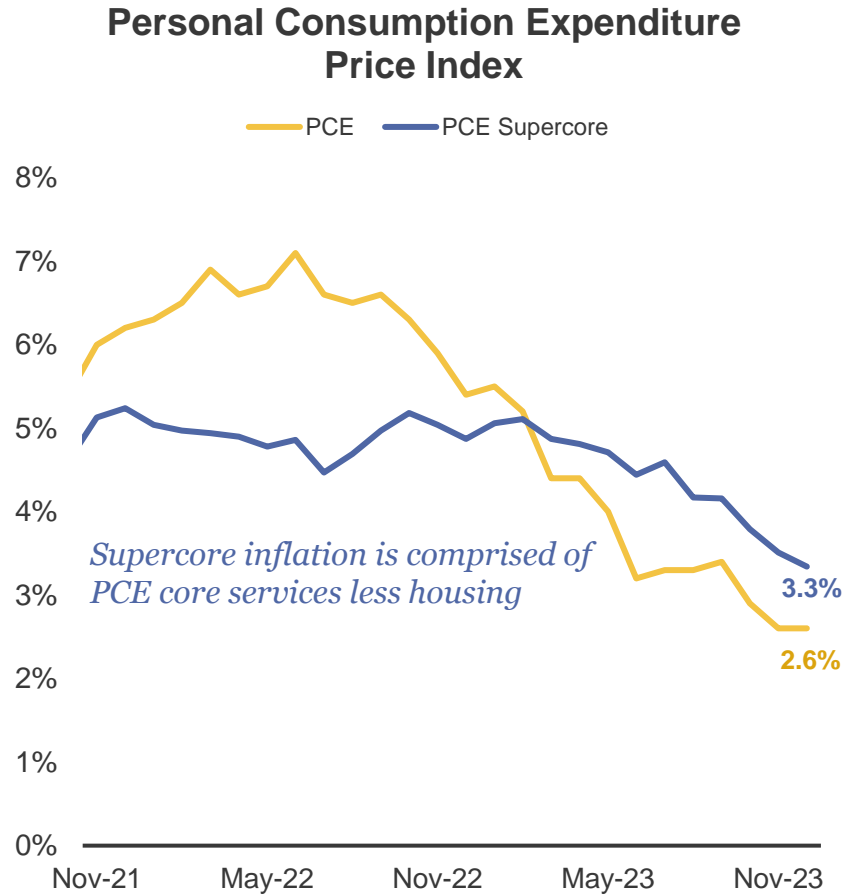
CPI Component	12-mo. Change	Weight <sup>1</sup>	Contribution to YoY CPI
Energy	-2.0%	6.7%	-0.1%
Food	2.7%	13.4%	0.4%
Transportation	9.5%	6.1%	0.6%
Goods	0.1%	20.8%	0.0%
Shelter	6.2%	35.2%	2.2%
Medical services	-0.5%	6.4%	0.0%
Other Services <sup>2</sup>	3.3%	11.4%	0.4%
<b>Overall</b>	<b>3.4%</b>		

Source: Bloomberg, Bureau of Labor Statistics as of December 2023.

<sup>1</sup>Index weights are as of November 2023 as they are published on a one-month lag.

<sup>2</sup>Other services is a weighted blend of Water/Sewer/Trash, Household Operations, Recreation, and Education and Communication services.

# Fed's Preferred Gauge of Inflation Fell But Holiday Spending Was Strong

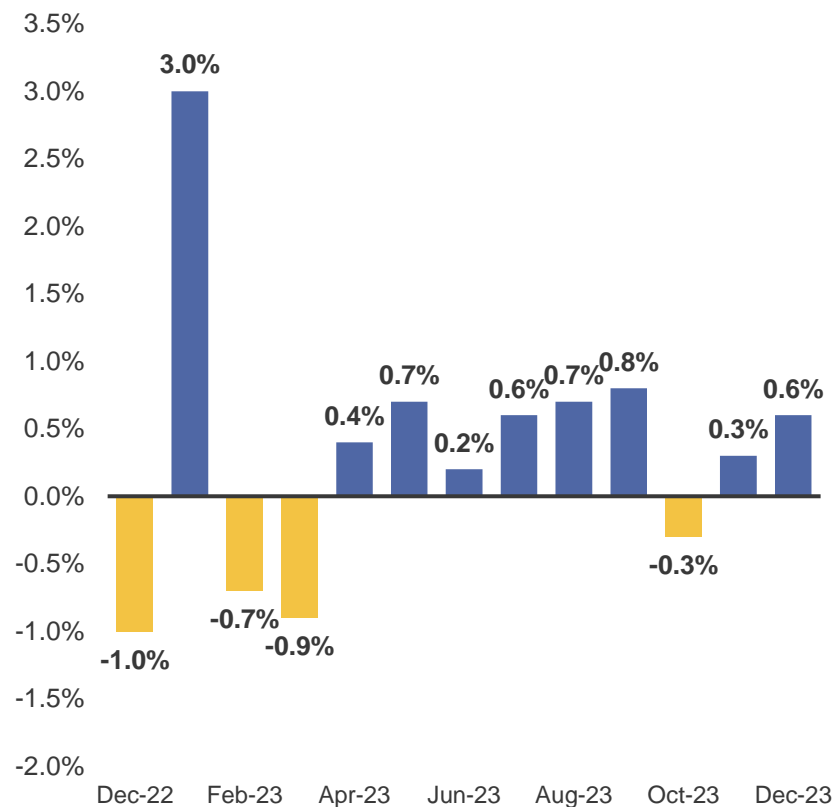


Source: Bloomberg, Federal Reserve, and U.S. Bureau of Economic Analysis as of December 2023.

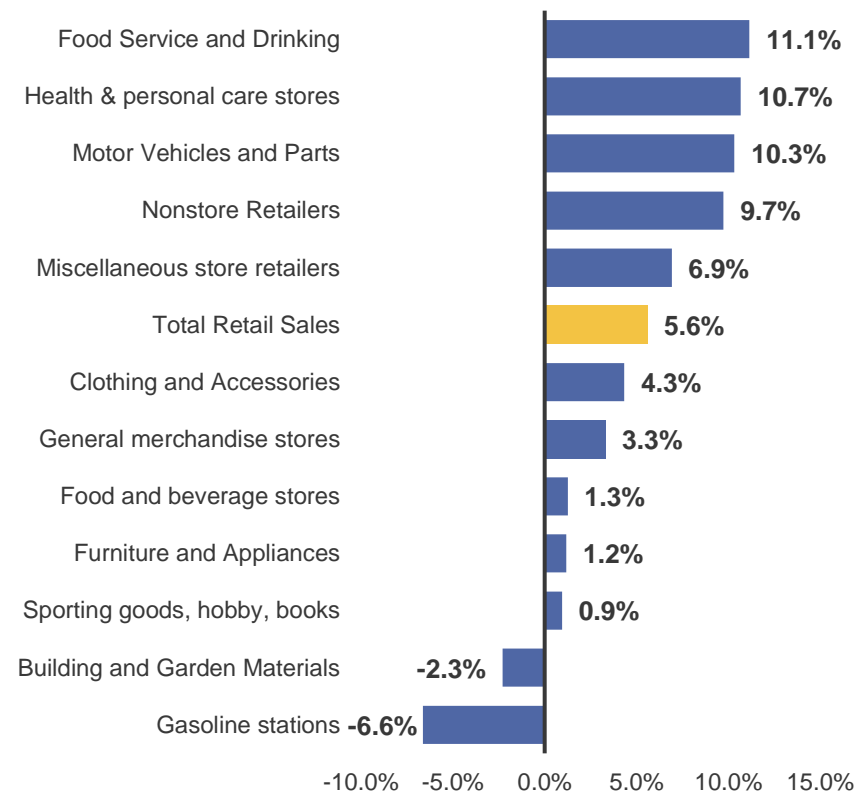


# Retail Sales Rise 0.6% in December

**Retail Sales**  
Month-over-Month Changes



**Retail Sales (Year over Year)**  
December 2023



Source: Bloomberg, as of December 2023.

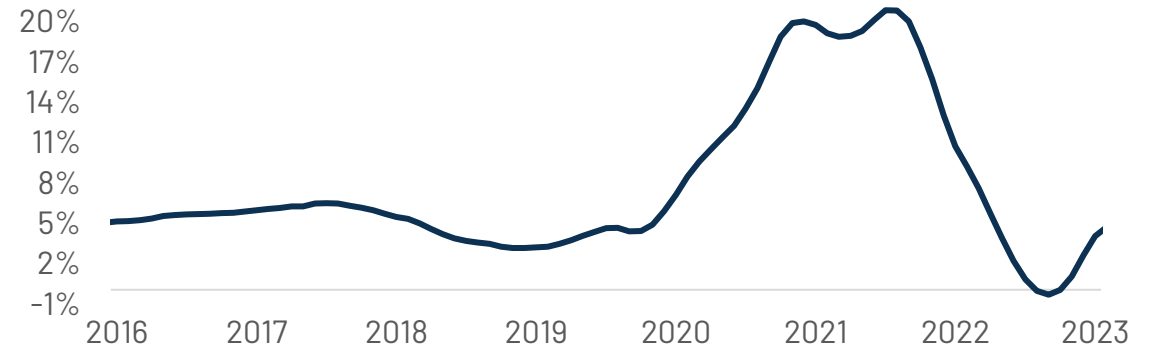


# The Impact of Higher Rates on the Housing Market

### Freddie Mac 30-Year U.S. Mortgage Rates



### National Home Price Index (YoY)



### New Home Sales (SAAR)



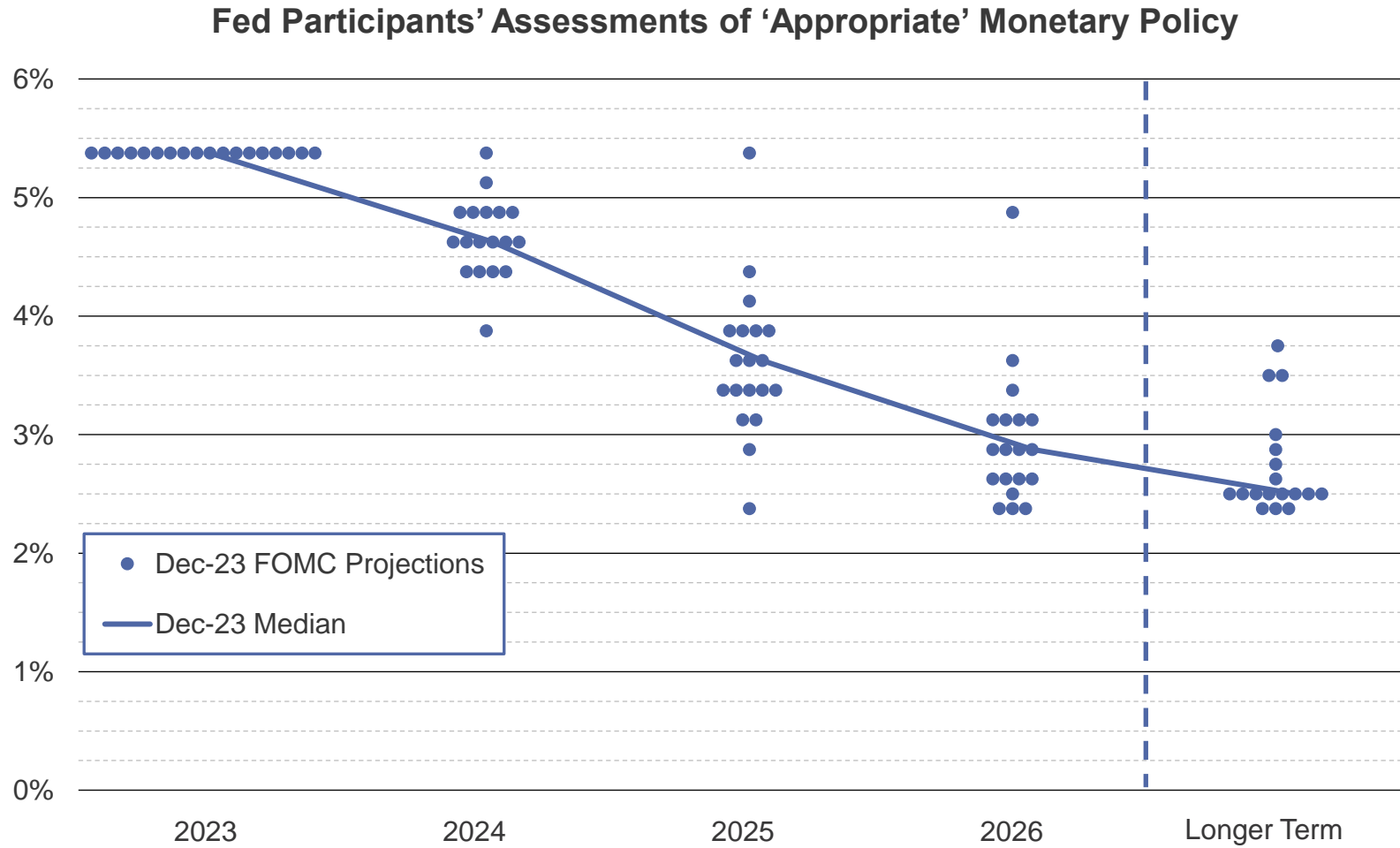
Source: Bloomberg, Freddie Mac Commitment Rates as of 1/25/2024.

# FOMC Press Conference Dashes Market Hopes of a March Rate Cut

- ▶ “We believe that our policy rate is likely at its peak for this tightening cycle and that, if the economy evolves broadly as expected, it will likely be appropriate to begin **dialing back policy restraint at some point this year**. But... [t]he economic outlook is uncertain, and we **remain highly attentive to inflation risks**. We are prepared to maintain the current target range for the federal funds rate **for longer, if appropriate**.”
- ▶ “[I]nflation is still too high, ongoing progress in bringing it down is not assured, and the **path forward is uncertain**.”
- ▶ “Our actions have moved our policy rate **well into restrictive territory**”
- ▶ “**Job gains** have moderated since early last year but **remain strong**, and the **unemployment rate has remained low**. **Inflation has eased** over the past year but remains elevated.”
- ▶ “The Committee does not expect it will be appropriate to reduce the target range until it has **gained greater confidence** that inflation is moving sustainably toward 2 percent.”



# Fed's Updated Dot Plot Shows Falling Rates Moving Forward



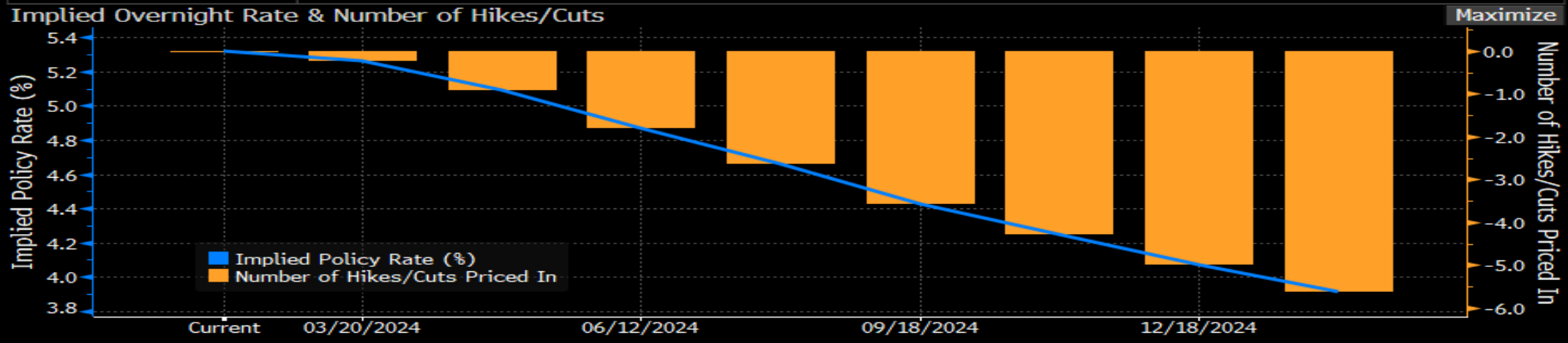
Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end.



# Interest Rate Probability as 2/2/2024

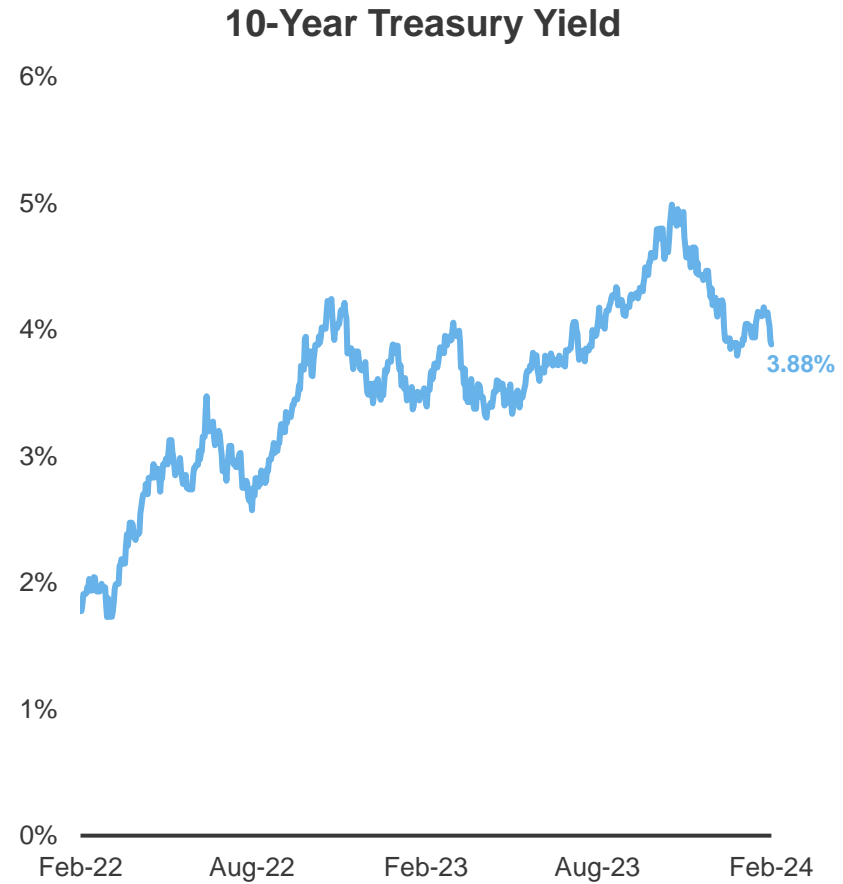
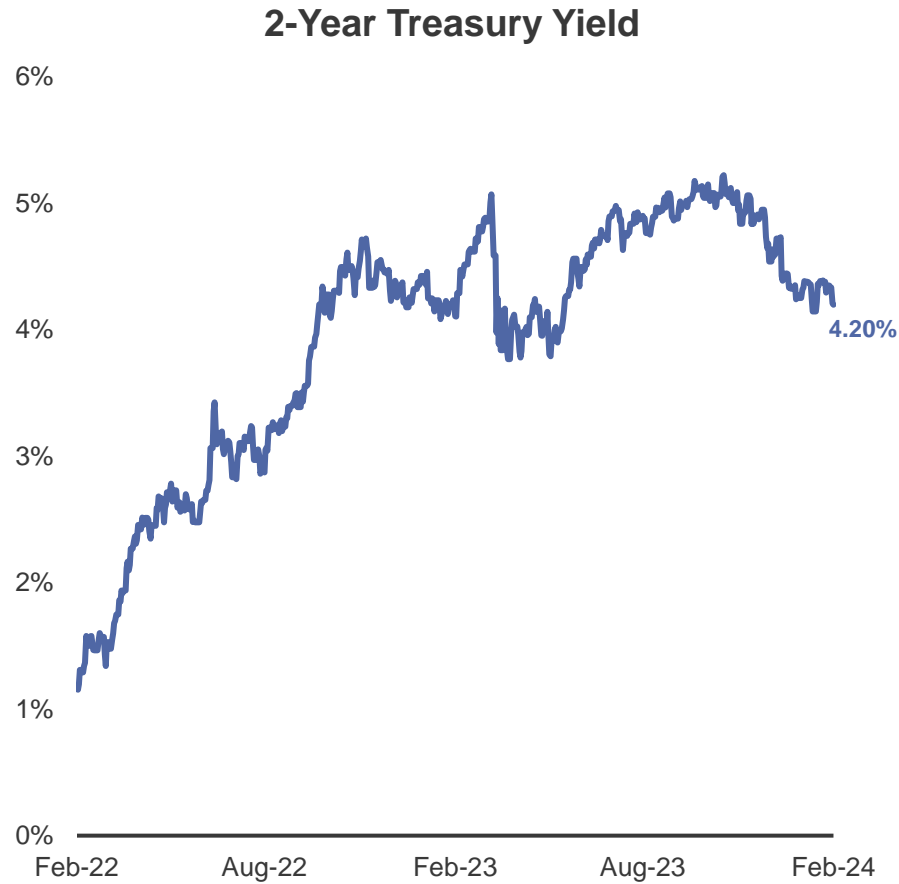
Region: United States » Instrument: Fed Funds Futures »  
 Target Rate 5.50 Pricing Date 02/02/2024  
 Effective Rate 5.33 Cur. Imp. O/N Rate 5.319

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
03/20/2024	-0.222	-22.2%	-0.056	5.263	0.250
05/01/2024	-0.908	-68.5%	-0.227	5.092	0.250
06/12/2024	-1.804	-89.6%	-0.451	4.868	0.250
07/31/2024	-2.625	-82.1%	-0.656	4.662	0.250
09/18/2024	-3.580	-95.5%	-0.895	4.424	0.250
11/07/2024	-4.276	-69.6%	-1.069	4.250	0.250
12/18/2024	-4.981	-70.4%	-1.245	4.074	0.250
01/29/2025	-5.625	-64.4%	-1.406	3.913	0.250



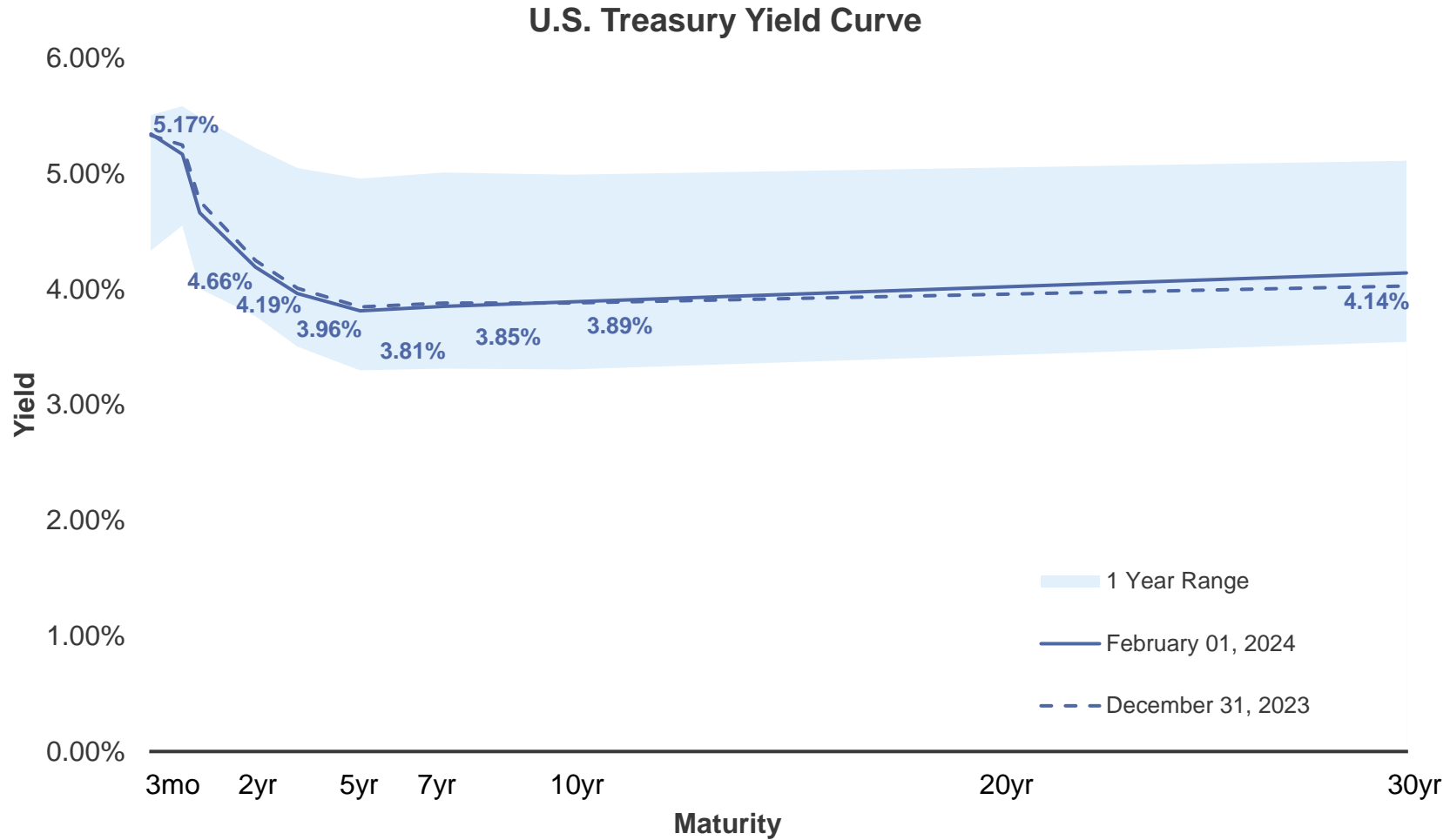
Sources: Bloomberg as of February 2, 2024

# 2-Year and 10-Year Yields Well Below Peak, But Still Elevated



Source: Bloomberg, as of 02/01/2024.

# Treasuries Rally, Yields Fall, Following Fed Meeting

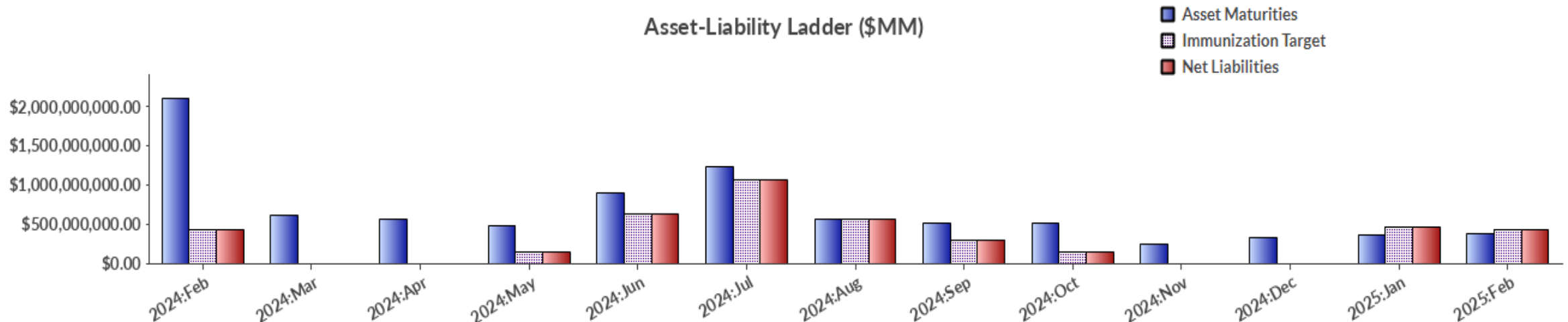


Source: Bloomberg, as of 01/11/2024.



# Portfolio Considerations

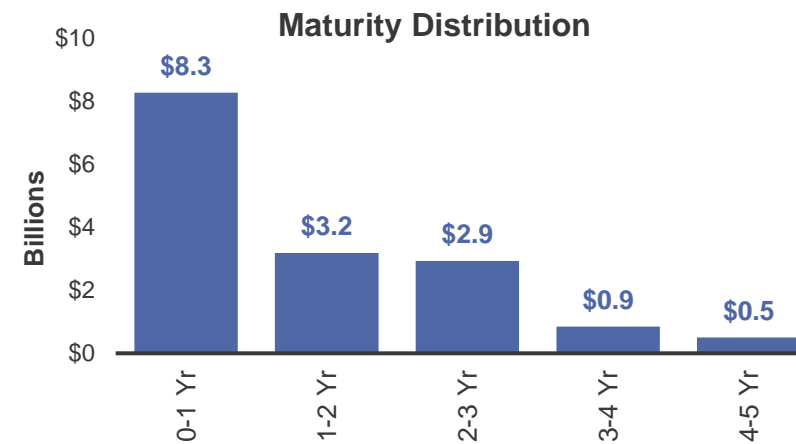
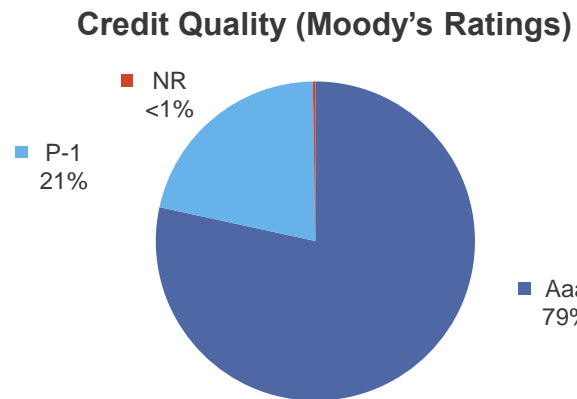
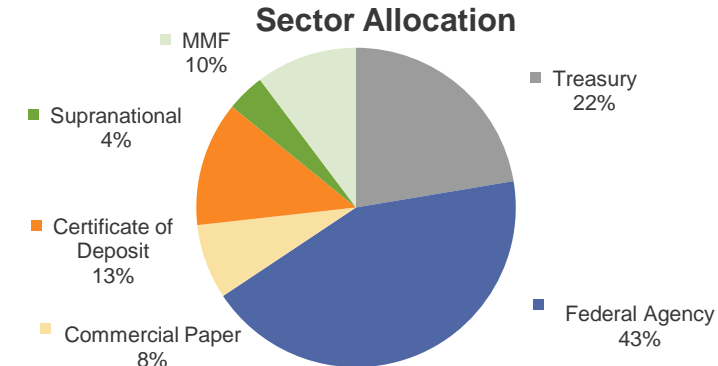
- Money Market Holdings at \$1,646mm (10.54%).
- Portfolio Duration: 1.12 (February 5, 2024):
- Focus on Managing to the Portfolio's Cashflow Profile
  - Maintaining a portfolio duration consistent with the cashflow profile
  - Focus on net negative cash flow months (Duration Optimization)
  - Purchasing Securities that mature on (or slightly before) a known need – such as Payroll, Debt Service, Capital Projects, etc.; and
  - Emphasis on maintaining our 5-year cash forecast





# Portfolio Characteristics

Portfolio Statistics		
	02/05/2024	01/10/2024
Par Amount	\$15.6 bn	\$16.0 bn
Average Duration	1.12 years	1.19 years
Yield to Maturity at Cost	3.43%	3.37%
Yield to Maturity at Market	4.83%	4.91%



# Historical Portfolio Data

	02/05/24	1/10/24	12/6/23	11/8/23	10/11/23	9/6/23
Market Value (bn)	\$15.3	\$15.6	\$15.1	\$14.8	\$14.6	\$14.9
Par Value (bn)	\$15.6	\$16.0	\$15.5	\$15.3	\$15.1	\$15.5
Effective Duration (years)	1.12	1.19	1.22	1.24	1.22	1.24
Duration to Maturity (years)	1.23	1.19	1.22	1.24	1.22	1.24
Current Actual WAM (days)	451	433	447	453	454	461
Callables	4.8%	4.7%	4.9%	4.9%	4.9%	4.8%
Floater	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
% of Maturities Under 12 Months	53.5%	55.3%	52.7%	51.9%	52.5%	51.1%

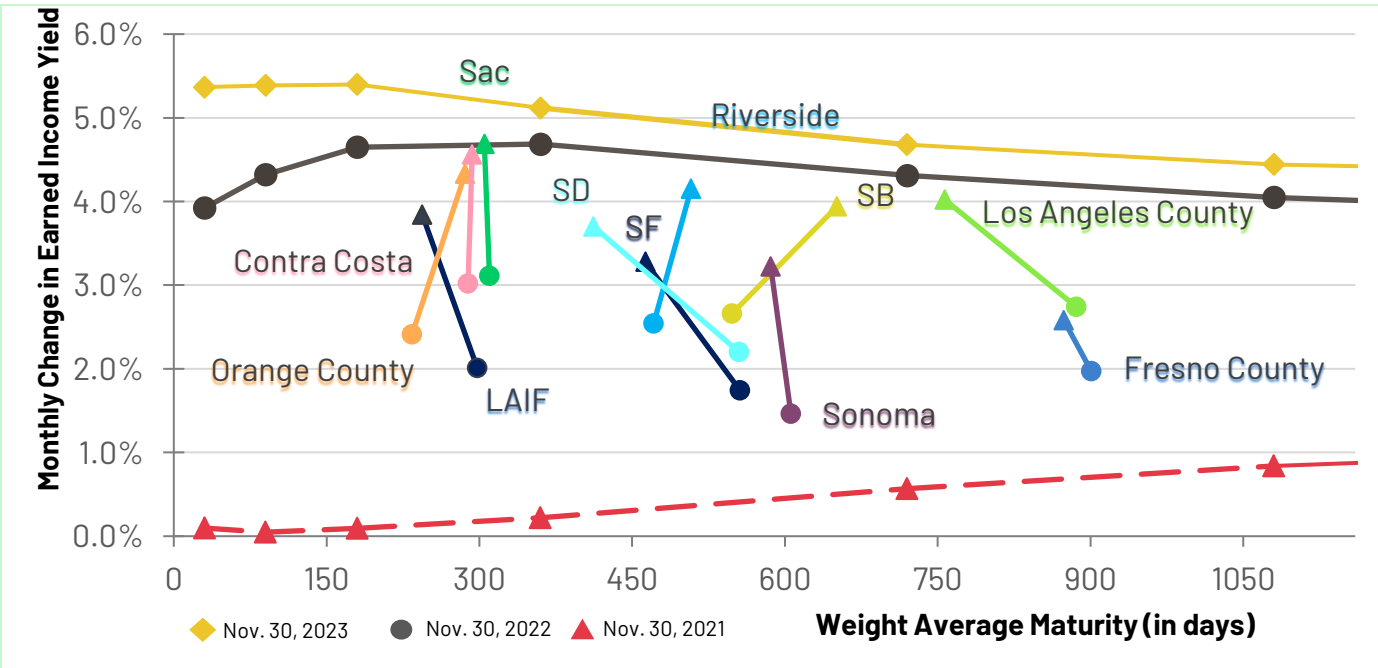
*This is on a settlement-date basis.*

# Trade Activity (1/1/2024 – 01/30/2024)



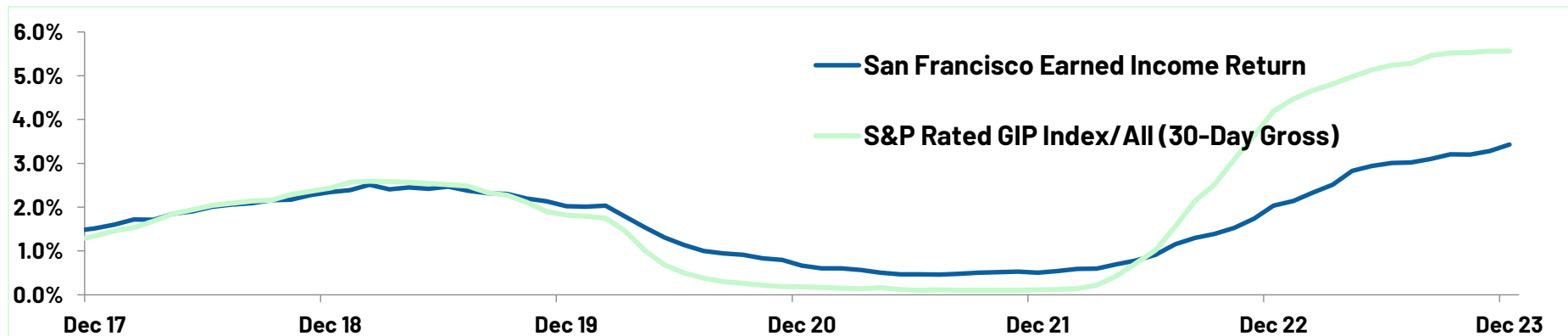


# County Pooled Fund Statistics



Name of Fund	Portfolio Size* (\$ mns)
Los Angeles County	54,017.5
LAIF	20,774.0
City and County of San Francisco	15,228.7
San Diego County	15,039.8
Orange County	14,228.2
Riverside County	13,382.0
San Bernardino County	13,324.4
Fresno County	7,098.9
Sacramento County	6,223.1
Contra Costa County	5,311.1
Sonoma County	3,416.1

\* as of Nov 30, 2023



Sources: Bloomberg, Sacramento County as of January 18, 2024



# Pool Participants Breakdown

As of December 31, 2023

Pool Participant	Fund Balance	Percent of Fund
General Fund/Special City Funds/Internal Services Funds	6,420,364,829	40.2%
Other agencies (incl. Transbay Joint Powers, Trial Courts)	2,101,448,018	13.2%
San Francisco International Airport	2,028,805,823	12.7%
San Francisco Unified School District	1,178,579,660	7.4%
San Francisco Public Utilities Commission	935,231,511	5.9%
San Francisco Municipal Transportation Authority	882,802,562	5.5%
Facilities and Capital Projects Funds - General	741,496,441	4.6%
Port of San Francisco	387,465,942	2.4%
San Francisco Community College District	385,873,088	2.4%
OCII - Successor Agency – former SFRDA	333,160,912	2.1%
San Francisco General Hospital and Laguna Honda Hospital	290,798,331	1.8%
Pension and Retiree Health Care Trust Fund	224,283,653	1.4%
Port of San Francisco	35,798,838	0.2%
<b>Totals</b>	<b>\$ 15,979,083,040</b>	<b>100.0%</b>

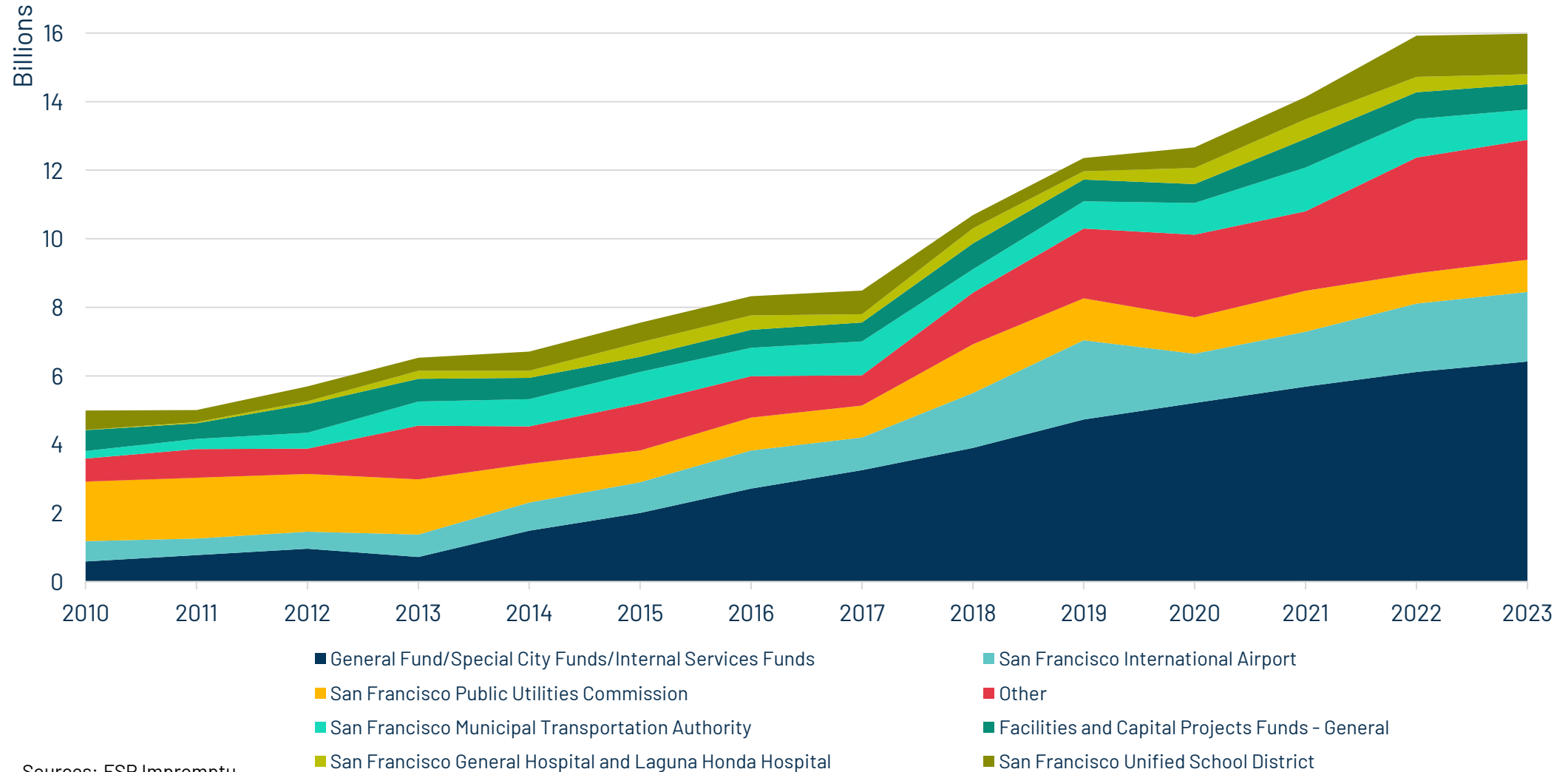
Totals may not add due to rounding

Sources: FSP Impromptu



# Pool Participant Trends

December 31, 2010 – December 31, 2023



Sources: FSP Impromptu