QUARTERLY INVESTMENT REPORT

Fort Bend County

SEPTEMBER 30, 2023

Presented by:

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December 5, 2023

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Economic Update

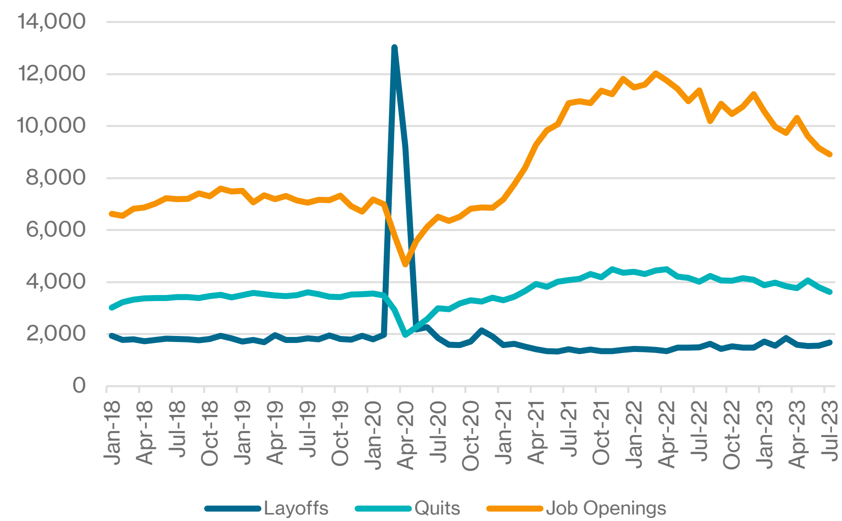
Loosening Labor Market & Inflation Rate Trending Lower

Following a quiet August, September saw economic data surprise to the upside. Both inflation and jobs data showed that the economy is still on solid ground albeit growing at a slower pace than in 2022. While coming in above expectations, the data was not strong enough to get the Fed to increase its target for the federal funds rate. However, the September meeting saw the Fed update its Statement of Economic Projections, including the keenly watched dot plot. The updated dot plot showed policymakers still see another 0.25% hike in 2023, and only 0.50% of rate cuts in 2024; the prior dot plot projected a full 1.00% of rate cuts in 2024. Chairman Powell used the press conference following the September meeting to communicate the Fed's commitment to the 2% inflation target. Markets extrapolated the updated economic projections to rates being "higher for longer", with treasury yields moving higher on the day and throughout September. Powell cautioned that the risks of tightening too much versus too little are both present and that the Fed is "in a position to proceed carefully".

The August US Employment report showed that the labor market continued to loosen. Nonfarm payrolls increased by 187,000. However, the prior two months of job gains were revised down by 110,000. Likewise, the unemployment rate increased to 3.8% as the participation rate increased, signaling more workers returned to the labor market. Wage growth slowed to 4.2% on the year and just 0.2% for the month. The combination of slowing job creation, higher participation, and slower wage growth is exactly the job market the Federal Reserve wants to see as it shows that a soft landing, where the job market slows but unemployment stays controlled, is still possible.

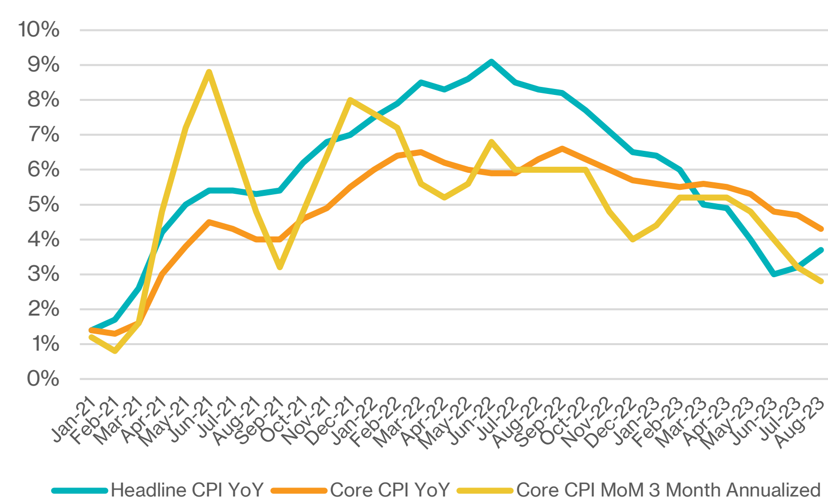
The Consumer Price Index (CPI) report from August showed that, while inflation data was not as soft as data from June and July, inflation is trending in the right direction. Headline CPI increased 0.6% in August, due mostly to an increase in energy prices. Specifically, gasoline prices increased 10.6% during the month, compared to a 0.2% increase in July. Core CPI increased 0.3% in August, following two consecutive monthly increases of 0.2%. Core CPI strips out volatile energy and food prices and is generally thought to be more reflective of price increases. Taking a step back, the 12-month change in core CPI ticked down to 4.3% from 4.7% last month and was the lowest 12-month increase since September 2021. Additionally, annualizing the last three months of core CPI readings points to core inflation of 2.4%, indicating more recent data is pointing to inflation trending close to the Federal Reserve's target of 2%.

Labor Market Loosening



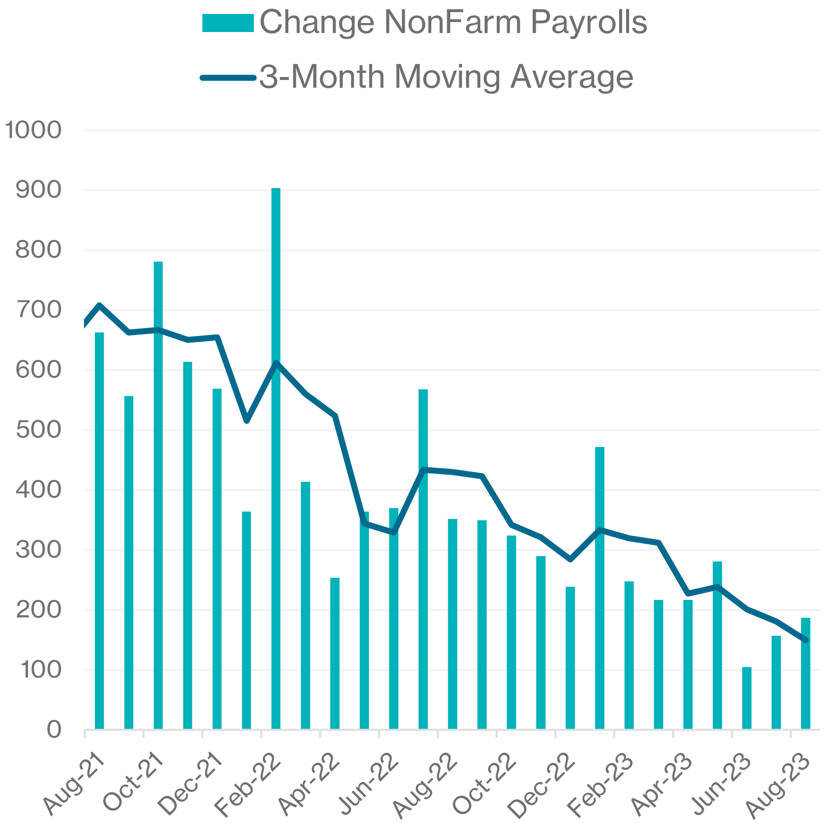
SOURCE: BLOOMBERG

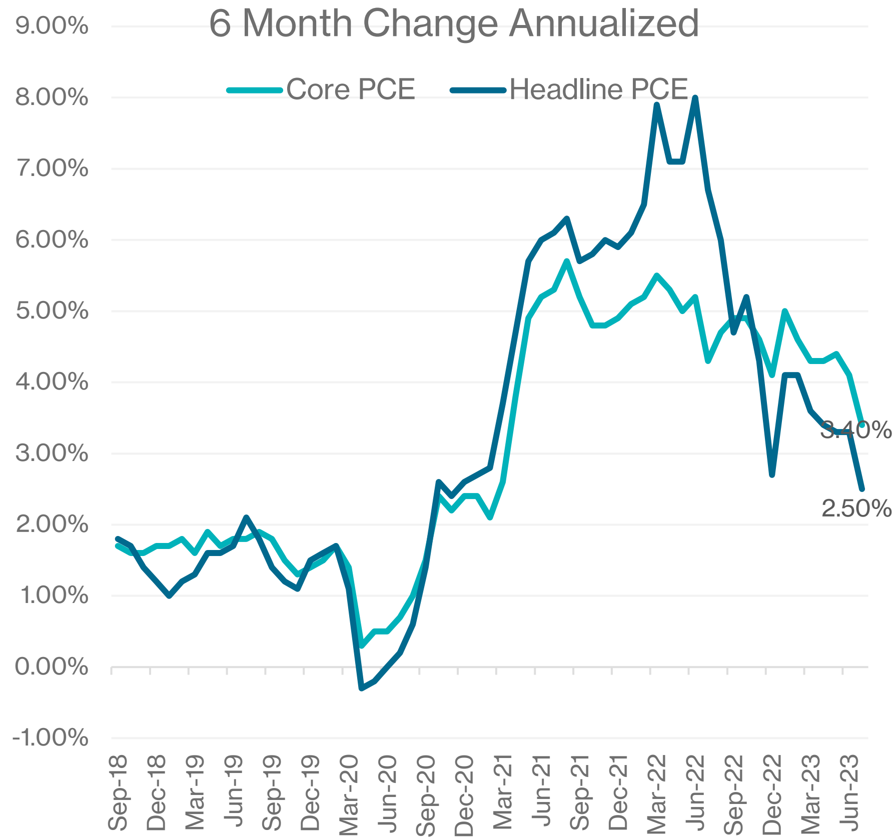
Inflation Trending Lower



SOURCE: BLOOMBERG

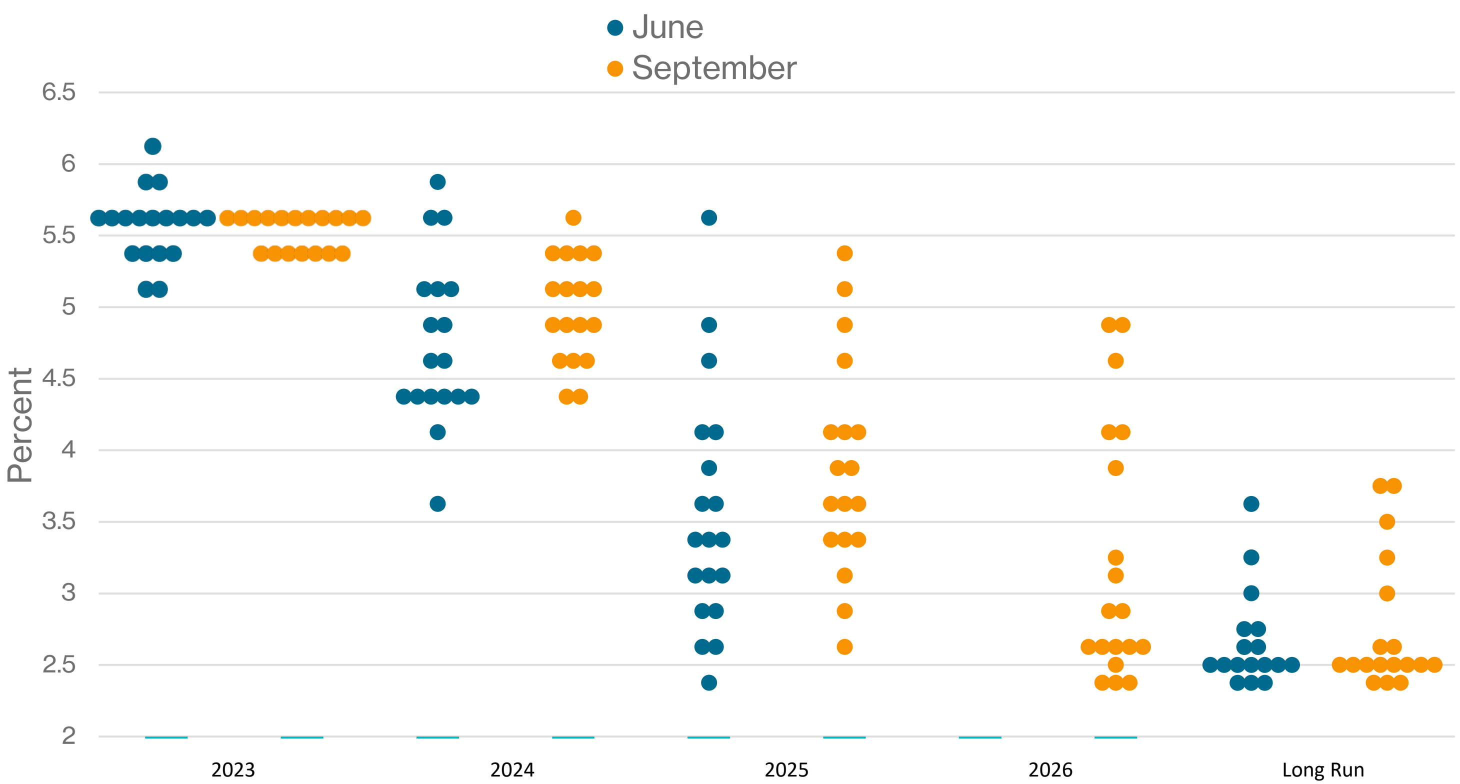
Federal Reserve Seeing Success in Loosening Labor Market & Inflation Rate Trending Lower





SOURCE: BLS, BLOOMBERG

Federal Reserve Dot Plot Comparison

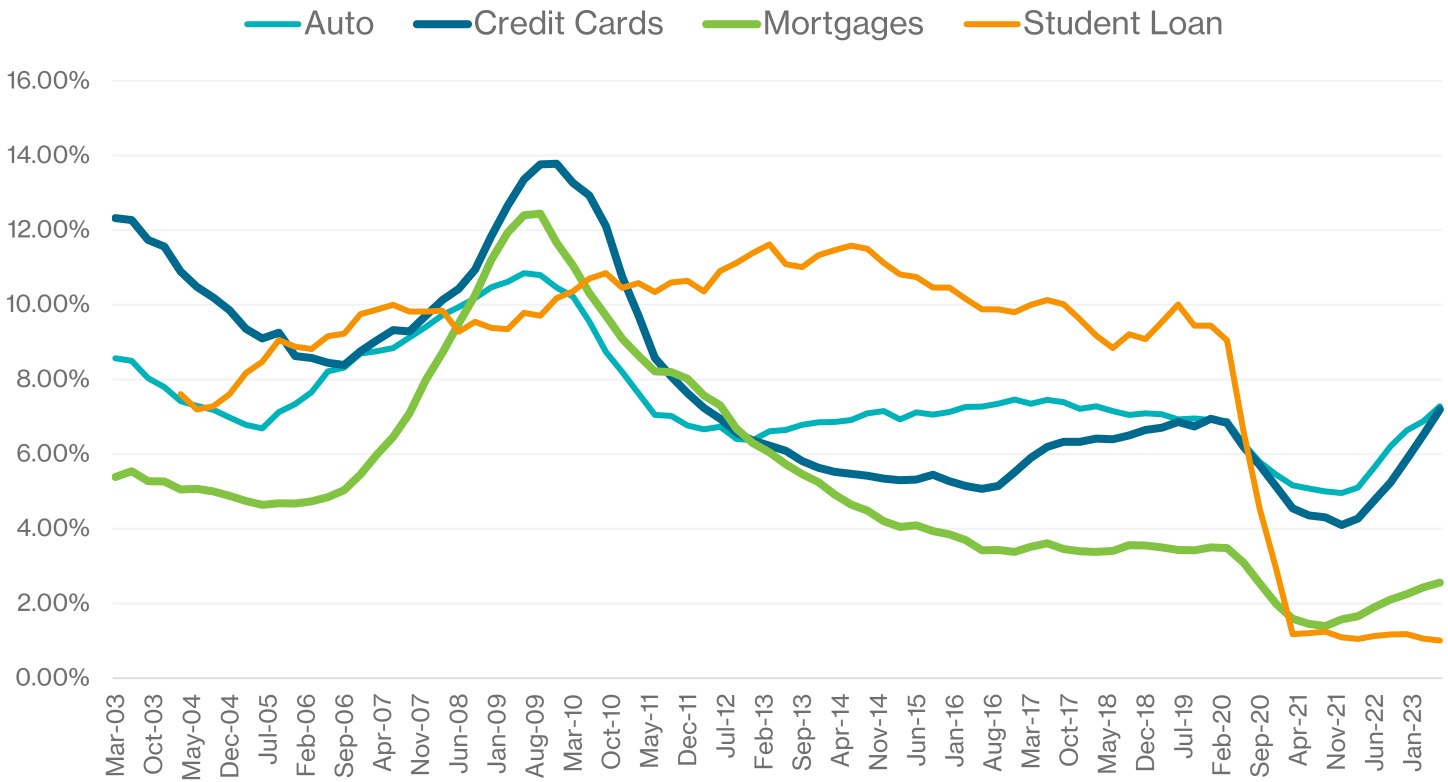


- Each Dot Represents Projected Year End Rate By Each Member Of The FOMC
- FOMC Expecting to Raise Rates Only 1 More Time In This Cycle.
- Median Dot Indicates From June to September FOMC See's Interest Rates Falling by 0.50% in 2024 instead of 1.00%.

SOURCE: FEDERAL RESERVE

Consumer Strength Resilient in 2023, Signs Of Challenges Ahead

Delinquency Rates Increasing – Transitions into 30+ Days Delinquent



SOURCE: NEW YORK FED CONSUMER CREDIT PANEL/EQUIFAX

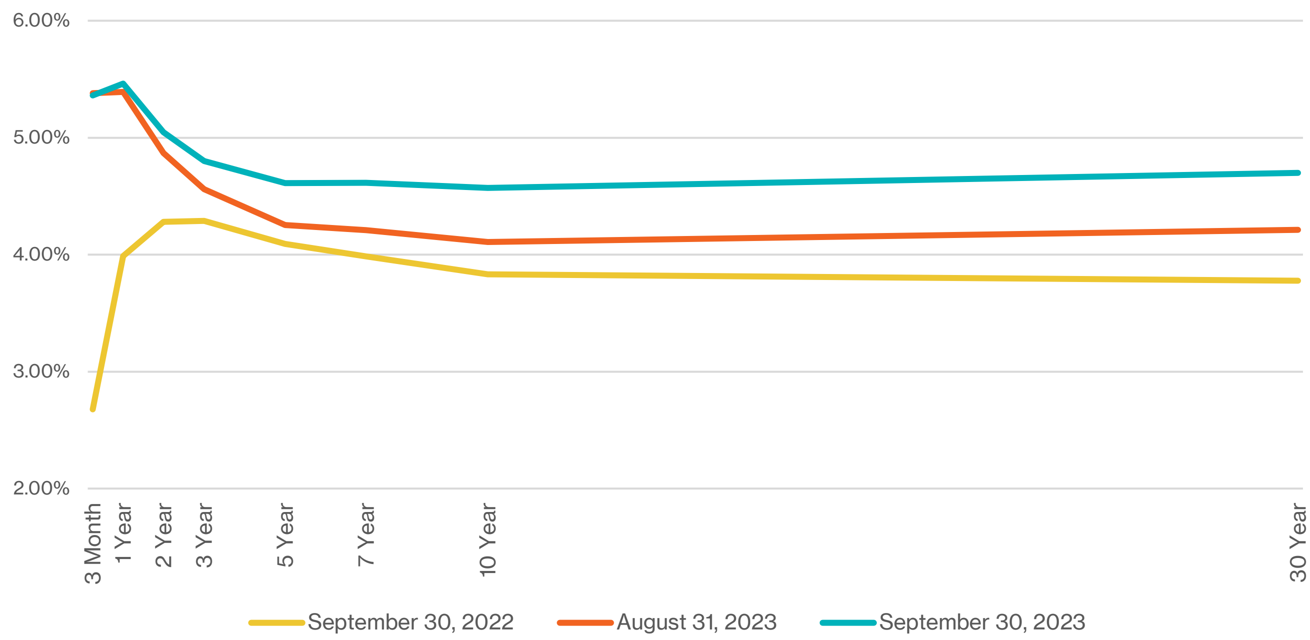
- Per San Francisco Fed, Consumers Had $2.1 Trillion in Accumulated Excess Savings As Of March 2023 & Expect Entire Excess Savings From Pandemic to Have Been Depleted During Q3.
- Slowing Payroll Growth, Higher Debt Service Costs From Higher Interest Rates Impacting Consumers Discretionary Spending.
- Transitions into delinquency are increasing, with transition rates for both auto and credit card loans above pre-pandemic levels

Rates Move Higher

The combination of economic data, combined with the updated economic projections from the Federal Reserve led to more bear steepening. The 2-year US Treasury yield increased 0.18% to 5.05%, reflecting the lower odds of rate cuts in 2024. Likewise, long-term bond yields also increased, reflecting positive economic data. The 5-year US Treasury yield increased by 0.35% to 4.61%, and the 10-year US Treasury yield increased by 0.46% to 4.57%. Through September, the spread between the 2-year and 10-year treasury yield increased to -0.48%, well above the low of -1.08% in March 2023. Market pricing for rate hikes ended the month exactly where they began, pricing in a 40% chance of a 0.25% hike sometime in 2024. However, the market spent the month pricing cuts out. The implied federal funds rate in December 2024 increased from 4.23% to 4.62%, evidencing the market's belief that the Fed will not need to be as aggressive at cutting rates in 2024.

Credit product spreads remained contained in September. The more positive economic outlook combined with lower corporate and municipal bond issuance continues to keep a lid on spreads. Spreads on agency bonds tightened in September, remaining near long-term averages. We will continue to look to add value by picking up incremental yield on high-quality bonds. Rates are at historic levels not seen since 2007, making this a very attractive time to buy duration and lock in yields.

US Treasury Yield Curve



Portfolio Review

Quarterly Portfolio Summary – All Funds

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This quarterly report is prepared in compliance with the Investment Policy and Strategy of Fort Bend County and the Public Funds Investment Act (Chapter 2256, Texas Government Code).

Portfolio as of June 30, 2023		Portfolio as of September 30, 2023	
Beginning Book Value	$809,280,046	Ending Book Value	$682,922,842
Beginning Market Value	$809,302,378	Ending Market Value	$682,642,912
		Investment Income for the period	$9,546,501
Unrealized Gain/(Loss)	22,331	Unrealized Gain/(Loss)	($279,930)
		Change in Unrealized Gain/(Loss)	($302,261)
Weighted Average Maturity	26 days	Weighted Average Maturity	24 days
Weighted Average Yield	4.75%	Weighted Average Yield	5.27%

Portfolio Summary – All Funds

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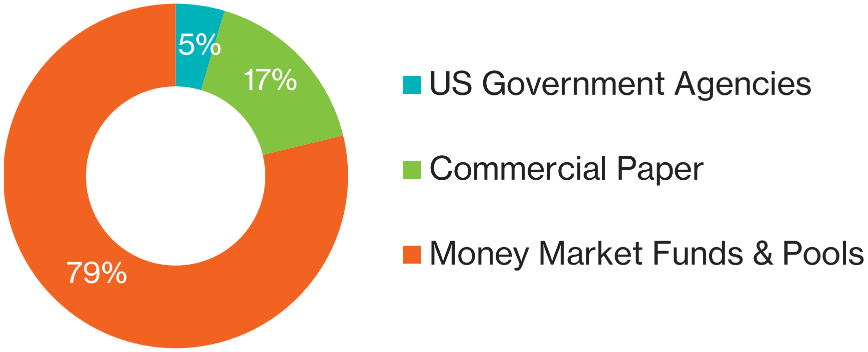
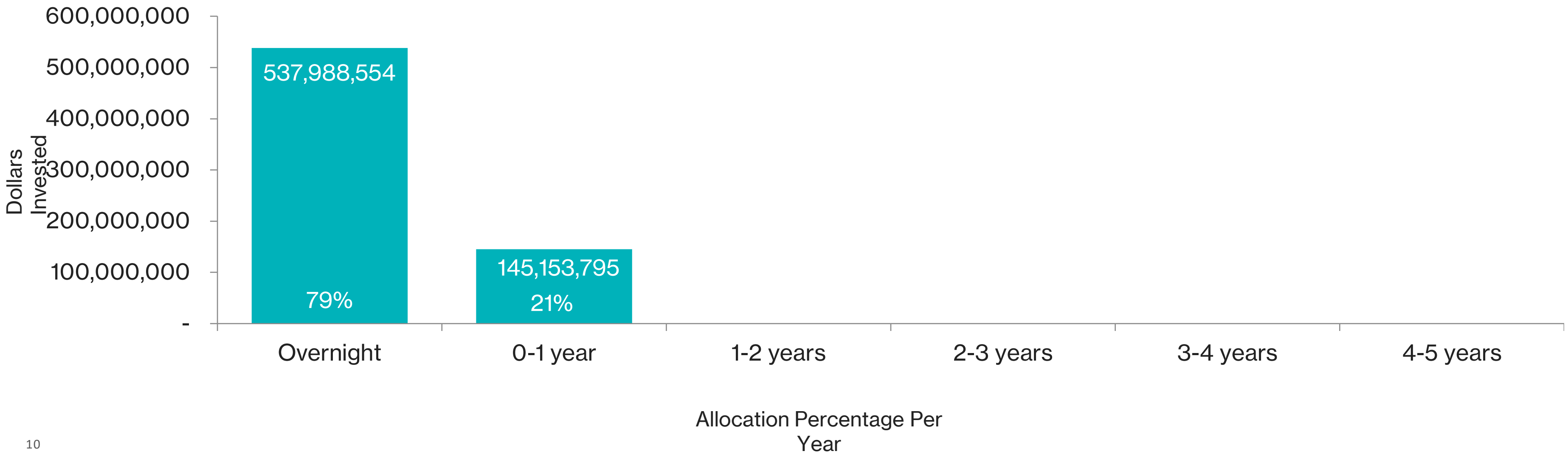
Your Portfolio Statistics

Total Portfolio Book Value	$682,922,842
Weighted Average Maturity	24 days
Weighted Average Yield (All Funds)	5.268%

Your Asset Allocation



Your Maturity Distribution



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Executive Summary

- In the third quarter, interest rates continued to move higher as economic data proved resilient, and updated Federal Reserve guidance indicated the Federal Reserve is prepared to raise interest rates again in 2023. The Federal Reserve met twice during the quarter, hiking rates by 0.25% in July but not in September. However, the updated dot plot showed the Federal Reserve is forecasting fewer cuts next year as the median 2024 dot shifted higher by 0.50%. Markets are still pricing in nearly 1.00% of cuts in 2024, as participants expect the Federal Reserve will cut more aggressively.

- During the third quarter, we focused on building a short term laddered portfolio of commercial paper maturing inside of 1 year for the Pooled Funds and we purchased short term agency notes in the debt service accounts to increase the portfolio yield.

- In the coming quarter, the County should expect the following areas of focus: continued cash flow analysis to identify the amount to be invested in the City's core portfolio, finish building out the 0–1 year maturity ladder and begin extending additional new investments in quarterly intervals in the 1-5 year maturity range to lock in higher yielding opportunities before the FED pivots and begins to cut rates in 2024.