



# **Quarterly Investment Report**



**For the period ended September, 2024  
(Unaudited)**

Prepared by: Barbara A. Parker, County Auditor

Downtown County Annex

320 S. Campbell St., Ste 160

(915) 273-3262

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**EL PASO COUNTY | TEXAS**  
Quarterly Investment Report  
06/30/2024 - 09/30/2024



Prepared by:

**Barbara A. Parker, County Auditor**

320 S. Campbell, Suite 140

El Paso, Texas 79901-2407 (915) 273-3262

A report of the investment transactions for the fourth quarter ended September 30, 2024, is herewith submitted. All investments have been made in compliance with the County's investment policy and pursuant to Texas Government Code, Title 10, §2256.023. TexPool and TexPool Prime, investment pools authorized under the Texas Government Code, Title 10, §2256.016 and managed by Federated Investors, Incorporated, have affirmed adherence to the County's investment policy and provisions of the Texas Government Code, Title 10, §2256.023(8) (a) and (b).

Issuer	Face Amount/Shares	Market Value	Book Value	% of Portfolio	YTM @ Cost	Days To Maturity
TexPool	6,077,214.65	6,077,214.65	6,077,214.65	1.48	5.16	1
TexPool Prime	372,019,211.23	372,019,211.23	372,019,211.23	90.56	5.28	1
Vantage   Checking	11,961,377.07	11,961,377.07	11,961,377.07	2.91	3.53	1
Vantage   Consolidated	20,725,822.57	20,725,822.57	20,725,822.57	5.05	3.83	1
<b>Total / Average</b>	<b>410,783,625.52</b>	<b>410,783,625.52</b>	<b>410,783,625.52</b>	<b>100.00</b>	<b>5.15</b>	<b>1</b>

/s/ Roxanne Davila

Roxanne Davila, Audit Accountant

Treasury

/s/ Jacobo Fuentes

Jacobo Fuentes, Audit Accountant Senior

Treasury

/s/ Raymond Gomez

Raymond Gomez, Audit Manager

Treasury

/s/ Donna Teague

Donna Teague, Director of Financial Operations

/s/ Michael Lamas

Michael Lamas, First Assistant

/s/ Barbara Parker

Barbara A. Parker, County Auditor



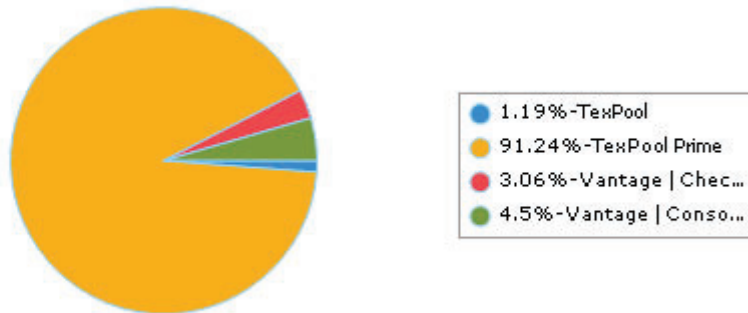
# El Paso County TX Distribution by Issuer - Market Value All Portfolios

Begin Date: 6/30/2024, End Date: 9/30/2024

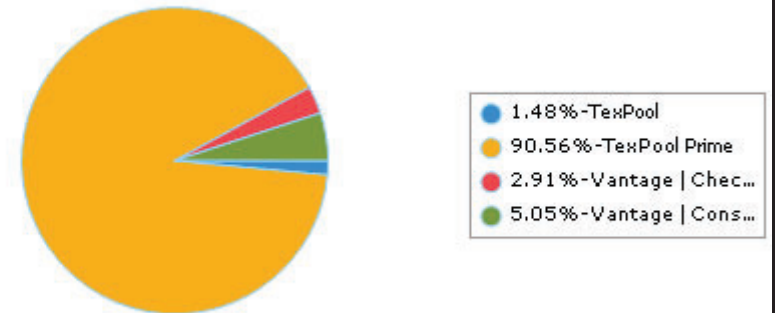
## Issuer Allocation

Issuer	Market Value 6/30/2024	% of Portfolio 6/30/2024	Market Value 9/30/2024	% of Portfolio 9/30/2024
TexPool	5,997,340.36	1.19	6,077,214.65	1.48
TexPool Prime	458,354,393.35	91.24	372,019,211.23	90.56
Vantage   Checking	15,389,519.33	3.06	11,961,377.07	2.91
Vantage   Consolidated	22,609,533.17	4.50	20,725,822.57	5.05
<b>Total / Average</b>	<b>502,350,786.21</b>	<b>100.00</b>	<b>410,783,625.52</b>	<b>100.00</b>

## Portfolio Holdings as of 6/30/2024



## Portfolio Holdings as of 9/30/2024



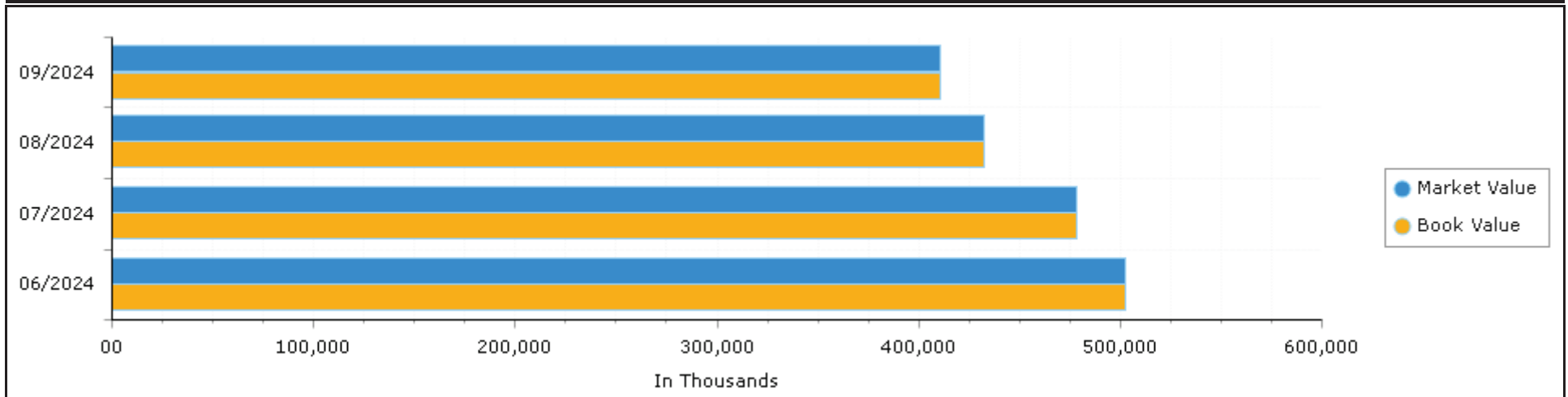


# El Paso County TX Portfolio Summary by Month All Portfolios

Begin Date: 6/30/2024, End Date: 9/30/2024

Month	Market Value	Book Value	Unrealized Gain/Loss	YTM @ Cost	YTM @ Market	Duration	Days To Maturity
6/30/2024	502,350,786.21	502,350,786.21	0.00	5.33	5.33	0.00	1
7/31/2024	478,321,833.86	478,321,833.86	0.00	5.33	5.33	0.00	1
8/31/2024	432,127,193.13	432,127,193.13	0.00	5.31	5.31	0.00	1
9/30/2024	410,783,625.52	410,783,625.52	0.00	5.15	5.15	0.00	1
<b>Total / Average</b>	<b>455,933,554.47</b>	<b>455,933,554.47</b>	<b>0.00</b>	<b>5.28</b>	<b>5.28</b>	<b>0.00</b>	<b>1</b>

## Market Value / Book Value Comparison

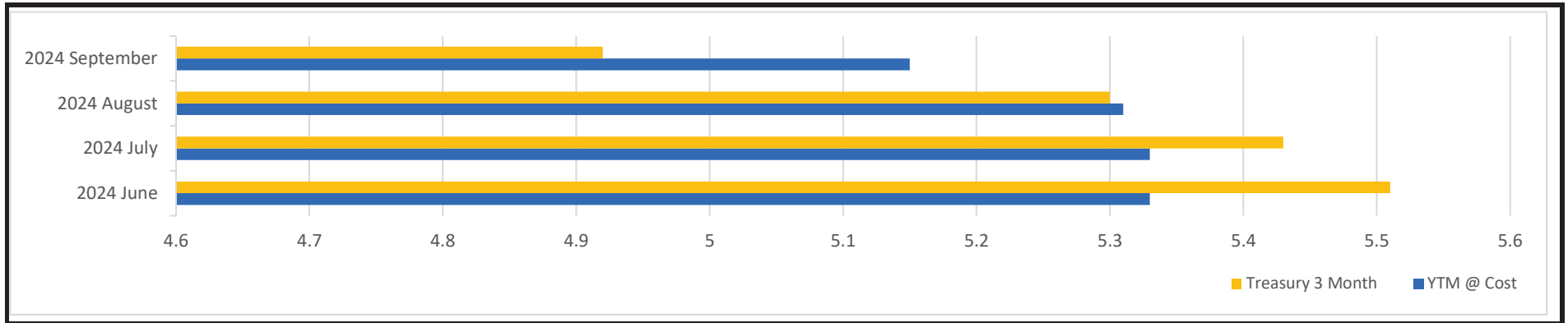




# El Paso County TX Investment Income - Book Value by Month Report Group | All Portfolios

Begin Date: 06/30/2024, End Date: 09/30/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
6/30/2024	521,701,996.54	2,276,334.05	0.00	2,276,334.05	502,350,786.21	5.33	5.51
7/31/2024	502,350,786.21	2,292,190.30	0.00	2,292,190.30	478,321,833.86	5.33	5.43
8/31/2024	478,321,833.86	2,083,499.45	0.00	2,083,499.45	432,127,293.13	5.31	5.30
9/30/2024	432,127,293.13	1,874,363.40	0.00	1,874,363.40	410,783,625.52	5.15	4.92
<b>Total/Average</b>	<b>483,625,477.44</b>	<b>8,526,387.20</b>	<b>0.00</b>	<b>8,526,387.20</b>	<b>455,895,884.68</b>	<b>5.39</b>	<b>5.29</b>



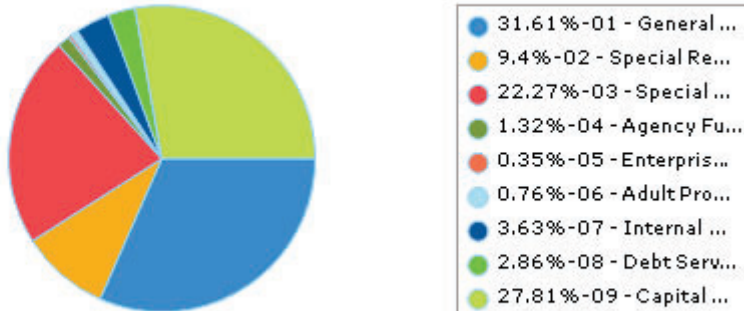


# **El Paso County TX** **Distribution by Main Fund - Market Value** **All Portfolios**

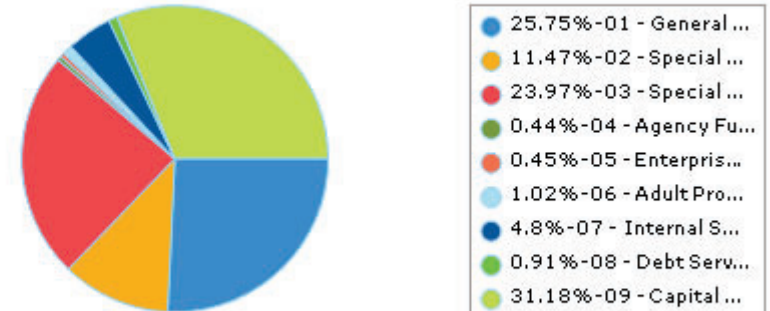
Begin Date: 6/30/2024, End Date: 9/30/2024

Main Fund Allocation				
Main Fund	Market Value 6/30/2024	% of Portfolio 6/30/2024	Market Value 9/30/2024	% of Portfolio 9/30/2024
01 - General Fund	158,801,574.05	31.61	105,794,852.87	25.75
02 - Special Revenue	47,209,158.21	9.40	47,132,099.39	11.47
03 - Special Revenue Grants	111,850,724.26	22.27	98,456,203.49	23.97
04 - Agency Fund	6,614,287.41	1.32	1,802,360.34	0.44
05 - Enterprise Funds	1,749,841.72	0.35	1,861,217.53	0.45
06 - Adult Probation	3,842,417.25	0.76	4,194,963.38	1.02
07 - Internal Service	18,220,222.30	3.63	19,726,393.96	4.80
08 - Debt Service	14,357,631.30	2.86	3,734,610.71	0.91
09 - Capital Projects	139,704,929.71	27.81	128,080,923.85	31.18
<b>Total / Average</b>	<b>502,350,786.21</b>	<b>100.00</b>	<b>410,783,625.52</b>	<b>100.00</b>

**Portfolio Holdings as of 6/30/2024**



**Portfolio Holdings as of 9/30/2024**





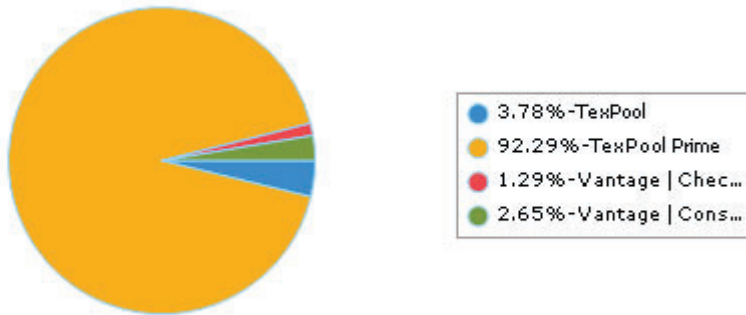
# El Paso County TX Distribution by Issuer - Market Value Report Group | General Fund

Begin Date: 6/30/2024, End Date: 9/30/2024

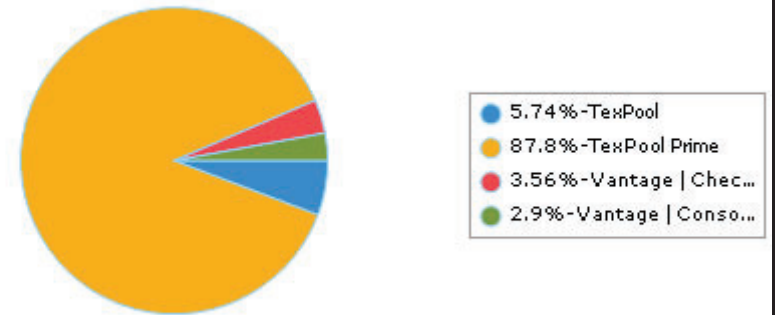
## Issuer Allocation

Issuer	Market Value 6/30/2024	% of Portfolio 6/30/2024	Market Value 9/30/2024	% of Portfolio 9/30/2024
TexPool	5,997,340.36	3.78	6,077,214.65	5.74
TexPool Prime	146,552,777.77	92.29	92,887,884.52	87.80
Vantage   Checking	2,047,494.72	1.29	3,762,915.24	3.56
Vantage   Consolidated	4,203,961.20	2.65	3,066,838.46	2.90
<b>Total / Average</b>	<b>158,801,574.05</b>	<b>100.00</b>	<b>105,794,852.87</b>	<b>100.00</b>

## Portfolio Holdings as of 6/30/2024



## Portfolio Holdings as of 9/30/2024



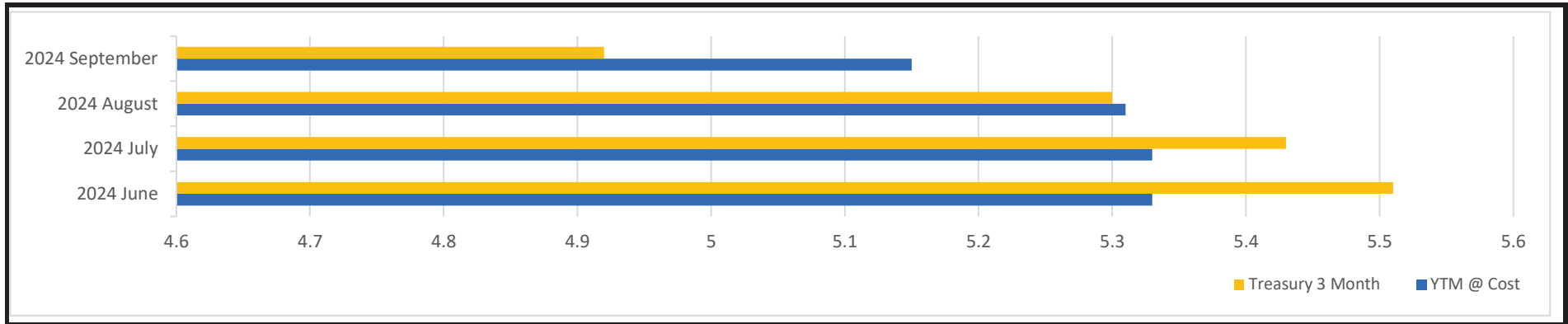




# El Paso County TX Investment Income - Book Value by Month Report Group | General Fund

Begin Date: 06/30/2024, End Date: 09/30/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
6/30/2024	171,571,963.34	1,201,854.96	0.00	1,201,854.96	158,801,574.05	5.33	5.51
7/31/2024	158,801,574.05	1,196,758.00	0.00	1,196,758.00	140,442,858.08	5.33	5.43
8/31/2024	140,442,858.08	1,084,556.94	0.00	1,084,556.94	125,855,195.45	5.31	5.30
9/30/2024	125,855,195.45	920,094.94	0.00	920,094.94	105,794,852.87	5.15	4.92
<b>Total/Average</b>	<b>149,167,897.73</b>	<b>4,403,264.84</b>	<b>0.00</b>	<b>4,403,264.84</b>	<b>132,723,620.11</b>	<b>5.39</b>	<b>5.29</b>





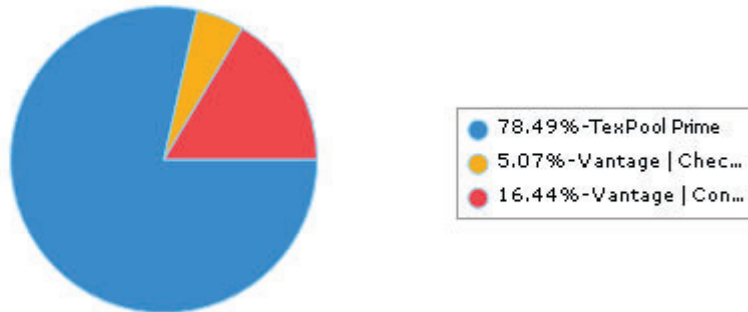
# El Paso County TX Distribution by Issuer - Market Value Report Group | Special Revenue

Begin Date: 6/30/2024, End Date: 9/30/2024

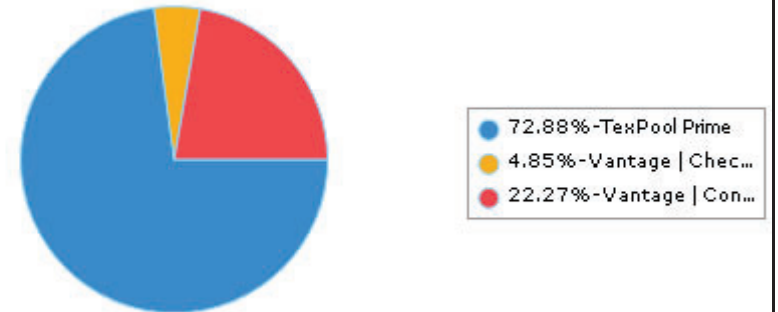
## Issuer Allocation

Issuer	Market Value 6/30/2024	% of Portfolio 6/30/2024	Market Value 9/30/2024	% of Portfolio 9/30/2024
TexPool Prime	37,055,458.88	78.49	34,349,660.52	72.88
Vantage   Checking	2,393,688.47	5.07	2,285,523.58	4.85
Vantage   Consolidated	7,760,010.86	16.44	10,496,915.29	22.27
<b>Total / Average</b>	<b>47,209,158.21</b>	<b>100.00</b>	<b>47,132,099.39</b>	<b>100.00</b>

## Portfolio Holdings as of 6/30/2024



## Portfolio Holdings as of 9/30/2024

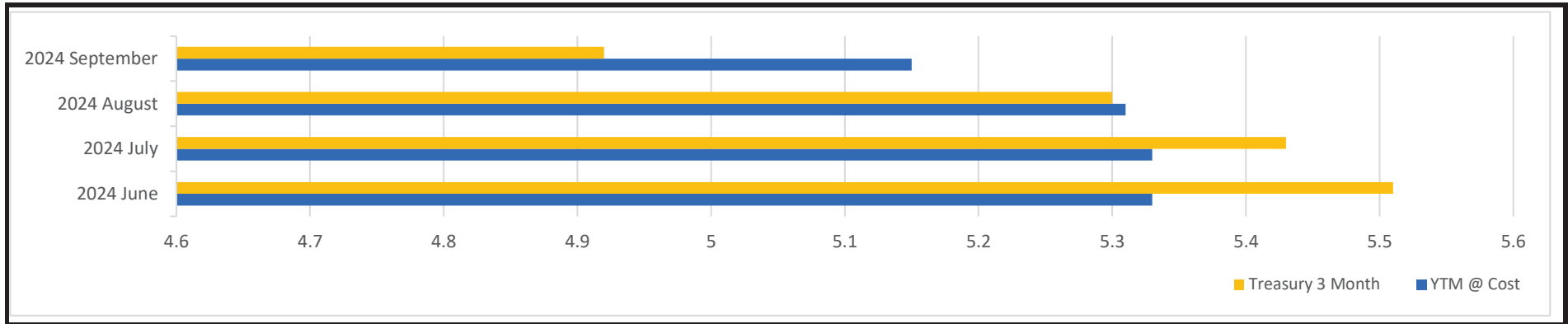




# El Paso County TX Investment Income - Book Value by Month Report Group | Special Revenue

Begin Date: 06/30/2024, End Date: 09/30/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
6/30/2024	48,477,345.50	209,166.94	0.00	209,166.94	47,209,158.21	5.33	5.51
7/31/2024	47,209,158.21	216,527.04	0.00	216,527.04	46,730,126.22	5.33	5.43
8/31/2024	46,730,126.22	222,191.05	0.00	222,191.05	46,703,649.40	5.31	5.30
9/30/2024	46,703,649.40	211,485.98	0.00	211,485.98	47,132,099.39	5.15	4.92
<b>Total/Average</b>	<b>47,280,069.83</b>	<b>859,371.01</b>	<b>0.00</b>	<b>859,371.01</b>	<b>46,943,758.31</b>	<b>5.39</b>	<b>5.29</b>





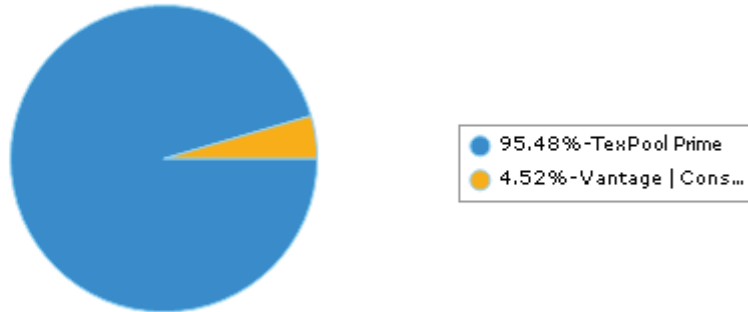
# El Paso County TX Distribution by Issuer - Market Value Report Group | Special Revenue Grants

Begin Date: 6/30/2024, End Date: 9/30/2024

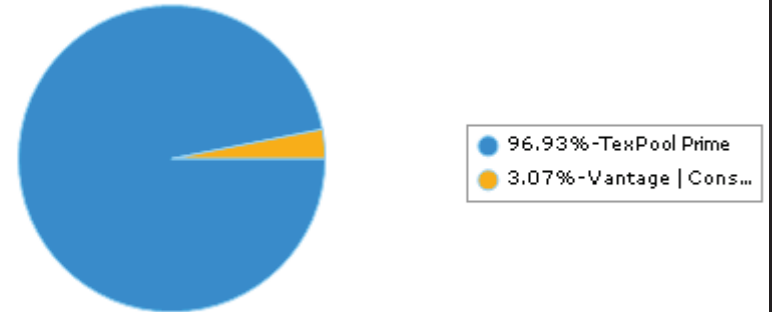
## Issuer Allocation

Issuer	Market Value 6/30/2024	% of Portfolio 6/30/2024	Market Value 9/30/2024	% of Portfolio 9/30/2024
TexPool Prime	106,793,565.92	95.48	95,428,824.82	96.93
Vantage   Consolidated	5,057,158.34	4.52	3,027,378.67	3.07
<b>Total / Average</b>	<b>111,850,724.26</b>	<b>100.00</b>	<b>98,456,203.49</b>	<b>100.00</b>

## Portfolio Holdings as of 6/30/2024



## Portfolio Holdings as of 9/30/2024

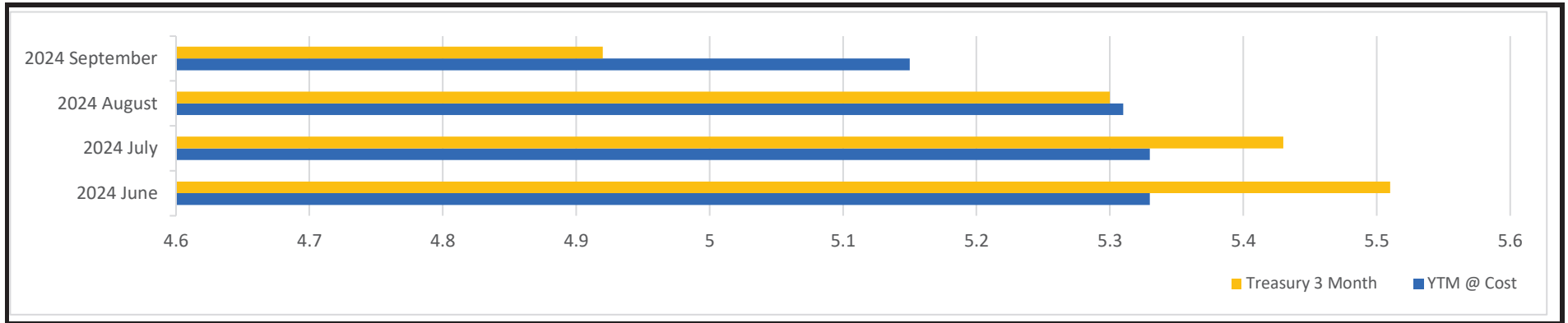




# El Paso County TX Investment Income - Book Value by Month Report Group | Special Revenue Grants

Begin Date: 06/30/2024, End Date: 09/30/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
6/30/2024	115,402,499.71	64,577.04	0.00	64,577.04	111,850,724.26	5.33	5.51
7/31/2024	111,850,724.26	63,674.80	0.00	63,674.80	108,989,163.02	5.33	5.43
8/31/2024	108,989,163.02	58,086.21	0.00	58,086.21	105,023,513.18	5.31	5.30
9/30/2024	105,023,513.18	53,114.44	0.00	53,114.44	98,456,203.49	5.15	4.92
<b>Total/Average</b>	<b>110,316,475.05</b>	<b>239,452.49</b>	<b>0.00</b>	<b>239,452.49</b>	<b>106,079,900.99</b>	<b>5.39</b>	<b>5.29</b>





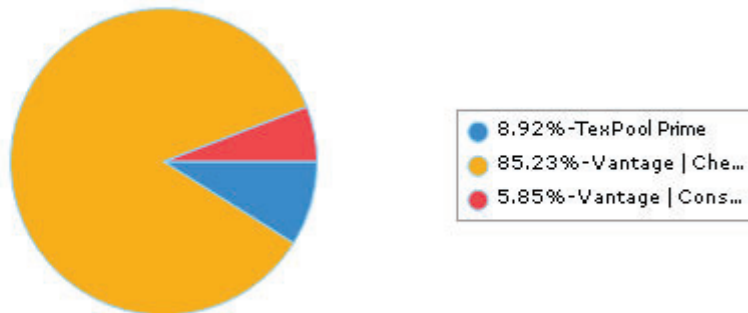
**El Paso County TX**  
**Distribution by Issuer - Market Value**  
**Report Group | Agency Fund**

Begin Date: 6/30/2024, End Date: 9/30/2024

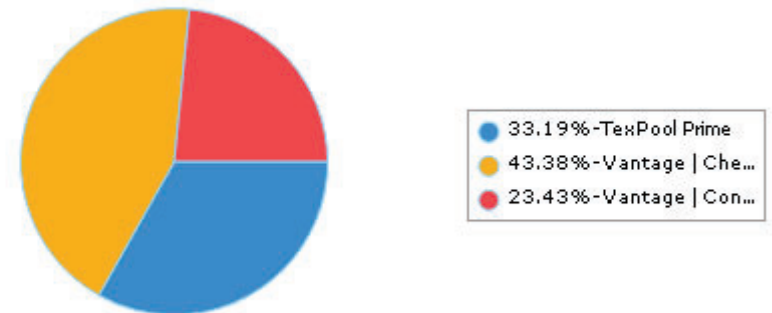
**Issuer Allocation**

Issuer	Market Value 6/30/2024	% of Portfolio 6/30/2024	Market Value 9/30/2024	% of Portfolio 9/30/2024
TexPool Prime	590,011.04	8.92	598,212.73	33.19
Vantage   Checking	5,637,027.54	85.23	781,811.95	43.38
Vantage   Consolidated	387,248.83	5.85	422,335.66	23.43
<b>Total / Average</b>	<b>6,614,287.41</b>	<b>100.00</b>	<b>1,802,360.34</b>	<b>100.00</b>

**Portfolio Holdings as of 6/30/2024**



**Portfolio Holdings as of 9/30/2024**

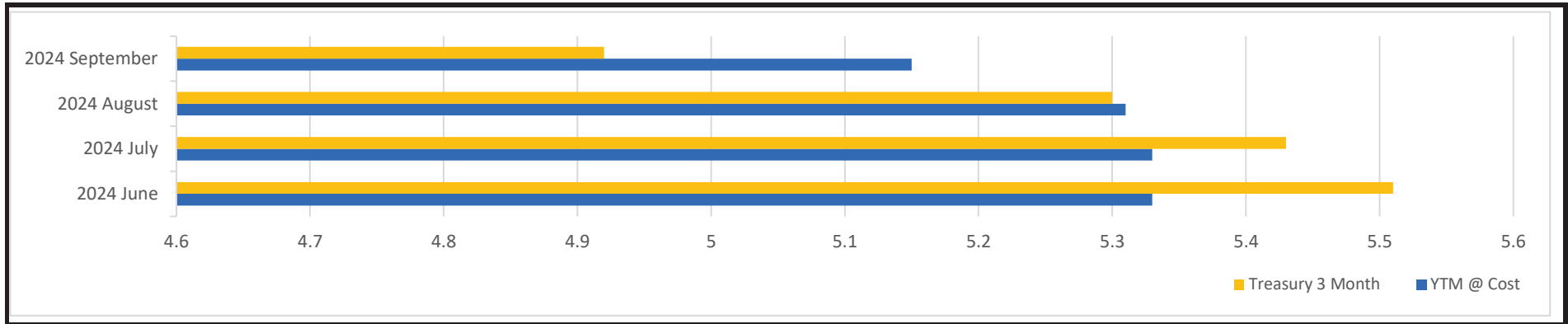




# El Paso County TX Investment Income - Book Value by Month Report Group | Agency Fund

Begin Date: 06/30/2024, End Date: 09/30/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
6/30/2024	6,897,118.86	8,904.69	0.00	8,904.69	6,614,287.41	5.33	5.51
7/31/2024	6,614,287.41	11,112.80	0.00	11,112.80	6,613,997.22	5.33	5.43
8/31/2024	6,613,997.22	7,746.09	0.00	7,746.09	1,729,815.06	5.31	5.30
9/30/2024	1,729,815.06	6,956.92	0.00	6,956.92	1,802,360.34	5.15	4.92
<b>Total/Average</b>	<b>5,463,804.64</b>	<b>34,720.50</b>	<b>0.00</b>	<b>34,720.50</b>	<b>4,190,115.01</b>	<b>5.39</b>	<b>5.29</b>

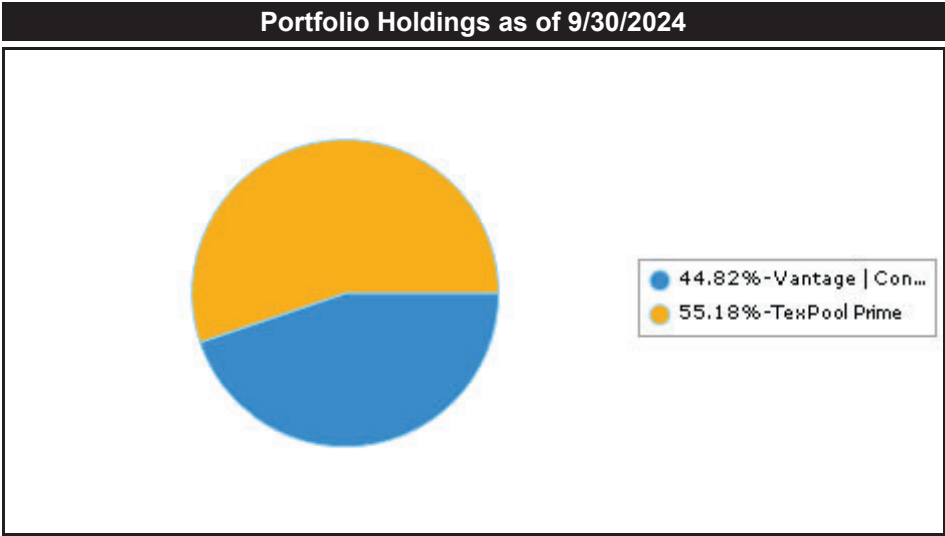
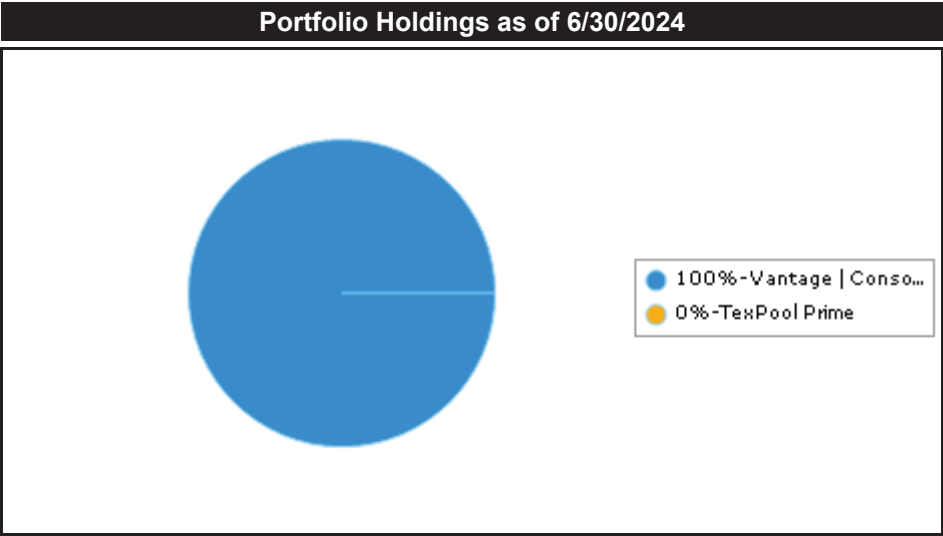




El Paso County TX  
Distribution by Issuer - Market Value  
Report Group | Enterprise Fund

Begin Date: 6/30/2024, End Date: 9/30/2024

Issuer Allocation				
Issuer	Market Value 6/30/2024	% of Portfolio 6/30/2024	Market Value 9/30/2024	% of Portfolio 9/30/2024
Vantage   Consolidated	1,749,841.72	100.00	834,207.20	44.82
TexPool Prime	0.00	0.00	1,027,010.33	55.18
Total / Average	1,749,841.72	100.00	1,861,217.53	100.00



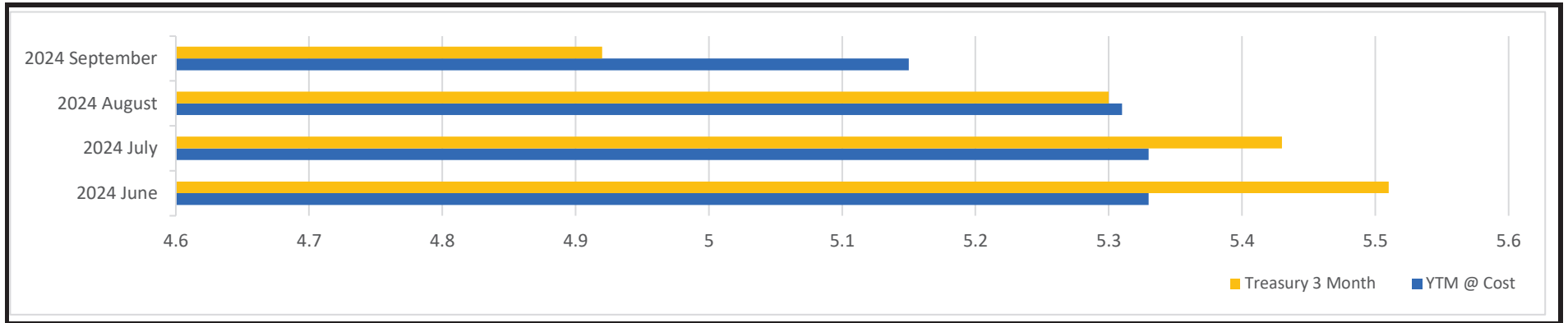




# El Paso County TX Investment Income - Book Value by Month Report Group | Enterprise Fund

Begin Date: 06/30/2024, End Date: 09/30/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
6/30/2024	1,765,060.37	6,207.58	0.00	6,207.58	1,749,841.72	5.33	5.51
7/31/2024	1,749,841.72	7,006.05	0.00	7,006.05	2,135,838.69	5.33	5.43
8/31/2024	2,135,838.69	7,885.42	0.00	7,885.42	1,734,240.21	5.31	5.30
9/30/2024	1,734,240.21	7,997.37	0.00	7,997.37	1,861,217.53	5.15	4.92
<b>Total/Average</b>	<b>1,846,245.25</b>	<b>29,096.42</b>	<b>0.00</b>	<b>29,096.42</b>	<b>1,870,284.54</b>	<b>5.39</b>	<b>5.29</b>





El Paso County TX  
Distribution by Issuer - Market Value  
Report Group | Adult Supervision

Begin Date: 6/30/2024, End Date: 9/30/2024

Issuer Allocation				
Issuer	Market Value 6/30/2024	% of Portfolio 6/30/2024	Market Value 9/30/2024	% of Portfolio 9/30/2024
Vantage   Checking	3,842,417.25	100.00	4,194,963.38	100.00
Total / Average	3,842,417.25	100.00	4,194,963.38	100.00

Portfolio Holdings as of 6/30/2024



100%-Vantage | Check...

Portfolio Holdings as of 9/30/2024



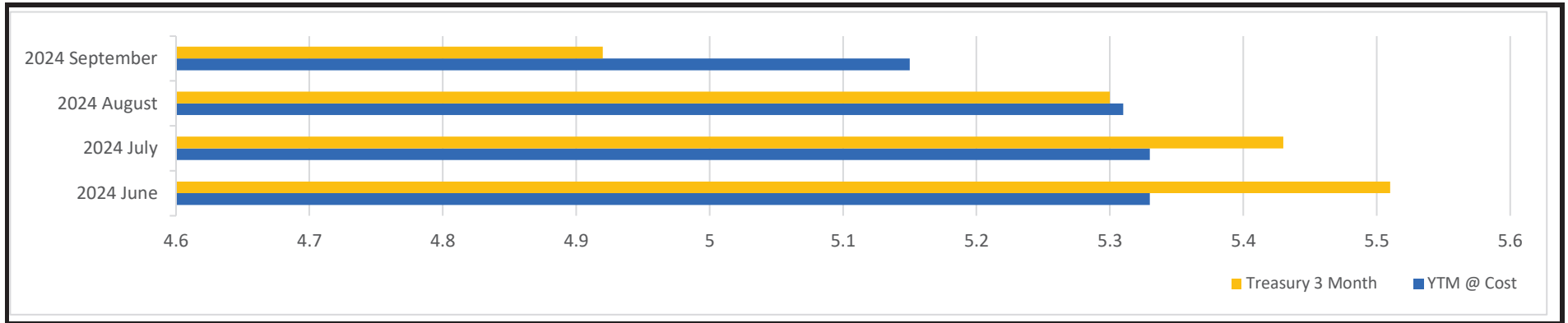
100%-Vantage | Check...



# El Paso County TX Investment Income - Book Value by Month Report Group | Adult Probation

Begin Date: 06/30/2024, End Date: 09/30/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
6/30/2024	2,081,188.84	11,580.65	0.00	11,580.65	3,842,417.25	5.33	5.51
7/31/2024	3,842,417.25	12,084.43	0.00	12,084.43	3,123,134.29	5.33	5.43
8/31/2024	3,123,134.29	8,336.22	0.00	8,336.22	2,379,734.26	5.31	5.30
9/30/2024	2,379,734.26	24,432.96	0.00	24,432.96	4,194,963.38	5.15	4.92
<b>Total/Average</b>	<b>2,856,618.66</b>	<b>56,434.26</b>	<b>0.00</b>	<b>56,434.26</b>	<b>3,385,062.30</b>	<b>5.39</b>	<b>5.29</b>





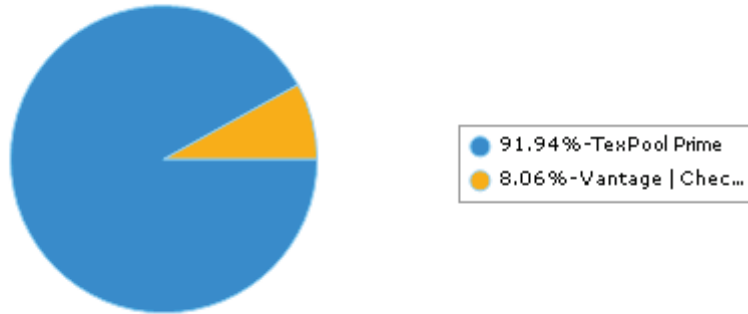
# El Paso County TX Distribution by Issuer - Market Value Report Group | Internal Service

Begin Date: 6/30/2024, End Date: 9/30/2024

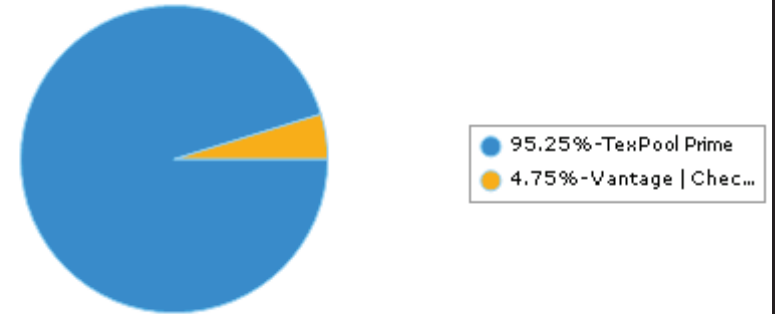
## Issuer Allocation

Issuer	Market Value 6/30/2024	% of Portfolio 6/30/2024	Market Value 9/30/2024	% of Portfolio 9/30/2024
TexPool Prime	16,751,330.95	91.94	18,790,231.04	95.25
Vantage   Checking	1,468,891.35	8.06	936,162.92	4.75
<b>Total / Average</b>	<b>18,220,222.30</b>	<b>100.00</b>	<b>19,726,393.96</b>	<b>100.00</b>

## Portfolio Holdings as of 6/30/2024



## Portfolio Holdings as of 9/30/2024

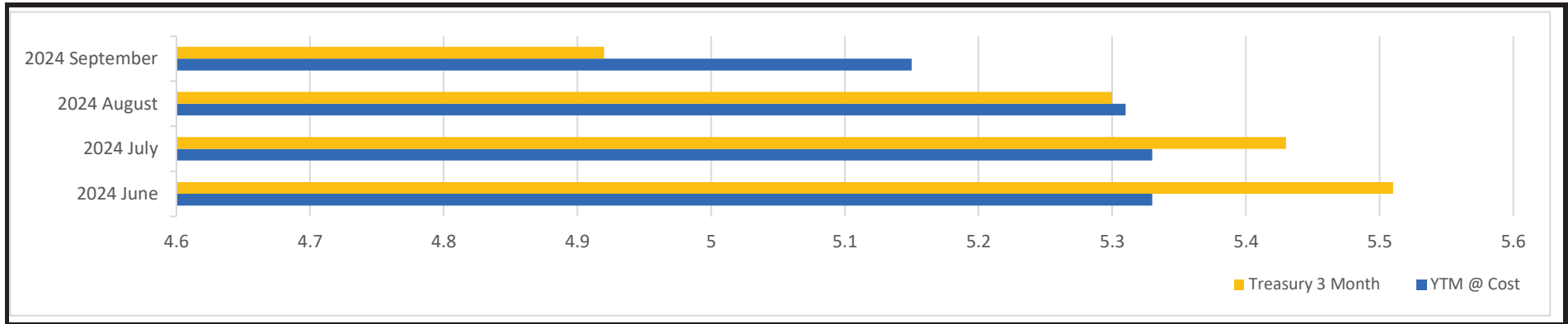




# El Paso County TX Investment Income - Book Value by Month Report Group | Internal Service

Begin Date: 06/30/2024, End Date: 09/30/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
6/30/2024	16,828,690.08	74,232.69	0.00	74,232.69	18,220,222.30	5.33	5.51
7/31/2024	18,220,222.30	82,236.53	0.00	82,236.53	18,566,036.68	5.33	5.43
8/31/2024	18,566,036.68	84,301.52	0.00	84,301.52	18,487,732.34	5.31	5.30
9/30/2024	18,487,732.34	82,117.63	0.00	82,117.63	19,726,393.96	5.15	4.92
<b>Total/Average</b>	<b>18,025,670.35</b>	<b>322,888.37</b>	<b>0.00</b>	<b>322,888.37</b>	<b>18,750,096.32</b>	<b>5.39</b>	<b>5.29</b>





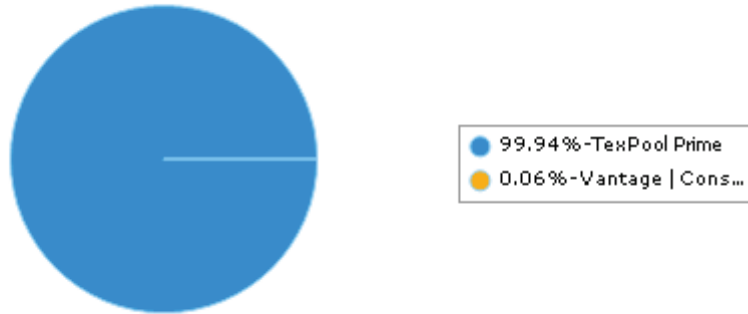
# El Paso County TX Distribution by Issuer - Market Value Report Group | Debt Service

Begin Date: 6/30/2024, End Date: 9/30/2024

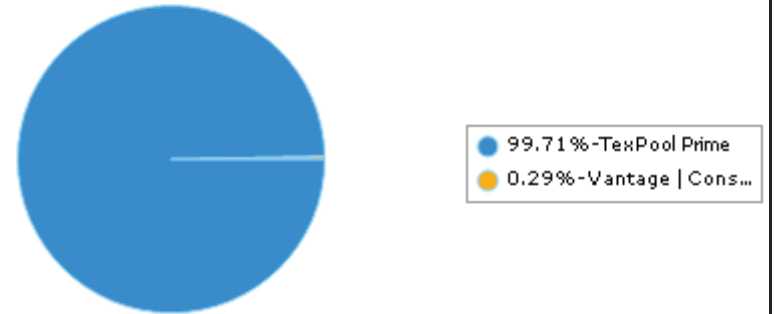
## Issuer Allocation

Issuer	Market Value 6/30/2024	% of Portfolio 6/30/2024	Market Value 9/30/2024	% of Portfolio 9/30/2024
TexPool Prime	14,348,656.51	99.94	3,723,867.53	99.71
Vantage   Consolidated	8,974.79	0.06	10,743.18	0.29
<b>Total / Average</b>	<b>14,357,631.30</b>	<b>100.00</b>	<b>3,734,610.71</b>	<b>100.00</b>

## Portfolio Holdings as of 6/30/2024



## Portfolio Holdings as of 9/30/2024

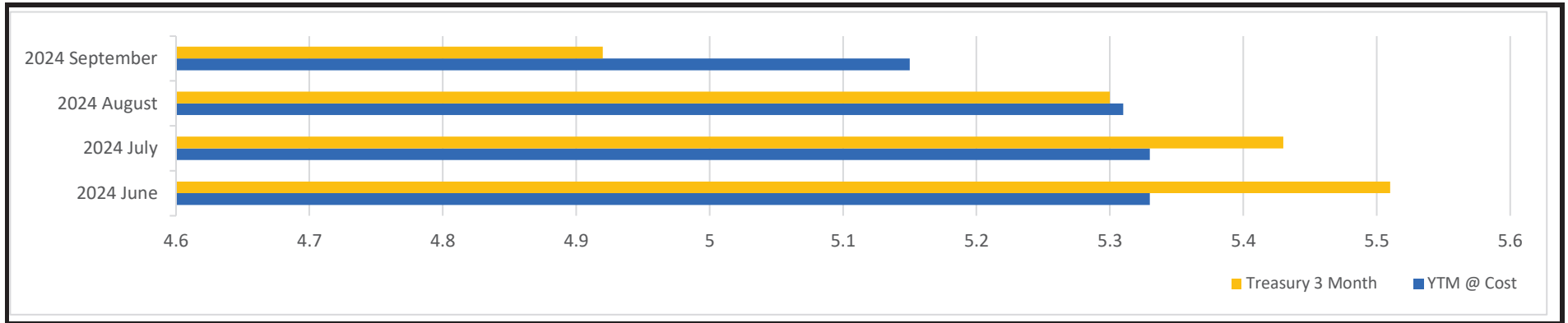




# El Paso County TX Investment Income - Book Value by Month Report Group | Debt Service

Begin Date: 06/30/2024, End Date: 09/30/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
6/30/2024	14,293,500.47	64,130.83	0.00	64,130.83	14,357,631.30	5.33	5.51
7/31/2024	14,357,631.30	65,615.88	0.00	65,615.88	14,448,272.18	5.33	5.43
8/31/2024	14,148,272.18	19,709.98	0.00	19,709.98	4,080,172.60	5.31	5.30
9/30/2024	4,080,172.60	16,918.11	0.00	16,918.11	3,734,610.71	5.15	4.92
<b>Total/Average</b>	<b>11,719,894.14</b>	<b>166,374.80</b>	<b>0.00</b>	<b>166,374.80</b>	<b>9,080,171.70</b>	<b>5.39</b>	<b>5.29</b>

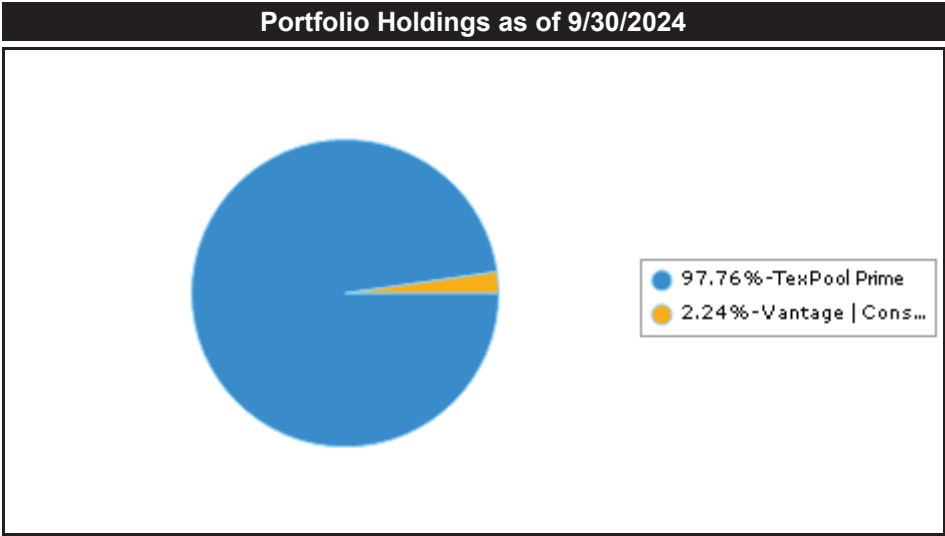
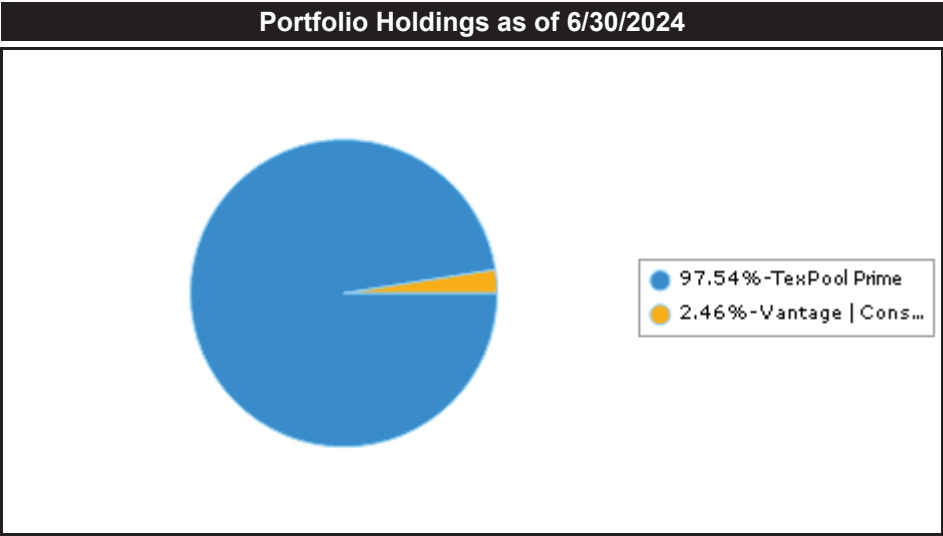




El Paso County TX  
Distribution by Issuer - Market Value  
Report Group | Capital Projects

Begin Date: 6/30/2024, End Date: 9/30/2024

Issuer Allocation				
Issuer	Market Value 6/30/2024	% of Portfolio 6/30/2024	Market Value 9/30/2024	% of Portfolio 9/30/2024
TexPool Prime	136,262,592.28	97.54	125,213,519.74	97.76
Vantage   Consolidated	3,442,337.43	2.46	2,867,404.11	2.24
Total / Average	139,704,929.71	100.00	128,080,923.85	100.00



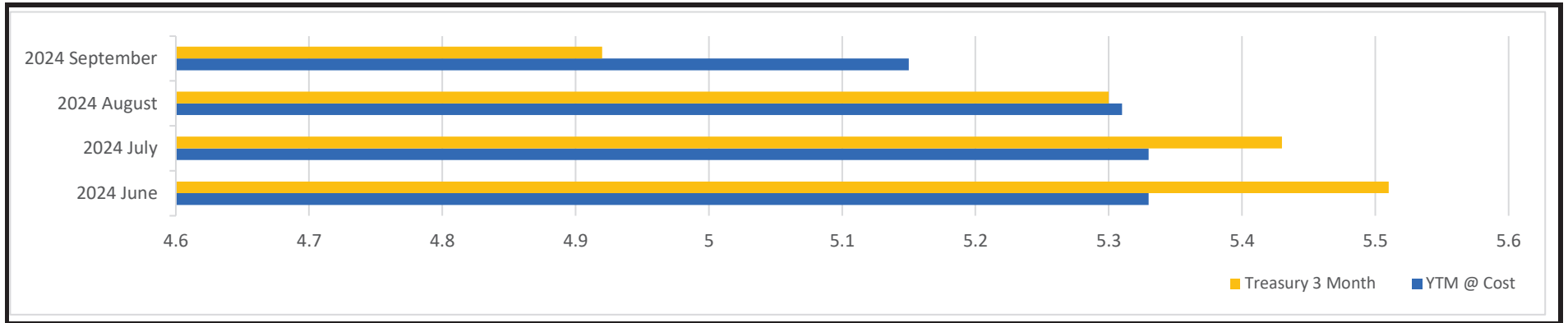




# El Paso County TX Investment Income - Book Value by Month Report Group | Capital Projects

Begin Date: 06/30/2024, End Date: 09/30/2024

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Ending Book Value	YTM @ Cost	Treasury 3 Month
6/30/2024	144,384,629.37	635,678.67	0.00	635,678.67	139,704,929.71	5.33	5.51
7/31/2024	139,704,929.71	637,174.77	0.00	637,174.77	137,572,407.48	5.33	5.43
8/31/2024	137,572,407.48	605,219.43	0.00	605,219.43	126,133,240.63	5.31	5.30
9/30/2024	126,133,240.63	551,245.05	0.00	551,245.05	128,080,923.85	5.15	4.92
<b>Total/Average</b>	<b>136,948,801.80</b>	<b>2,429,317.92</b>	<b>0.00</b>	<b>2,429,317.92</b>	<b>132,872,875.42</b>	<b>5.39</b>	<b>5.29</b>



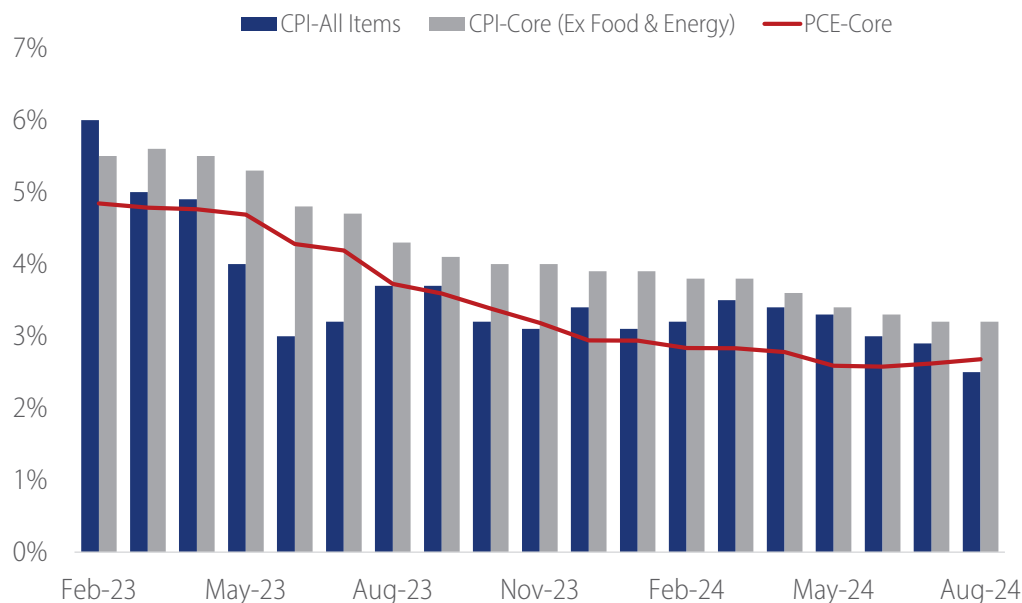
## Economic Summary – Q3 2024

As the third quarter began, investors and Fed officials had already concluded rate cuts would begin *sometime* in 2024, with the timing and magnitude being data-dependent. Slower GDP growth and falling price pressures had allowed the Bank of Canada, the Bank of England, and the European Central Bank to begin easing monetary policy in the summer months, but the unexpected bump in U.S. inflation during the first quarter had infected Fed officials with caution that required time to heal.

Investors considered the July CPI numbers to be acceptable despite small month-over-month increases, focusing instead on the optics of *the first sub-3% annual consumer inflation rate since March 2021*, as well as the extremely soft three-month annualized +0.4% headline and +1.6% core.

Prices actually took another small step *upward* in August with a +0.3% rise in core CPI, which exceeded both the median forecast and the previous month's gain by a tenth. On an annual basis, overall CPI dropped from +2.9% to +2.5%, while core CPI was unchanged at +3.2%. Although still very close to the Fed's target, the three-month annualized core rate rose from +1.6% to +2.1%, halting several months of decline.

### Inflation Indicators (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics, Bureau of Economic Analysis

The inflation story continues to be divided with prices for goods registering outright deflation in 14 of the past 15 months, leaving services as the sole driver of above target price pressure. Within the service component, persistently stubborn shelter costs have made the largest contribution.

Nevertheless, with inflation well within striking distance of policymakers' +2.0% target, Fed officials increasingly voiced concern over apparent softening in the labor market.

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*Investors considered the July CPI numbers to be acceptable despite small month-over-month increases, focusing instead on the optics of the first sub-3% annual consumer inflation rate since March 2021, as well as the extremely soft three-month annualized +0.4% headline and +1.6% core.*

*Nevertheless, with inflation well within striking distance of policymakers' +2.0% target, Fed officials increasingly voiced concern over apparent softening in the labor market.*

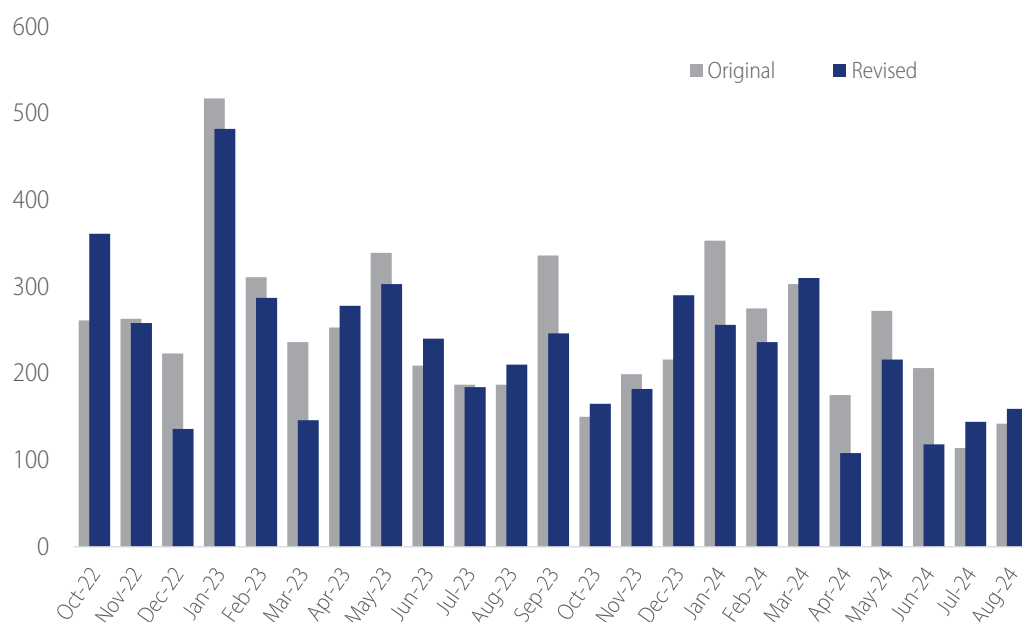
At the July 31 FOMC meeting, committee members voted unanimously to hold the overnight target range steady at 5.25% to 5.50% for the eighth consecutive meeting, while tweaking language in their one-page official statement to lay the foundation for a rate cut at the next meeting in September. The key wording change from the June meeting replaced “the Committee remains highly attentive to inflation risks” with “the Committee is attentive to both sides of its dual mandate.” In other words, the Fed was aware that holding rates at elevated levels for too long would have a negative effect on employment.

This labor market focus added importance to the July employment report, which turned out to be a weak one, validating Fed concern. Only +114k jobs were added to company payrolls, below the lowest estimate among 74 economists surveyed by Bloomberg. Revisions to May and June payrolls subtracted -29k.

*This labor market focus added importance to the July employment report, which turned out to be a weak one, validating Fed concern.*

In the separate household survey, +420k workers entered (or reentered) the labor force, while just +67k found work. The large increase in jobseekers relative to the number of employed workers pushed the headline unemployment rate up from 4.1% to 4.3%, *the highest since October 2021*.

## Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

Investors quickly zeroed in on the rise in unemployment because something called the “Sahm rule” was triggered. Developed by economist Claudia Sahm in 2019, the theory posits that when the three-month average of the unemployment rate rises half a percentage point or more above its 12-month low point, the economy is no longer growing. This retrofitted rule, consistent with every U.S. recession since the 1970s, immediately set off alarm bells.

The August employment report also proved softer than expected. Just +142k jobs were added during the month, with downward revisions to June and July payrolls totaling

-86k, lowering the three-month average to +116k, *less than half the pace in 2023*. However, the unemployment rate reversed direction, slipping from 4.3% to 4.2%, while hourly earnings came in slightly warmer than expected.

The troubled labor story worsened when job openings fell to a 3½ year low of roughly 7.7 million in July, down significantly since March 2022 when more than 12 million open positions were reported. At that time, the ratio of jobs to job seekers was 2 to 1. By mid-summer, it had fallen to 1.1 to 1.

Near the end of August, at the Fed's annual Jackson Hole symposium, Chairman Powell said the committee would not welcome further cooling of the labor market, and expressed what investors had anticipated for months, declaring: *"The time has come for policy to adjust."* The clear message made headlines and ignited a rally in both stocks and bonds. At that point, the only remaining question was whether the committee would cut by a quarter or a half in September. Five of the last easing cycles had begun with a 50 basis point cut, but all were preceded by a crisis or recession. This time, there was impatience, but far less urgency.

On September 18, the FOMC ended speculation and announced a 50 basis point cut to the overnight funds rate, bringing the upper band of the target range down from 5.50% to 5.00%. Fed Governor Michelle Bowman was the lone committee member in favor of a smaller, quarter-point cut. Bowman, who was concerned about above target inflation, was the first Fed governor to dissent on a rate move since 2005.

The new dot plot showed two more quarter-point cuts for the remainder of 2024, a total of 100 bps of cuts in both 2025 and 2026, and an implied neutral rate of 2.875%, which is actually a little higher than the June dot plot had indicated.

The committee sounded optimistic, saying the economy continues to expand at a solid pace and the both the inflation and employment mandates were roughly balanced. The updated Summary of Economic Projections (SEP) supported the statement, showing quarterly GDP growth around +2.0% for the next several years, unemployment peaking at 4.4%, and Core PCE (which is the Fed's preferred inflation measure) expected to reach +2.6% by the end of 2024, and +2.2% by end of 2025.

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*On September 18, the FOMC ended speculation and announced a 50 basis point cut to the overnight funds rate, bringing the upper band of the target range down from 5.50% to 5.00%.*

### FOMC Summary of Economic Projections-September 2024 (Median Estimate)

	2024	2025	2026	2027	Longer Run
Change in Real GDP	2.0	2.0	2.0	2.0	1.8
Unemployment Rate	4.4	4.4	4.3	4.2	4.2
PCE Inflation	2.3	2.1	2.0	2.0	2.0
Core PCE Inflation	2.6	2.2	2.0	2.0	
Federal Funds Rate	4.4	3.4	2.9	2.9	2.9

Source: Federal Reserve

This fairly rosy outlook suggested Fed officials were confident in orchestrating the fabled soft landing; lowering inflation without triggering a recession.

The long-suffering housing market would seem an obvious candidate to benefit from the launch of the Fed's easing campaign, but unrealistic expectations make for a challenging fix. Despite a 170 basis point decline in the 30-year fixed mortgage rate, the most recent University of Michigan consumer sentiment survey indicated Americans are more negative about housing conditions than anytime during the 46-year history of the survey, with a majority of respondents saying *it's a bad time to buy because loan rates are STILL too high*.

The problem here is that, barring economic catastrophe, the Fed may never again cut the overnight rate to zero or initiate another multitrillion dollar QE campaign. As a result, long-term mortgages are unlikely to approach the 2.66% low point from early 2021. The average 30-year rate at the end of September was 6.08%, a significant drop from the 7.79% Oct '23 peak (Freddie Mac), but historically not enough to spark a refi wave or prompt too many sidelined buyers (or sellers) to jump in. According to Redfin data from last summer, over 82% of borrowers held a mortgage rate below 5%, while 62% were below 4%.

On the last day of the quarter, Fed Chairman Jay Powell, speaking at the National Association for Business Economics Annual Meeting in Nashville, struck a more hawkish tone than investors had anticipated. Although his prepared comments mostly stuck to the FOMC script from two weeks earlier, the Chairman dismissed the idea of a significant slowdown in economic growth, pointing out that "very large" income revisions for the first half of the year had boosted the personal savings rate, which suggested that consumer spending could continue at "a healthy level."

Powell went on to say the committee was in *no hurry to cut rates quickly* and that "If the economy performs as expected, rate cuts would total 50 basis points for the remainder of the year." Although this matched committee member projections in the September dot plot, it pushed back against more aggressive market expectations and set the tone for the remainder of the year.

## The Markets

The across-the-curve decline in Treasury yields during the quarter was huge, with the 12-month bill and 2-year note both shedding 111 basis points as investors scrambled to lock-in future interest earnings before the Fed began its easing campaign.

It was a turbulent period for stocks, but the both the DOW and the S&P 500 ultimately ended the third quarter at fresh record highs. For the first nine months of the year, the S&P 500 rose almost 21% while the DOW increased more than 12%.

*This fairly rosy outlook suggested Fed officials were confident in orchestrating the fabled soft landing; lowering inflation without triggering a recession.*

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## Q3 Interest Rates

		Fed Funds	3 mo. T-bill	12 mo. T-bill	2 yr. T-note	5 yr. T-note	10 yr. T-note
Last	6/30/2024	5.25-5.50%	5.36%	5.11%	4.75%	4.38%	4.40%
High			5.38%	5.10%	4.75%	4.43%	4.46%
Low			4.56%	3.89%	3.54%	3.40%	3.61%
End	9/30/2024	4.75-5.00%	4.62%	4.00%	3.64%	3.56%	3.78%

Source: Federal Reserve, U.S. Department of the Treasury

*The overall economy, although showing occasional signs of wear, appears to have logged another solid quarter of growth, and a case can be made that the labor market hasn't weakened so much as normalized.*

## ECONOMIC AND INTEREST RATE OUTLOOK

Record stock values and home prices continue to push U.S. household wealth higher and higher, while the inflation rate is closing in on the Fed's target sooner than expected. The overall economy, although showing occasional signs of wear, appears to have logged another solid quarter of growth, and a case can be made that the labor market hasn't *weakened* so much as *normalized*. This "goldilocks" economic environment, paired with expected future rate cuts would seem to support a bright near-term outlook. However, it gets a bit darker on the horizon.

With bond investors pricing-in 175 basis points of rate cuts over the next 10 months, the market is signaling a future contraction, but easing monetary policy amid solid economic growth, historically high national wealth and record corporate profits hints at the all-too-common policy error.

*With bond investors pricing-in 175 basis points of rate cuts over the next 10 months, the market is signaling a future contraction, but easing monetary policy amid solid economic growth, historically high national wealth and record corporate profits hints at the all-too-common policy error.*

The National Association for Business Economics (NABE) recently surveyed 32 professional forecasters on their perceived risks to economy over the next 12 months. While 23% believed the greatest risk was the outcome of the November elections, and another 23% pointed to escalation of conflicts in Ukraine and the Middle East, 39% believed the greatest risk was a "monetary policy mistake." Presumably, the mistake would be easing too much, overheating the economy and reigniting inflation.

The election results may not be the greatest perceived risk to the economy, but the implemented policies of the new president are likely to have a profound impact on the national debt. According to recent numbers from the nonpartisan Committee for a Responsible Federal Budget (CRFB), Trump's proposals, which include a growing list of tax cuts, tariffs, and mass deportations, are expected to increase the national debt by another \$7.5 trillion over the next decade. The Harris plan would add an estimated \$3.5 trillion. Both are in *addition* to the \$22 trillion expected to be added if no policy changes were made (WSJ).

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The debt cliff is far enough away that it has yet to impact daily lives, but all this anticipated future Treasury supply will have to be financed, and if politicians are unwilling to find a solution, buyers of longer-term debt will eventually start demanding a bigger and bigger risk premium in the form of higher interest rates.

The risk of the Fed making a policy mistake was amplified in September when the Bureau of Economic Analysis (BEA) reported the U.S. economy grew by almost \$300 billion more from the second quarter of 2020 through the end of 2023, due primarily to stronger consumer spending. The BEA revisions showed a substantial increase in gross domestic income which resulted in a sharp upward revision to the personal saving rate. The boost in savings from a previous estimate of 3.3% to 5.2% for the second quarter suggests the consumer suddenly has more spending capacity as the holiday season approaches. Ongoing stock market vigor will add to the mostly positive short-term outlook.

But many of the underlying issues threatening recession for the past several years are still around. Because most measures of the economy are broad, it's tough to see the detail. Stocks and home prices have soared in the post pandemic period, creating record household wealth, but the value only accrues to investors and homeowners, leaving out nearly half the nation.

According to Federal Reserve numbers, outstanding credit card balances increased by \$27 billion in the second quarter to a new record high of \$1.14 trillion. The average interest rate on a new credit card reached 24.8% this summer, the highest on record. In theory, an unpaid balance accruing interest at 24% would double in just three years.

The lion's share of credit card balances reflect the financial health of the middle class and lower middle class; those who need to and are able to borrow. Since this large group is primarily responsible for driving GDP growth, their spending and payment patterns should be reliable future indicators, and it does not look promising. In the second quarter, the delinquency rate for credit card borrowers climbed to 7.2%, up from 5.0% a year ago.

Unfortunately, credit card rates are historically very sticky. While the Fed may be cutting the overnight rate, financial companies have little incentive to lower interest charges on outstanding balances.

The bottom line is that the domestic economy is on solid ground ... for the time being anyway. As Powell said, there is no hurry to cut rates. The FOMC has always been data dependent, and the data required to make future decisions will be based on economic activity that has yet to happen.

*The average interest rate on a new credit card reached 24.8% this summer, the highest on record. In theory, an unpaid balance accruing interest at 24% would double in just three years.*

*The FOMC has always been data dependent, and the data required to make future decisions will be based on economic activity that has yet to happen.*

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