



Quarterly Investment Report



**For the period ended December 31, 2023
(Unaudited)**

Prepared by: Barbara A. Parker, County Auditor
Downtown County Annex
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Table of contents

Transmittal Letter.....	1
Total Cash and Investment at Market Value	
Total Cash and Investments Distribution at Market Value	2
All Portfolios Summary by Month.....	3
All Portfolios Investment Income by Month	4
All Portfolios Distribution by Main Fund	5
Cash and Investment Balances by Fund	
General Fund Cash and Investment at Market Value	6
General Fund Investment Income by Month	7
Special Revenue Cash and Investment at Market Value	8
Special Revenue Investment Income by Month	9
Special Revenue Grants Cash and Investment at Market Value	10
Special Revenue Grants Investment Income by Month	11
Agency Fund Cash and Investment at Market Value	12
Agency Fund Investment Income by Month.....	13
Enterprise Fund Cash and Investment at Market Value	14
Enterprise Fund Investment Income by Month.....	15
Adult Probation Cash and Investment at Market Value	16
Adult Probation Fund Investment Income by Month	17
Internal Service Cash and Investment at Market Value	18
Internal Service Investment Income by Month.....	19
Debt Service Cash and Investment at Market Value	20
Debt Service Investment Income by Month	21
Capital Projects Cash and Investment at Market Value	22
Capital Projects Investment Income by Month.....	23
Hilltop Securities Economic Commentary	
Economic Summary	24-29



EL PASO COUNTY | TEXAS
Quarterly Investment Report
09/30/2023 - 12/31/2023



Prepared by:

Barbara A. Parker, County Auditor

320 S. Campbell, Suite 160

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

A report of the investment transactions for the first quarter and three months ended December 31, 2023, 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	45,248,510.66	45,248,510.66	45,248,510.66	8.89	5.37	1
TexPool Prime	424,168,423.67	424,168,423.67	424,168,423.67	83.29	5.60	1
Vantage Checking	14,187,943.53	14,187,943.53	14,187,943.53	2.79	3.49	1
Vantage Consolidated	25,649,657.68	25,649,657.68	25,649,657.68	5.04	3.83	1
Total / Average	509,254,535.54	509,254,535.54	509,254,535.54	100.00	5.43	1

/s/ Linda Hemme

Linda Hemme, Audit Accountant Senior
Financial Reporting

/s/ Donna Teague

Donna Teague, Director Of Financial Operations

/s/ James Utterback

James Utterback, Audit Manager Senior
Financial Reporting

/s/ Jacobo Fuentes

Jacobo Fuentes, Audit Accountant Senior
Treasury

/s/ Raymong Gomez

Raymond Gomez, Audit Manager
Treasury

/s/ Barbara Parker

Barbara A. Parker, County Auditor



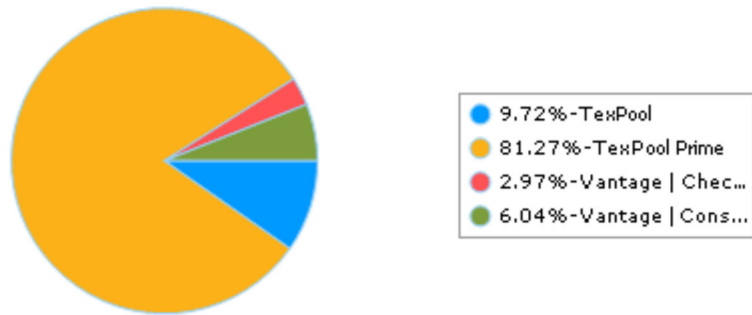
El Paso County TX Distribution by Issuer - Market Value All Portfolios

Begin Date: 9/30/2023, End Date: 12/31/2023

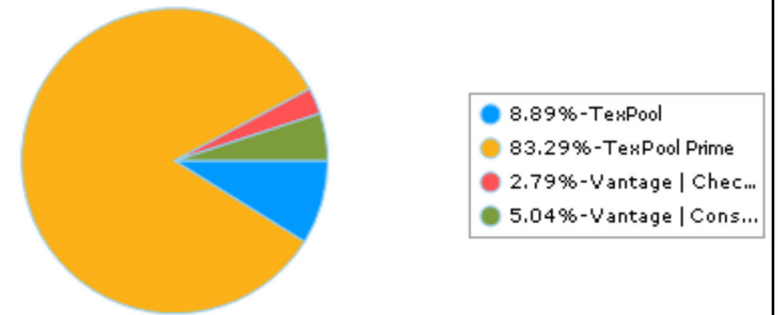
Issuer Allocation

Issuer	Market Value 9/30/2023	% of Portfolio 9/30/2023	Market Value 12/31/2023	% of Portfolio 12/31/2023
TexPool	44,641,896.18	9.72	45,248,510.66	8.89
TexPool Prime	373,052,089.53	81.27	424,168,423.67	83.29
Vantage Checking	13,651,209.54	2.97	14,187,943.53	2.79
Vantage Consolidated	27,703,689.41	6.04	25,649,657.68	5.04
Total / Average	459,048,884.66	100.00	509,254,535.54	100.00

Portfolio Holdings as of 9/30/2023



Portfolio Holdings as of 12/31/2023



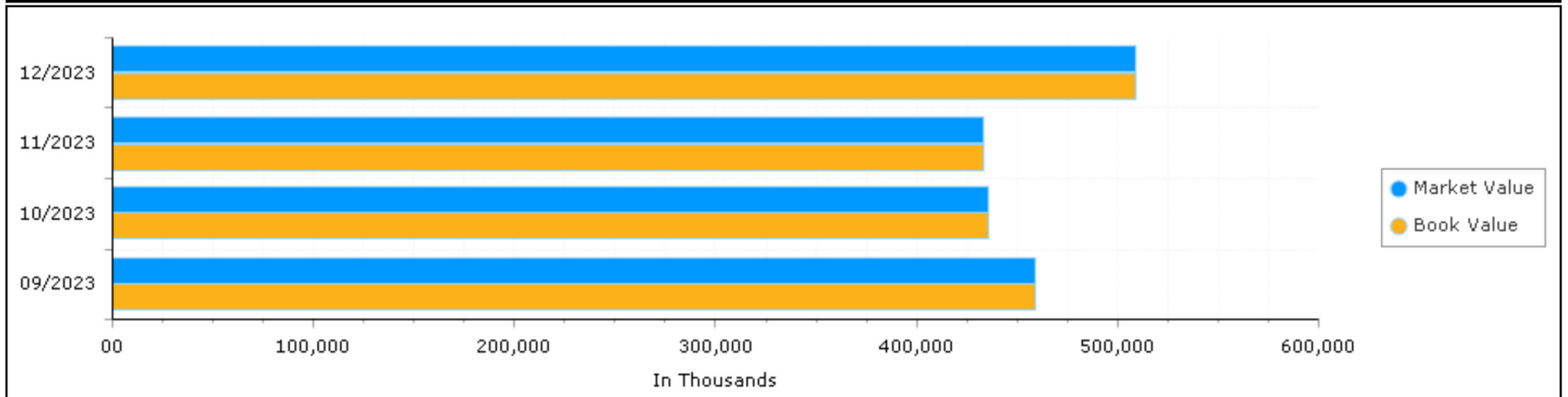


El Paso County TX Portfolio Summary by Month All Portfolios

Begin Date: 9/30/2023, End Date: 12/31/2023

Month	Market Value	Book Value	Unrealized Gain/Loss	YTM @ Cost	YTM @ Market	Duration	Days To Maturity
9/30/2023	459,048,884.66	459,048,884.66	0.00	5.37	5.37	0.00	1
10/31/2023	436,024,047.04	436,024,047.04	0.00	5.40	5.40	0.00	1
11/30/2023	432,925,893.10	432,925,893.10	0.00	5.43	5.43	0.00	1
12/31/2023	509,254,535.54	509,254,535.54	0.00	5.43	5.43	0.00	1
Total / Average	459,313,340.09	459,313,340.09	0.00	5.41	5.41	0.00	1

Market Value / Book Value Comparison

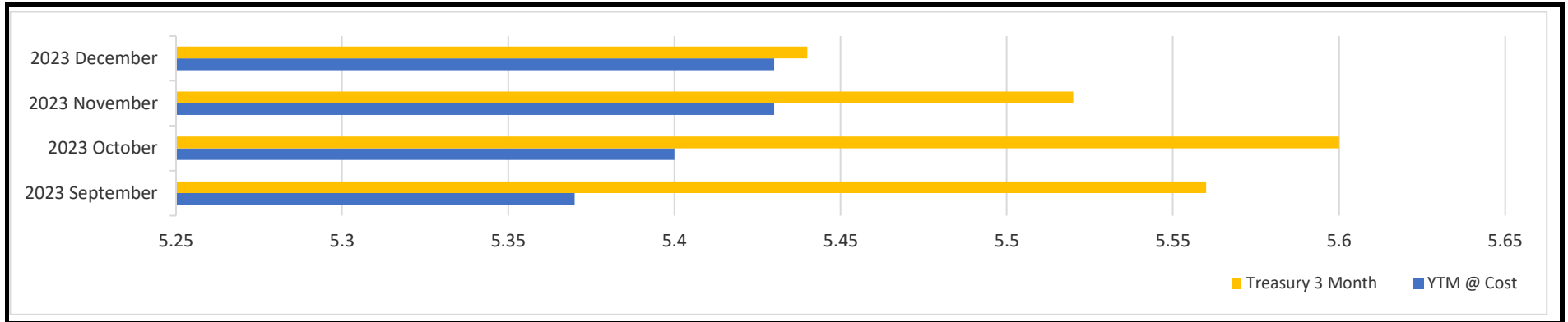




El Paso County TX Investment Income - Book Value by Month All Portfolios

Begin Date: 9/30/2023, End Date: 12/31/2023

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
9/30/2023	473,009,403.97	2,162,834.31	0.00	2,162,834.31	459,048,884.66	5.37	5.56
10/31/2023	459,048,884.66	2,081,414.50	0.00	2,081,414.50	436,024,047.04	5.4	5.60
11/30/2023	436,024,047.04	1,954,092.26	0.00	1,954,092.26	432,925,893.10	5.43	5.52
12/31/2023	432,925,893.10	2,119,849.56	0.00	2,119,849.56	509,254,535.54	5.43	5.44
Total/Average	450,252,057.19	8,318,190.63	0.00	8,318,190.63	459,313,340.09	5.41	5.53

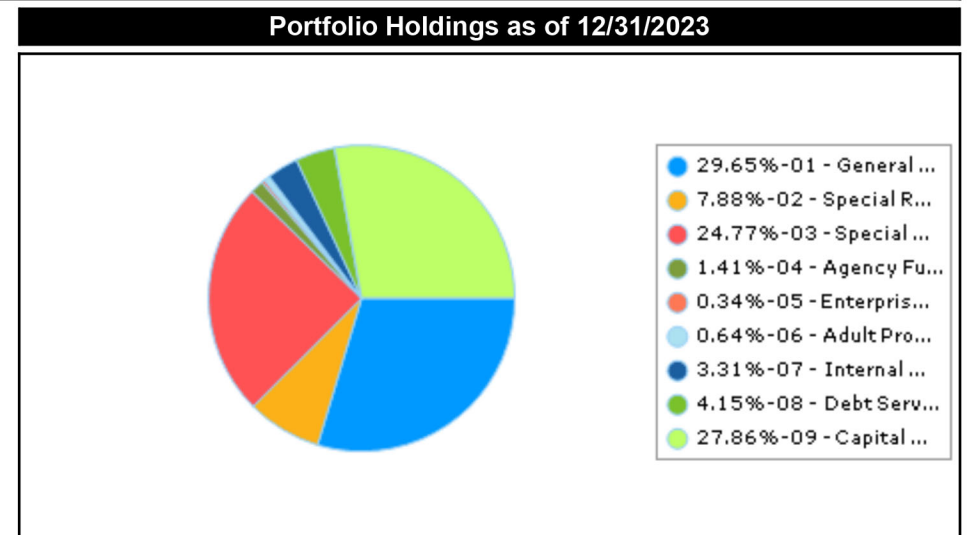
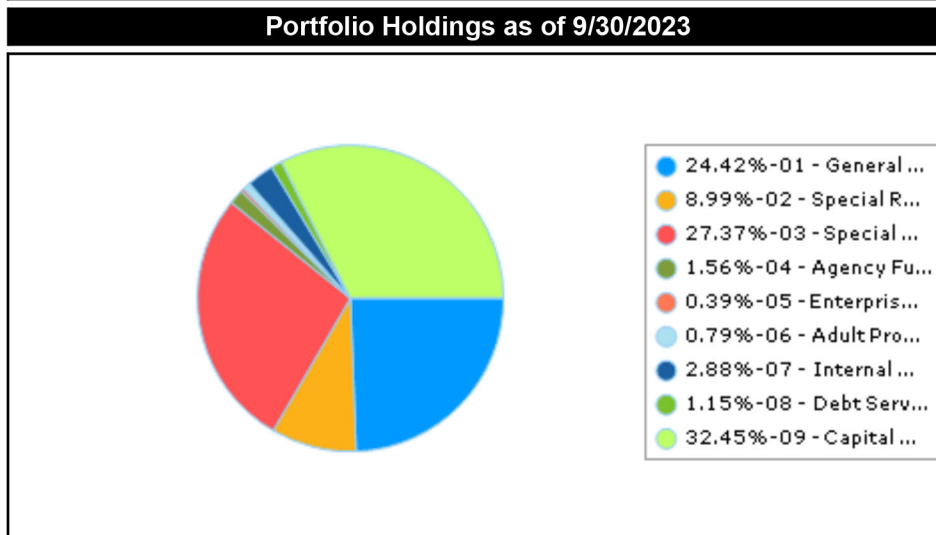




El Paso County TX **Distribution by Main Fund - Market Value** **All Portfolios**

Begin Date: 9/30/2023, End Date: 12/31/2023

Main Fund Allocation				
Main Fund	Market Value 9/30/2023	% of Portfolio 9/30/2023	Market Value 12/31/2023	% of Portfolio 12/31/2023
01 - General Fund	112,110,812.08	24.42	150,993,012.34	29.65
02 - Special Revenue	41,264,001.59	8.99	40,122,006.94	7.88
03 - Special Revenue Grants	125,649,155.49	27.37	126,142,789.23	24.77
04 - Agency Fund	7,166,253.91	1.56	7,185,121.88	1.41
05 - Enterprise Funds	1,794,083.22	0.39	1,728,026.73	0.34
06 - Adult Probation	3,631,830.99	0.79	3,247,849.38	0.64
07 - Internal Service	13,209,679.05	2.88	16,838,874.09	3.31
08 - Debt Service	5,260,708.59	1.15	21,133,613.73	4.15
09 - Capital Projects	148,962,359.74	32.45	141,863,241.22	27.86
Total / Average	459,048,884.66	100.00	509,254,535.54	100.00





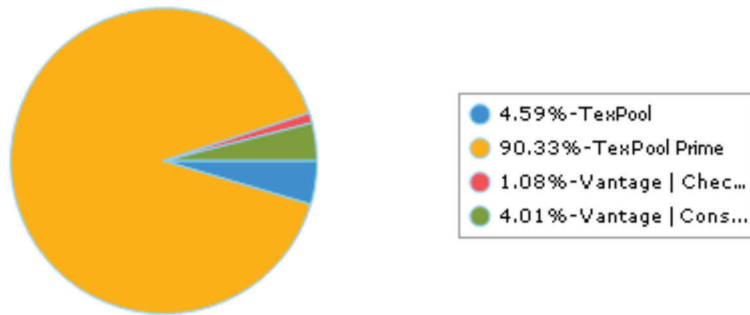
El Paso County TX **Distribution by Issuer - Market Value** **Report Group | General Fund**

Begin Date: 9/30/2023, End Date: 12/31/2023

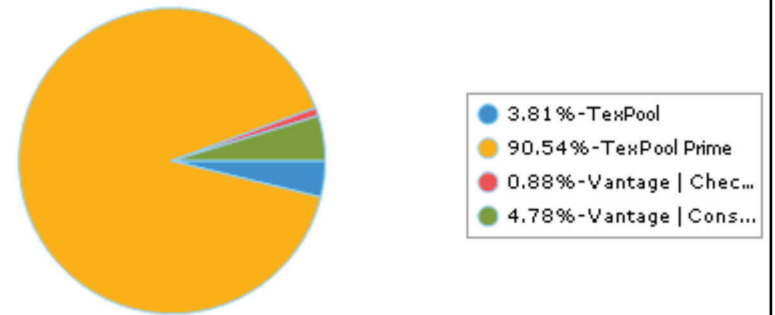
Issuer Allocation

Issuer	Market Value 9/30/2023	% of Portfolio 9/30/2023	Market Value 12/31/2023	% of Portfolio 12/31/2023
TexPool	5,141,896.18	4.59	5,748,510.66	3.81
TexPool Prime	101,265,154.64	90.33	136,708,285.24	90.54
Vantage Checking	1,208,510.88	1.08	1,323,434.17	0.88
Vantage Consolidated	4,495,250.38	4.01	7,212,782.27	4.78
Total / Average	112,110,812.08	100.00	150,993,012.34	100.00

Portfolio Holdings as of 9/30/2023



Portfolio Holdings as of 12/31/2023

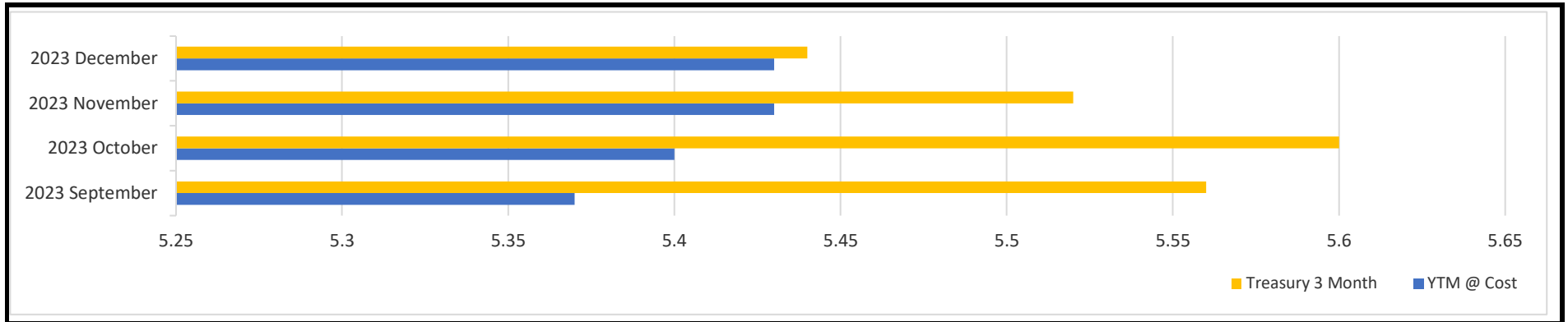




El Paso County TX Investment Income - Book Value by Month Report Group | General Fund

Begin Date: 9/30/2023, End Date: 12/31/2023

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
9/30/2023	126,594,935.38	1,072,204.63	0.00	1,072,204.63	112,110,812.08	5.37	5.56
10/31/2023	112,110,812.08	988,440.53	0.00	988,440.53	88,704,922.40	5.4	5.60
11/30/2023	88,704,922.40	880,342.58	0.00	880,342.58	85,677,828.44	5.43	5.52
12/31/2023	85,677,828.44	992,010.12	0.00	992,010.12	150,993,012.34	5.43	5.44
Total/Average	103,272,124.58	3,932,997.86	0.00	3,932,997.86	109,371,643.82	5.41	5.53





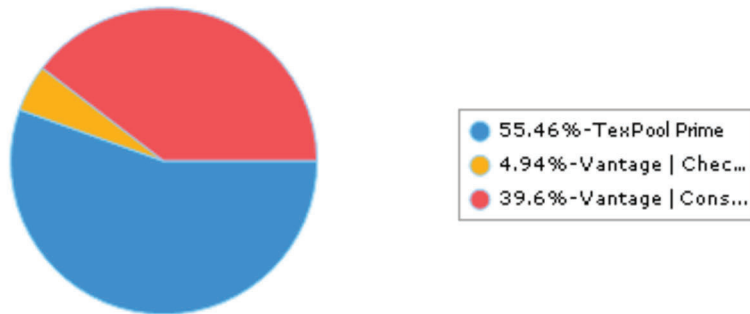
El Paso County TX **Distribution by Issuer - Market Value** **Report Group | Special Revenue**

Begin Date: 9/30/2023, End Date: 12/31/2023

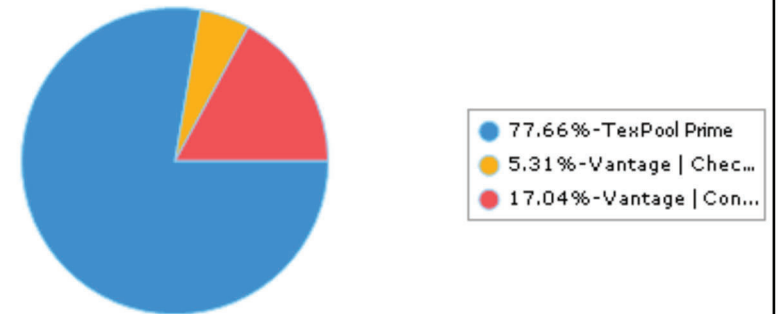
Issuer Allocation

Issuer	Market Value 9/30/2023	% of Portfolio 9/30/2023	Market Value 12/31/2023	% of Portfolio 12/31/2023
TexPool Prime	22,885,243.89	55.46	31,157,012.13	77.66
Vantage Checking	2,037,863.35	4.94	2,128,888.01	5.31
Vantage Consolidated	16,340,894.35	39.60	6,836,106.80	17.04
Total / Average	41,264,001.59	100.00	40,122,006.94	100.00

Portfolio Holdings as of 9/30/2023



Portfolio Holdings as of 12/31/2023

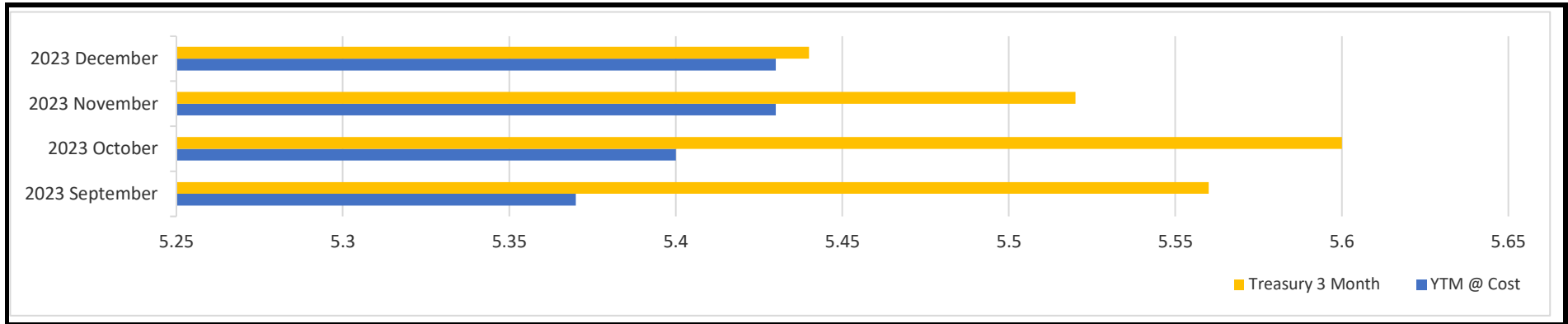




El Paso County TX Investment Income - Book Value by Month Report Group | Special Revenue

Begin Date: 9/30/2023, End Date: 12/31/2023

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
9/30/2023	42,052,787.30	209,993.40	0.00	209,993.40	41,264,001.59	5.37	5.56
10/31/2023	41,264,001.59	163,197.68	0.00	163,197.68	41,824,098.57	5.4	5.60
11/30/2023	41,824,098.57	185,129.51	0.00	185,129.51	40,991,059.74	5.43	5.52
12/31/2023	40,991,059.74	199,915.93	0.00	199,915.93	40,122,006.94	5.43	5.44
Total/Average	41,532,986.80	758,236.52	0.00	758,236.52	41,050,291.71	5.41	5.53





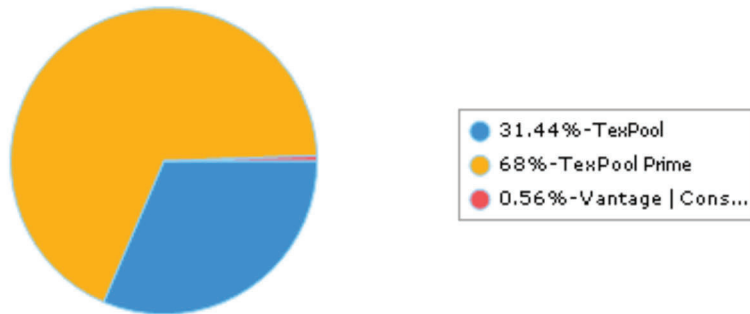
El Paso County TX **Distribution by Issuer - Market Value** **Report Group | Special Revenue Grants**

Begin Date: 9/30/2023, End Date: 12/31/2023

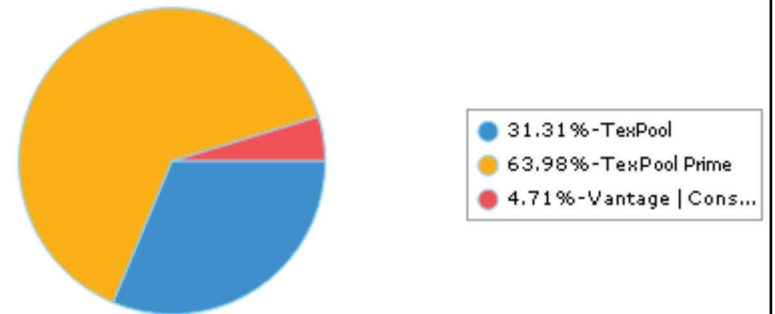
Issuer Allocation

Issuer	Market Value 9/30/2023	% of Portfolio 9/30/2023	Market Value 12/31/2023	% of Portfolio 12/31/2023
TexPool	39,500,000.00	31.44	39,500,000.00	31.31
TexPool Prime	85,441,674.61	68.00	80,706,674.06	63.98
Vantage Consolidated	707,480.88	0.56	5,936,115.17	4.71
Total / Average	125,649,155.49	100.00	126,142,789.23	100.00

Portfolio Holdings as of 9/30/2023



Portfolio Holdings as of 12/31/2023

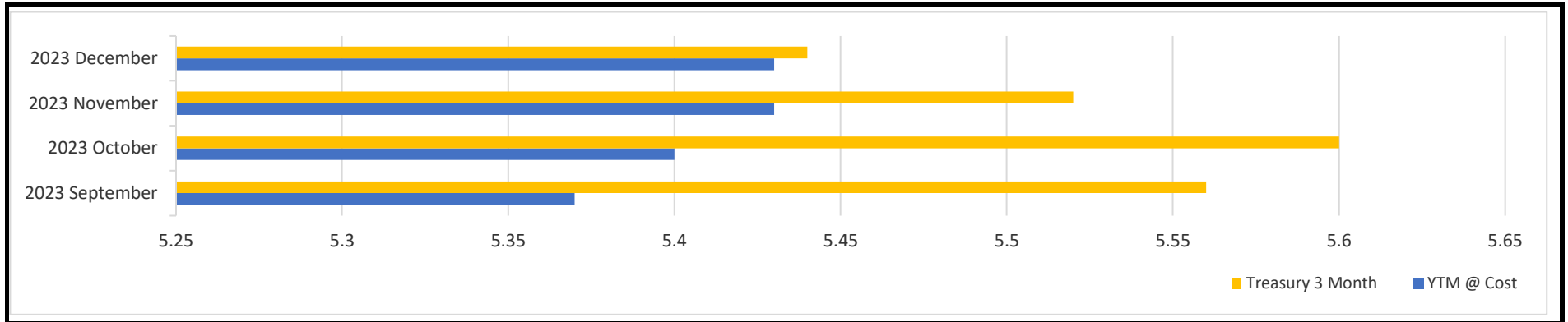




El Paso County TX Investment Income - Book Value by Month Report Group | Special Revenue Grants

Begin Date: 9/30/2023, End Date: 12/31/2023

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
9/30/2023	128,705,134.17	99,670.89	0.00	99,670.89	125,649,155.49	5.37	5.56
10/31/2023	125,649,155.49	104,915.14	0.00	104,915.14	128,615,369.06	5.4	5.60
11/30/2023	128,615,369.06	99,700.44	0.00	99,700.44	128,638,640.82	5.43	5.52
12/31/2023	128,638,640.82	99,859.90	0.00	99,859.90	126,142,789.23	5.43	5.44
Total/Average	127,902,074.89	404,146.37	0.00	404,146.37	127,261,488.65	5.41	5.53

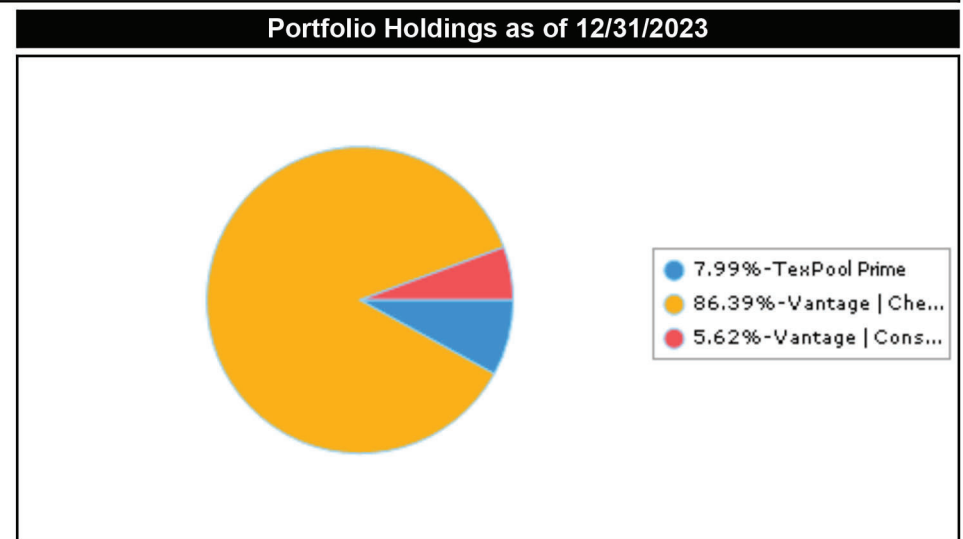
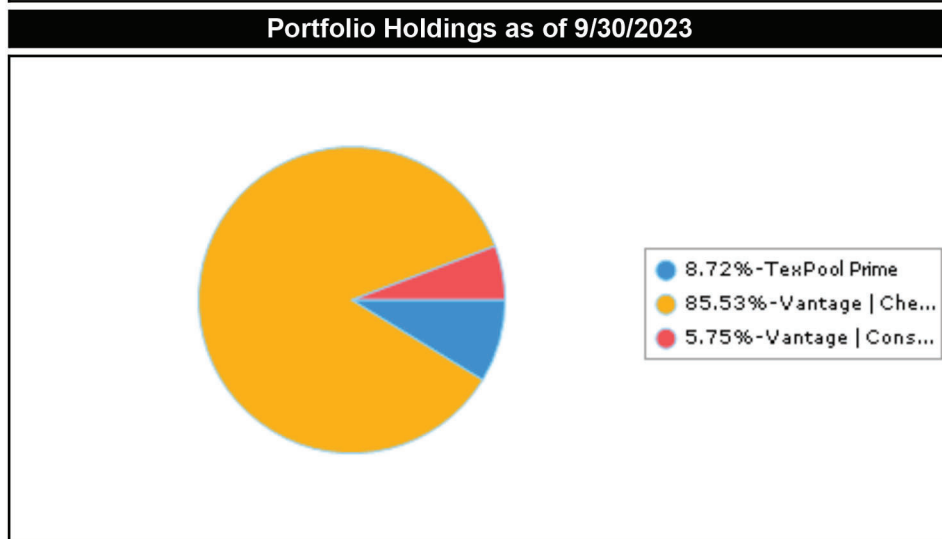




El Paso County TX **Distribution by Issuer - Market Value** **Report Group | Agency Fund**

Begin Date: 9/30/2023, End Date: 12/31/2023

Issuer Allocation				
Issuer	Market Value 9/30/2023	% of Portfolio 9/30/2023	Market Value 12/31/2023	% of Portfolio 12/31/2023
TexPool Prime	624,606.50	8.72	574,117.26	7.99
Vantage Checking	6,129,597.10	85.53	6,207,074.80	86.39
Vantage Consolidated	412,050.31	5.75	403,929.82	5.62
Total / Average	7,166,253.91	100.00	7,185,121.88	100.00

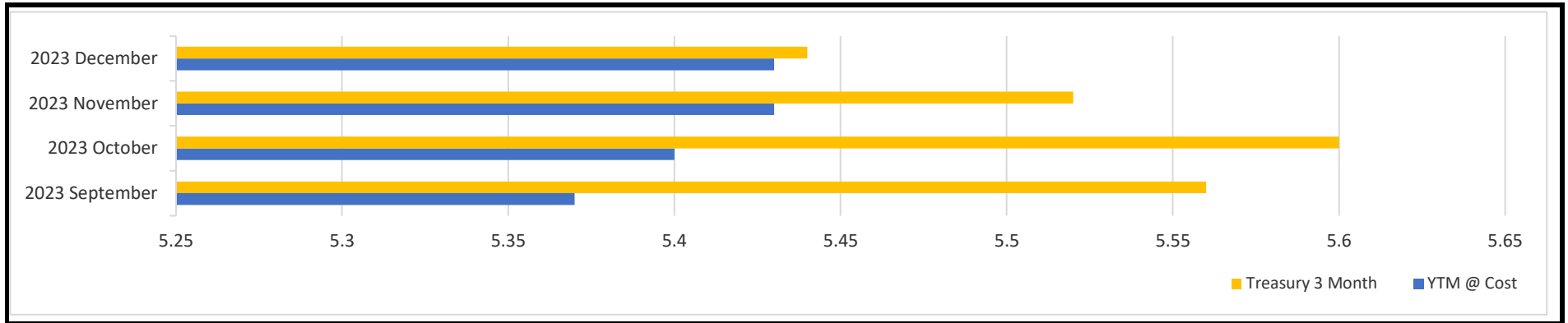




El Paso County TX Investment Income - Book Value by Month Report Group | Agency Fund

Begin Date: 9/30/2023, End Date: 12/31/2023

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
9/30/2023	6,934,658.47	9,469.71	0.00	9,469.71	7,166,253.91	5.37	5.56
10/31/2023	7,166,253.91	23,388.40	0.00	23,388.40	5,132,908.59	5.4	5.60
11/30/2023	5,132,908.59	8,259.98	0.00	8,259.98	5,243,805.64	5.43	5.52
12/31/2023	5,243,805.64	9,721.37	0.00	9,721.37	7,185,121.88	5.43	5.44
Total/Average	6,119,406.65	50,839.46	0.00	50,839.46	6,182,022.51	5.41	5.53



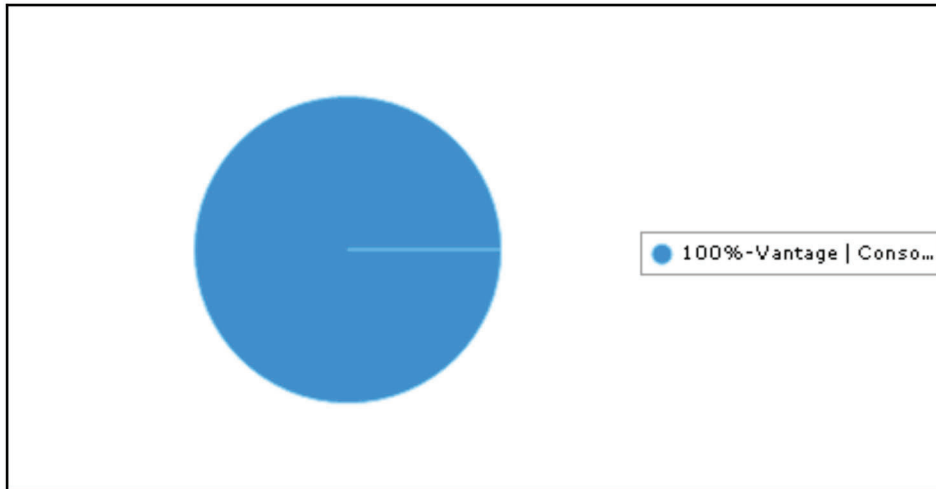


El Paso County TX
Distribution by Issuer - Market Value
Report Group | Enterprise Fund

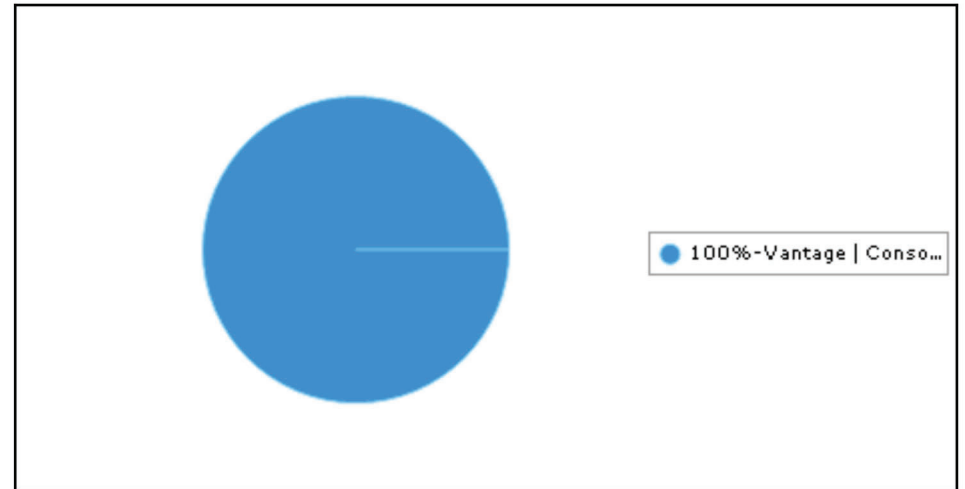
Begin Date: 9/30/2023, End Date: 12/31/2023

Issuer Allocation				
Issuer	Market Value 9/30/2023	% of Portfolio 9/30/2023	Market Value 12/31/2023	% of Portfolio 12/31/2023
Vantage Consolidated	1,794,083.22	100.00	1,728,026.73	100.00
Total / Average	1,794,083.22	100.00	1,728,026.73	100.00

Portfolio Holdings as of 9/30/2023



Portfolio Holdings as of 12/31/2023

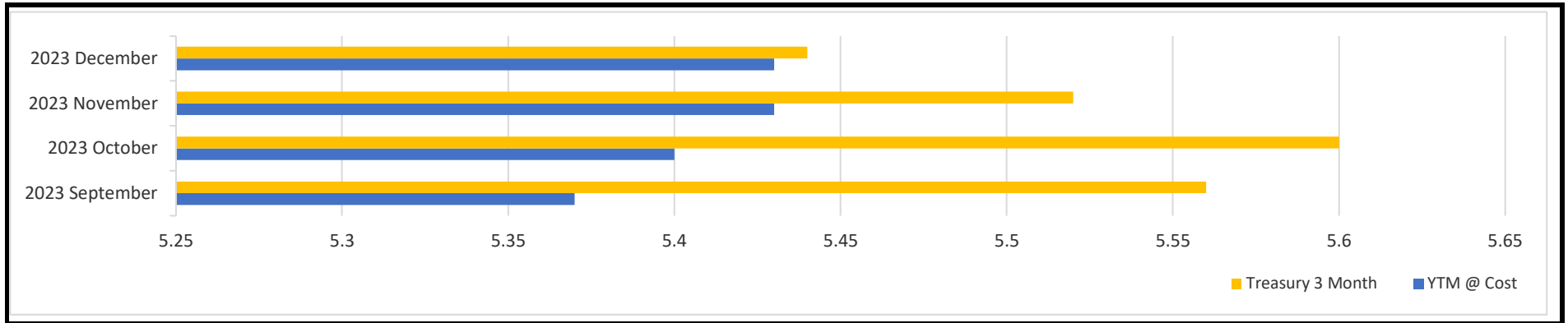




El Paso County TX Investment Income - Book Value by Month Report Group | Enterprise Fund

Begin Date: 9/30/2023, End Date: 12/31/2023

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
9/30/2023	908,159.10	3,927.46	0.00	3,927.46	1,794,083.22	5.37	5.56
10/31/2023	1,794,083.22	6,485.09	0.00	6,485.09	1,518,711.61	5.4	5.60
11/30/2023	1,518,711.61	6,542.01	0.00	6,542.01	1,834,317.35	5.43	5.52
12/31/2023	1,837,317.35	7,637.83	0.00	7,637.83	1,728,026.73	5.43	5.44
Total/Average	1,514,567.82	24,592.39	0.00	24,592.39	1,718,784.73	5.41	5.53





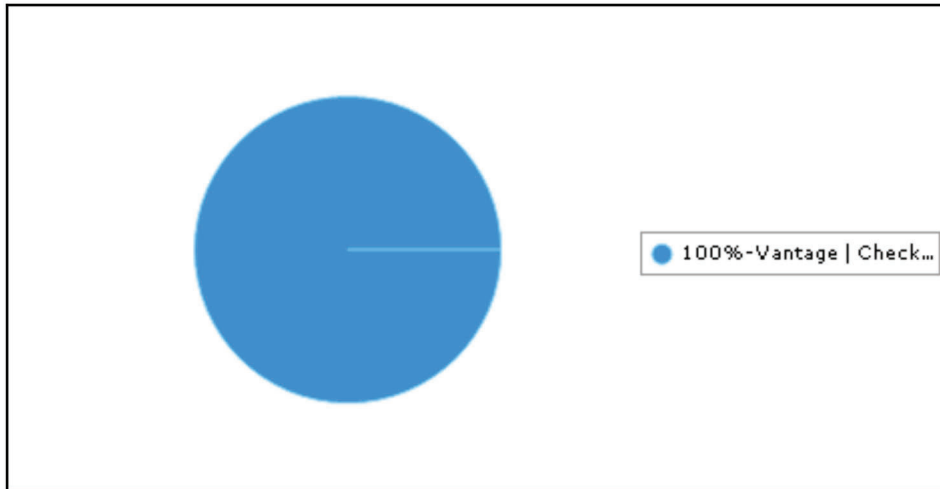
El Paso County TX Distribution by Issuer - Market Value Report Group | Adult Supervision

Begin Date: 9/30/2023, End Date: 12/31/2023

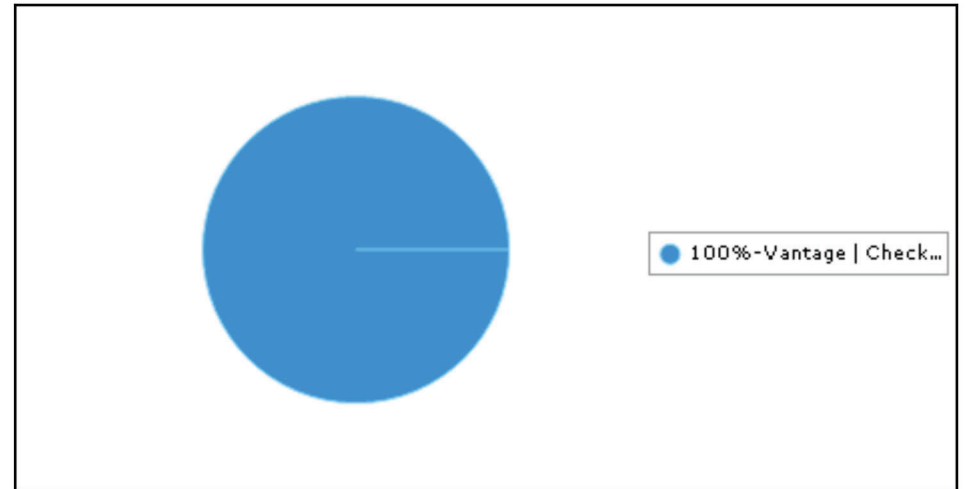
Issuer Allocation

Issuer	Market Value 9/30/2023	% of Portfolio 9/30/2023	Market Value 12/31/2023	% of Portfolio 12/31/2023
Vantage Checking	3,631,830.99	100.00	3,247,849.38	100.00
Total / Average	3,631,830.99	100.00	3,247,849.38	100.00

Portfolio Holdings as of 9/30/2023



Portfolio Holdings as of 12/31/2023

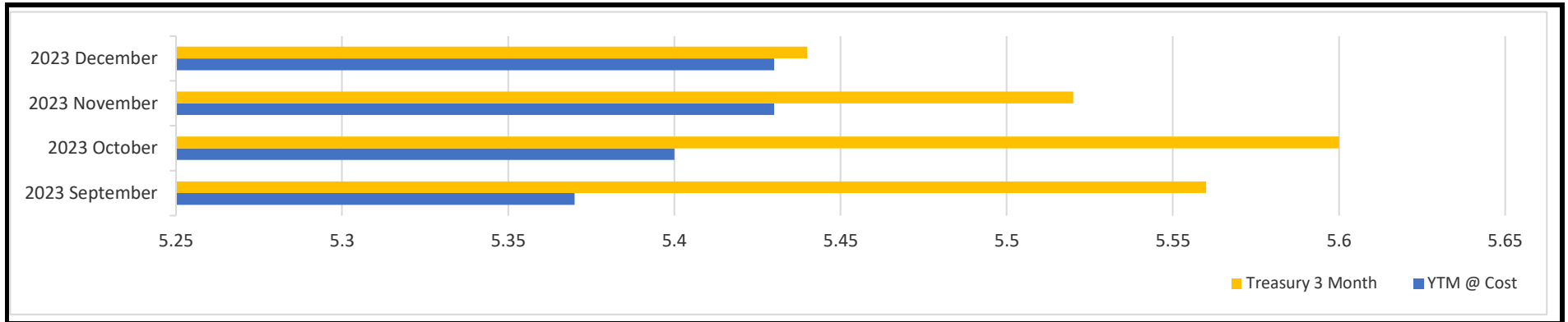




El Paso County TX Investment Income - Book Value by Month Report Group | Adult Supervision

Begin Date: 9/30/2023, End Date: 12/31/2023

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
9/30/2023	2,154,139.47	16,192.55	0.00	16,192.55	3,631,830.99	5.37	5.56
10/31/2023	3,631,830.99	10,835.21	0.00	10,835.21	2,742,082.77	5.4	5.60
11/30/2023	2,742,082.77	7,012.36	0.00	7,012.36	1,718,604.70	5.43	5.52
12/31/2023	1,718,604.70	10,519.51	0.00	10,519.51	3,247,849.38	5.43	5.44
Total/Average	2,561,664.48	44,559.63	0.00	44,559.63	2,835,091.96	5.41	5.53





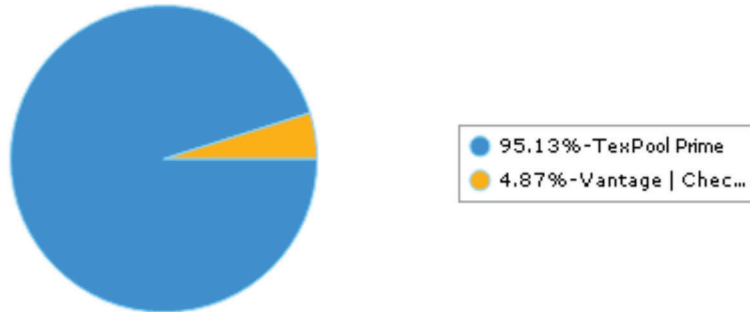
El Paso County TX Distribution by Issuer - Market Value Report Group | Internal Service

Begin Date: 9/30/2023, End Date: 12/31/2023

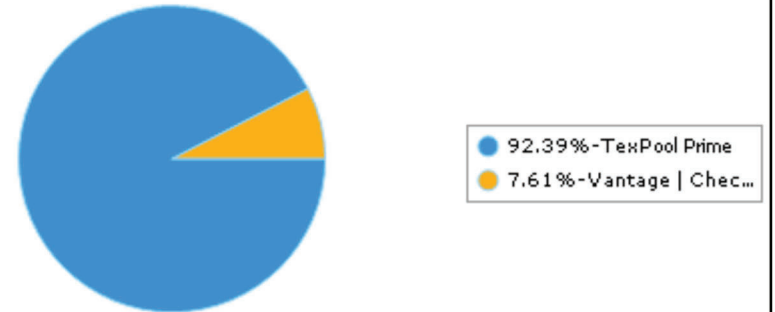
Issuer Allocation

Issuer	Market Value 9/30/2023	% of Portfolio 9/30/2023	Market Value 12/31/2023	% of Portfolio 12/31/2023
TexPool Prime	12,566,271.83	95.13	15,558,176.92	92.39
Vantage Checking	643,407.22	4.87	1,280,697.17	7.61
Total / Average	13,209,679.05	100.00	16,838,874.09	100.00

Portfolio Holdings as of 9/30/2023



Portfolio Holdings as of 12/31/2023

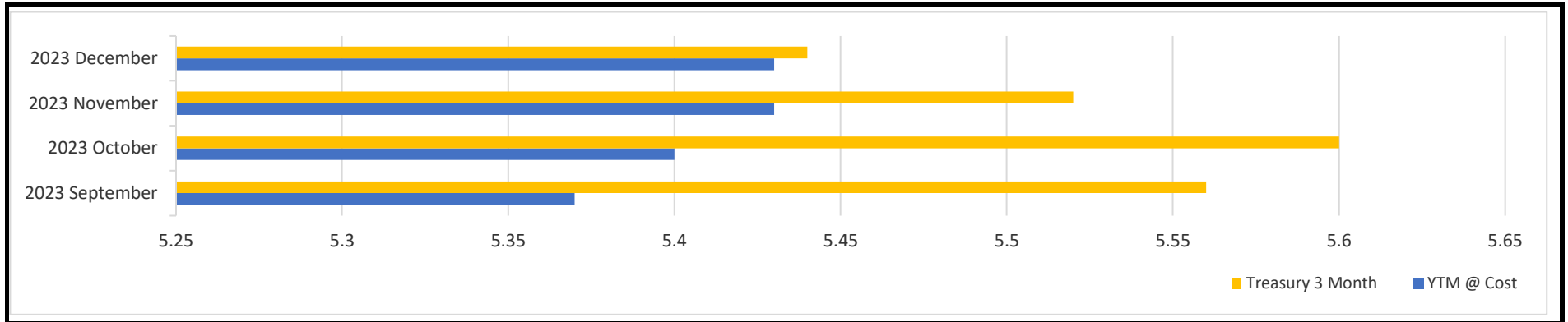




El Paso County TX Investment Income - Book Value by Month Report Group | Internal Service

Begin Date: 9/30/2023, End Date: 12/31/2023

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
9/30/2023	12,064,977.61	57,156.55	0.00	57,156.55	13,209,679.05	5.37	5.56
10/31/2023	13,209,679.05	64,182.13	0.00	64,182.13	13,742,822.94	5.4	5.60
11/30/2023	13,742,822.94	64,985.14	0.00	64,985.14	14,220,994.49	5.43	5.52
12/31/2023	14,220,994.49	72,280.56	0.00	72,280.56	16,838,874.09	5.43	5.44
Total/Average	13,309,618.52	258,604.38	0.00	258,604.38	14,503,092.64	5.41	5.53





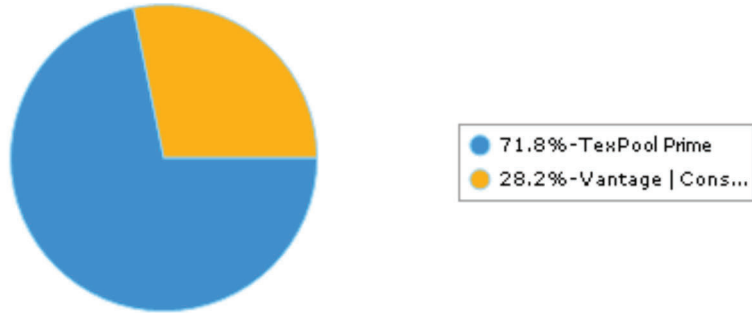
El Paso County TX **Distribution by Issuer - Market Value** **Report Group | Debt Service**

Begin Date: 9/30/2023, End Date: 12/31/2023

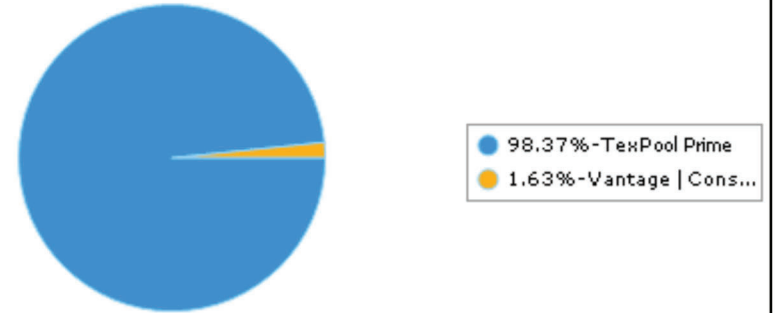
Issuer Allocation

Issuer	Market Value 9/30/2023	% of Portfolio 9/30/2023	Market Value 12/31/2023	% of Portfolio 12/31/2023
TexPool Prime	3,777,125.53	71.80	20,788,656.87	98.37
Vantage Consolidated	1,483,583.06	28.20	344,956.86	1.63
Total / Average	5,260,708.59	100.00	21,133,613.73	100.00

Portfolio Holdings as of 9/30/2023



Portfolio Holdings as of 12/31/2023

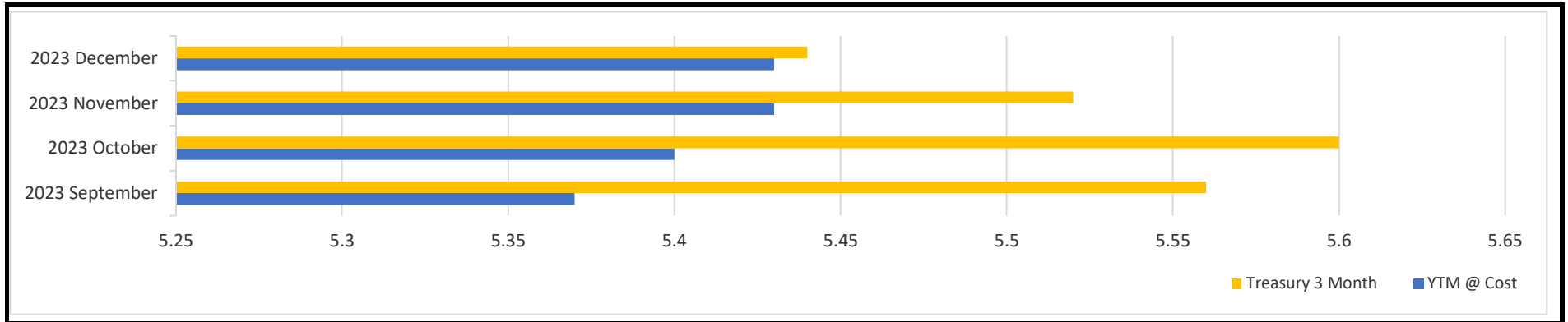




El Paso County TX Investment Income - Book Value by Month Report Group | Debt Service

Begin Date: 9/30/2023, End Date: 12/31/2023

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
9/30/2023	4,124,703.96	17,843.30	0.00	17,843.30	5,260,708.59	5.37	5.56
10/31/2023	5,260,708.59	18,256.11	0.00	18,256.11	5,513,094.80	5.4	5.60
11/30/2023	5,513,094.80	22,178.00	0.00	22,178.00	7,335,696.60	5.43	5.52
12/31/2023	7,335,696.60	44,603.12	0.00	44,603.12	21,133,613.73	5.43	5.44
Total/Average	5,558,550.99	102,880.53	0.00	102,880.53	9,810,778.43	5.41	5.53





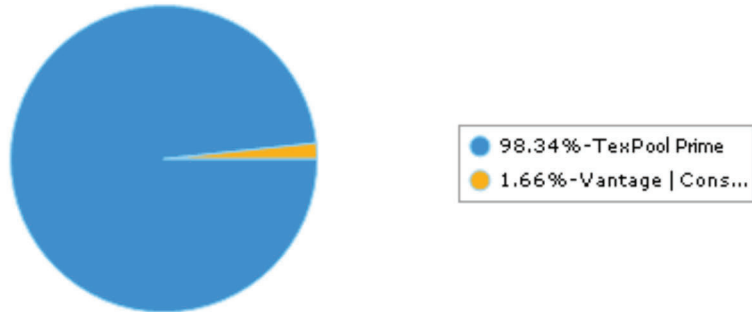
El Paso County TX **Distribution by Issuer - Market Value** **Report Group | Capital Projects**

Begin Date: 9/30/2023, End Date: 12/31/2023

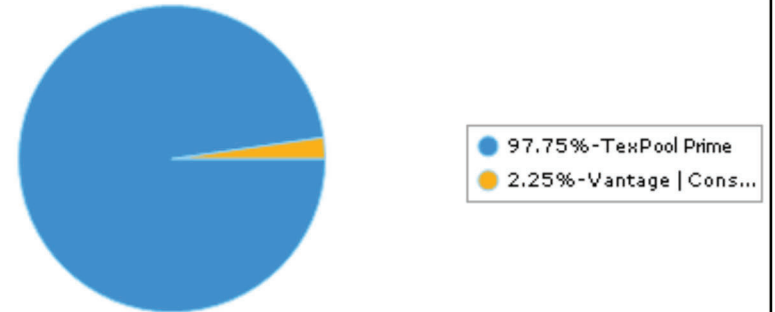
Issuer Allocation

Issuer	Market Value 9/30/2023	% of Portfolio 9/30/2023	Market Value 12/31/2023	% of Portfolio 12/31/2023
TexPool Prime	146,492,012.53	98.34	138,675,501.19	97.75
Vantage Consolidated	2,470,347.21	1.66	3,187,740.03	2.25
Total / Average	148,962,359.74	100.00	141,863,241.22	100.00

Portfolio Holdings as of 9/30/2023



Portfolio Holdings as of 12/31/2023

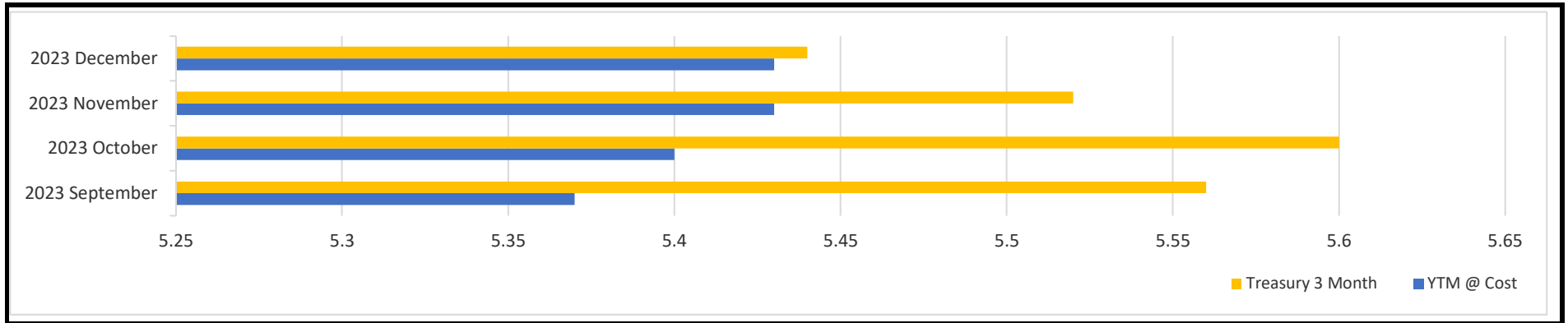




El Paso County TX Investment Income - Book Value by Month Report Group | Capital Projects

Begin Date: 9/30/2023, End Date: 12/31/2023

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
9/30/2023	149,469,908.51	676,375.82	0.00	676,375.82	148,962,359.74	5.37	5.56
10/31/2023	148,962,359.74	701,714.21	0.00	701,714.21	148,230,036.30	5.4	5.60
11/30/2023	148,230,036.30	679,942.24	0.00	679,942.24	147,264,945.32	5.43	5.52
12/31/2023	147,264,945.32	683,301.22	0.00	683,301.22	141,863,241.22	5.43	5.44
Total/Average	148,481,812.47	2,741,333.49	0.00	2,741,333.49	146,580,145.65	5.41	5.53



Economic Summary – Q4 2023

Although the FOMC held the overnight rate target steady throughout the fourth quarter, Treasury yields rose to cycle highs in October before plunging during a historic bond market rally in November as investors tried to anticipate the direction and timing of the Fed's next move.

October economic releases generally exceeded forecasts, contributing to surprisingly strong Q3 GDP growth. Consumers continued to buy in September as retail sales climbed +0.7%, more than twice the median forecast, while the already solid August sales gain was revised upward to +0.8%. September spending was widespread with increases in eight of 13 sales categories, with perhaps the biggest surprise being a sharp rise in restaurant and bar sales. *At this point, it seemed apparent the U.S. economy had accelerated throughout the summer and early fall, which suggested to frustrated investors that the Fed was not done tightening policy.* Later that week, the 2-year Treasury note yield would climb above 5.25% for the first time in more than 17 years, while the 10-year yield briefly topped 5.0%. Thankfully, mid-October marked the peak in yields for most of the curve.

The GDP report is inherently stale, but since it represents the economic report card for the quarter, it can't be totally ignored. The initial third quarter release was the strongest in nearly two years at +4.9%, more than double the increase from the previous quarter. If the exaggerated ups and downs of the pandemic period are tossed out, Q3 '23 was the second strongest quarter in the last 17 years.

Scott McIntyre, CFA

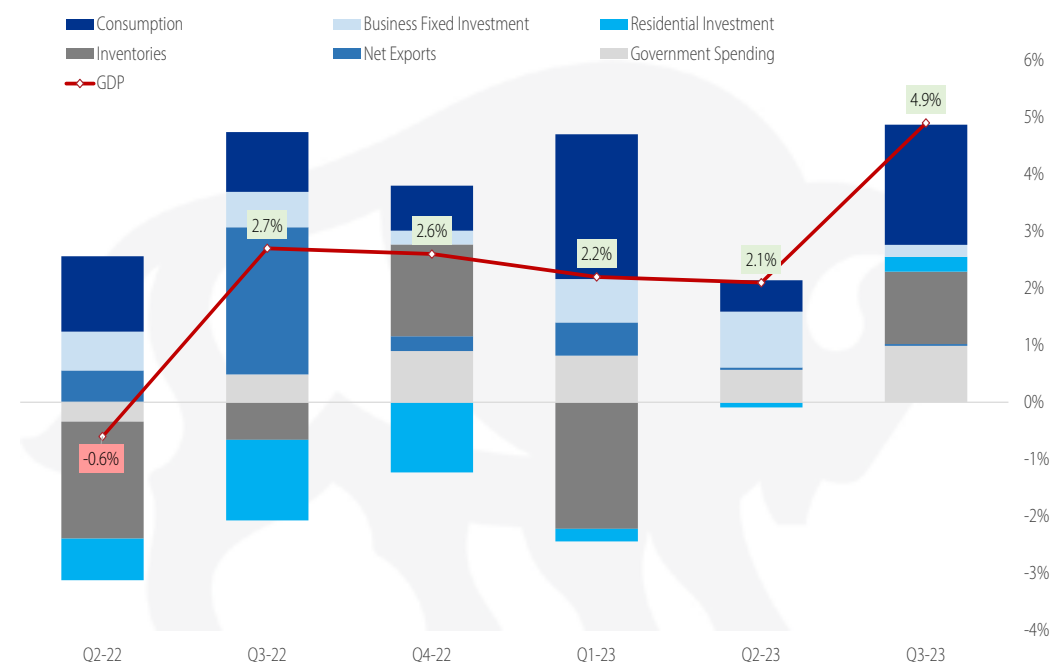
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Although the FOMC held the overnight rate target steady throughout the fourth quarter, Treasury yields rose to cycle highs in October before plunging during a historic bond market rally in November as investors tried to anticipate the direction and timing of the Fed's next move.

Gross Domestic Product (Quarter-over-Quarter Annualized Percent Change)



Source: Bureau of Economic Analysis

The initial third quarter release was the strongest in nearly two years at +4.9%, more than double the increase from the previous quarter. If the exaggerated ups and downs of the pandemic period are tossed out, Q3 '23 was the second strongest quarter in the last 17 years.

Recession fears evaporated as the economy accelerated, but the case for softer growth in the coming months remained intact. In mid-October, Freddie Mac reported the average 30-year fixed rate mortgage had reached 7.90%, the highest in 23 years. The average house payment on a new mortgage had increased by 60% in just over three years, and the WSJ reported home affordability had dropped to the lowest point in history. Home sales for 2023 were trending at the lowest level in well over a decade, but home prices continued to rise due to severely limited inventories of existing homes. The +4.8% annual increase in the October S&P CoreLogic Case-Shiller home price index was the strongest of the year.

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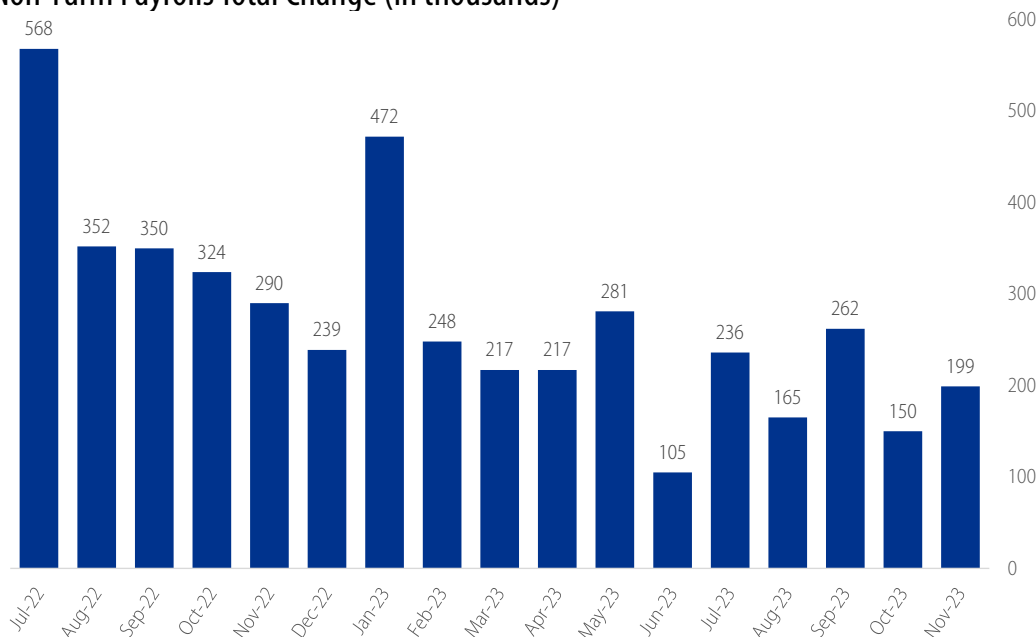
Most Americans might not have been able to afford homes, but overall borrowing continued. The New York Fed reported credit card debt in the third quarter had swelled to a new record high.

It's not clear what ultimately fueled the abrupt and dramatic shift in investor sentiment that took hold in November, but the trigger may have simply been an announcement by the Treasury Department that the quarterly refunding amount, although historically huge, would be slightly less than expected. That same day, at the second-to-last FOMC meeting of the year, Fed officials maintained their policy course with no indication that a firmer stance would be taken in December despite the surge in Q3 growth. It was a non-eventful FOMC meeting, a lackluster post-meeting press conference and a big relief to the markets.

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The October employment report followed the Fed meeting that same week with an unexpectedly soft batch of numbers which seemed to validate the Fed's expectation for slower growth to end the year. The Bureau of Labor Statistics (BLS) reported just +150k jobs were added to company payrolls during the month, while a combined -101k jobs were revised out of the August-September count. The unemployment rate climbed from 3.8% to 3.9%, the highest in nearly two years ...although still within half a point of a five-decade low.

Non-Farm Payrolls Total Change (in thousands)

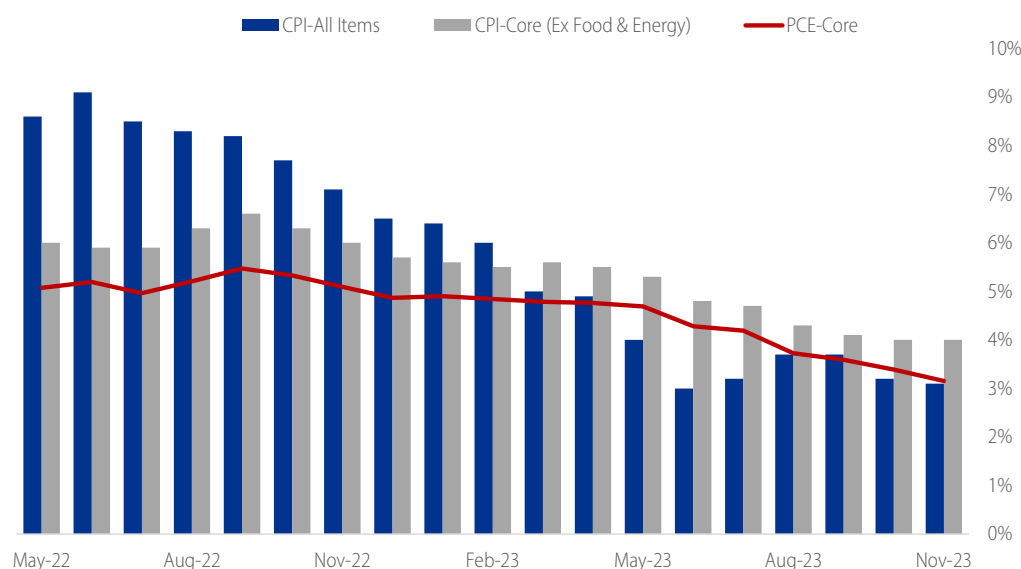


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The October CPI report kept the November bond rally going as all of the monthly and annual consumer inflation numbers bettered forecasts. Overall consumer prices were unchanged during the month, driving the annual rate of consumer inflation down from +3.7% to +3.2%. Core CPI was up just +0.2% in October, which brought the year-over-year pace down to +4.0%.

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Inflation Indicators (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics, Bureau of Economic Analysis

Over the next few days, apparent weakening in economic conditions continued. October PPI fell -0.5%, bringing the annual rate of producer inflation down to +1.3%, while core PPI was unchanged during the month and up just +2.4% year-over-year. It appeared as though a majority of inflation measures were in sync and receding quickly.

The anticipated mid-November debt ceiling fight never materialized as yet another continuing resolution was passed, pushing any possibility of a government shutdown into early 2024.

The anticipated mid-November debt ceiling fight never materialized as yet another continuing resolution was passed, pushing any possibility of a government shutdown into early 2024. The relative ease of this bipartisan vote, along with the notion that the deck was cleared for the year, fueled the rally further.

By the time November drew to a close, the Bloomberg US Aggregate Bond Index had climbed +4.9%, *the strongest bond market performance since May 1985*. The equity markets also made significant advances, with all three major indexes logging their biggest gains of the year.

The November employment report brought better-than-expected payroll gains and a drop in headline unemployment, while the November CPI report was a bit warmer than forecast as shelter costs kept core consumer inflation elevated.

December data releases followed a similar script to November, although the financial markets were less concerned about persistent growth and inflation outliers, listening instead for policy clues from Fed officials as the December FOMC meeting approached.

The November employment report brought better-than-expected payroll gains and a drop in headline unemployment, while the November CPI report was a bit warmer than forecast as shelter costs kept core consumer inflation elevated. Retail sales were

unexpectedly brisk which boosted the fourth quarter GDP outlook and pushed any substantial downturn out at least another quarter.

It was no surprise on December 13th when Fed officials voted unanimously to hold the overnight funds rate steady at a range of 5.25% to 5.50% for the third straight meeting while tweaking the 2024 interest rate outlook. The new “dot plot” indicated rate cuts totaling 75 basis points for 2024, bringing the midpoint of the yearend target down to 4.625%, 50 basis points less than in September but *exactly matching the June dot plot*. The new forecasts showed 100 bps of easing in 2025 and another 75 in 2026. The ending points for both years were only slightly above the September median forecast.

The December dot plot was hardly a gamechanger. The day’s massive rally in both stocks and bonds was driven instead by a single dovish comment by Chairman Powell later that afternoon.

Powell began his post-meeting press conference on a hawkish note, declaring that inflation remains too high and that rate hikes were still on the table. But just minutes later, Powell unexpectedly acknowledged that committee members had discussed the timing of rate cuts at the meeting. In the Q&A that followed, Powell reiterated his dovish take, noting welcomed progress on inflation, and saying that rate hikes were no longer the base case for the committee. The bond market found its clue and fully priced-in six rate cuts for 2024, twice the amount of easing the committee had signaled just an hour earlier.

Two days later, New York Fed President John Williams assured a CNBC Squawk Box audience that the committee was *not even talking about rate cuts*, but it was Powell’s admission that investors chose to embrace.

The market tone clearly shifted during the quarter. Investors decided the Fed had been successful after all in orchestrating a soft-landing. Growth remained solid and jobs were in abundance, but it no longer mattered because inflation had managed to cool more rapidly than expected. If shelter costs are excluded from the November CPI report, the annual consumer inflation rate would be just +1.4%. Admittedly, that’s cherry-picking, but rents are sticky, and we know they’re already falling, so the exception is valid. When focusing on the Fed’s preferred inflation measure, the story is even more positive. Over the last six months, core PCE is rising at an annual pace of just +1.9%, a solid argument for less restrictive Fed policy going forward.

It’s worth mentioning that overall CPI was still +19% higher in November than it was before the pandemic began. The Fed’s objective is to slow price pressure, not reverse it.

The broad-market S&P 500 index quietly ended the year on a nine-week winning streak, the longest since 2004, and is now less than one percent from a new high. Both the DOW and Nasdaq reached fresh peaks just before the year closed. For all of 2023, the S&P 500 gained +24%; the DOW +13.7% and the Nasdaq +43.4%, a welcome rebound after the extremely poor performance of 2022.

The ten-year Treasury-note ended the year yielding 3.88%, exactly matching the yield

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from 12 months earlier. Despite 100 bases points of tightening in 2023, the five-year T-note yield ended 2023 10 basis points lower than it began, reflecting the dramatic change in outlook from one year to the next.

Q4 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	9/30/23	5.25%-5.50%	5.45%	5.45%	5.04%	4.61%	4.57%
High			5.51%	5.48%	5.22%	4.96%	4.99%
Low			5.33%	4.76%	4.24%	3.80%	3.79%
End	12/31/23	5.25%-5.50%	5.33%	4.76%	4.25%	3.85%	3.88%

Source: U.S. Department of the Treasury

The ten-year Treasury-note ended the year yielding 3.88%, exactly matching the yield from 12 months earlier. Despite 100 bases points of tightening in 2023, the five-year T-note yield ended 2023 10 basis points lower than it began.

Economic and Interest Rate Outlook

At the beginning of 2023, 85% of economists were forecasting a recession (Bloomberg). As it turned out, the U.S. economy proved far more resilient than most analysts had predicted, but the underlying reasons for expecting future weakness remain intact:

- The personal savings rate was 4.1% in November, well below the February 2020 pre-pandemic level of 7.7%. Many Americans have borrowed heavily up to this point to fill the gaps.
- Credit card balances reached a new record high in the third quarter, while the average interest rate charged on outstanding balances is also at a historical high at just under 21%. Delinquencies are already rising.
- The student loan payment pause ended in October for an estimated 22 million Americans, but the Department of Education reported 40% of borrowers had yet to make a payment by mid-November, taking advantage of a 12-month "on-ramp" loophole whereby interest accrues but delinquencies are not reported.
- The University of Michigan consumer sentiment index fell to 61.3 in November. Although the index has been extremely volatile, and was consistently lower during much of 2022, Americans continue to feel worse than they did in 2020, during the depth of the pandemic.
- The debt ceiling struggle resumes in January, and given that election season is in full swing, expect GOP members to make very public appeals for significant budget cuts. The next debate promises to be fierce.

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All of this is expected to have a negative impact on consumer demand, which should slow economic growth and in turn maintain downward pressure on prices, allowing the Fed ample latitude to cut rates in 2024. The timing of those cuts will depend on the path of inflation, which will hinge in large part on shelter costs. The largest shelter component (rent) is already pointing downward, and forward indicators suggest continued decline.

Online real estate company Zillow estimates rent prices have increased +29.4% since the pandemic began but were up just +3.3% annually through October. Commercial

property company CBRE estimates the cost for new rents will rise by just +1.2% in 2024 (WSJ). The primary reason for moderating the cost is a huge increase in supply as nearly one million apartment units are currently under construction and expected to be available in 2024. Another supporting factor is a -12% annual decline in prices paid for apartment properties according to MSCI Real Assets.

Bloomberg's December survey indicates U.S. economists are optimistic the Fed will be successful in orchestrating a rare soft-landing. On the whole, they expect the economy to slow, but not stall. The average GDP forecast (QoQ SAAR) is +0.6% for the first quarter and +0.4% for the second, before gradually rising in the second half of 2024. More importantly, these economists generally expect inflation will move sharply lower as growth moderates, with the average annual core PCE rate falling to +2.5% in the second quarter.

As inflation expectations tumble, the higher-for-longer narrative stressed by Fed officials for much of 2023 has morphed into restrictive-for-longer. Lower inflation means the Fed can still ease policy while continuing to maintain a highly restrictive stance.

The first 25 basis point rate cut is more likely to be announced at the May FOMC meeting than in March as policymakers have repeatedly signaled a patient, wait-and-see approach. If the downtrend in inflation continues, we'd expect the overnight funds rate to end the year 100 basis points lower at 4.25% to 4.50%, a less aggressive policy path than the futures market is currently indicating, but more than the Fed's cautious December dot plot suggests.

As always, the outlook is uncertain, even more so in an election year amid extreme geopolitical turmoil. But most of the wildcards in play point to slower global growth, which suggests little need for central banks to continue applying the brakes.

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