



Quarterly Investment Report



**For the period ended March 31, 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
 12/31/2023 - 03/31/2024



Prepared by:

Barbara A. Parker, County Auditor
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 El Paso, Texas 79901-2407 (915) 273-3262

A report of the investment transactions for the second quarter March 31, 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	5,918,578.95	5,918,578.95	5,918,578.95	1.05	5.32	1
TexPool Prime	515,594,085.50	515,594,085.50	515,594,085.50	91.87	5.49	1
Vantage Checking	13,685,628.31	13,685,628.31	13,685,628.31	2.44	3.55	1
Vantage Consolidated	26,009,452.70	26,009,452.70	26,009,452.70	4.63	3.83	1
Total / Average	561,207,745.46	561,207,745.46	561,207,745.46	100.00	5.36	1

/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



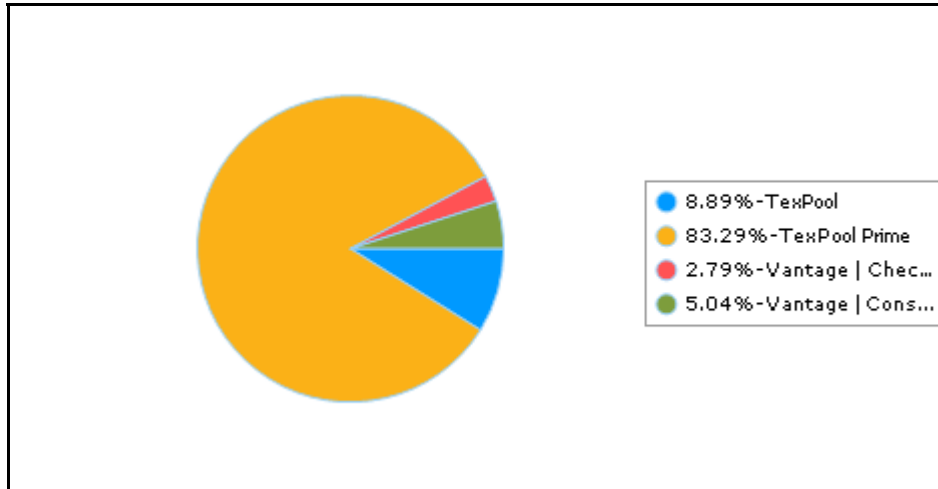
El Paso County TX Distribution by Issuer - Market Value All Portfolios

Begin Date: 12/31/2023, End Date: 3/31/2024

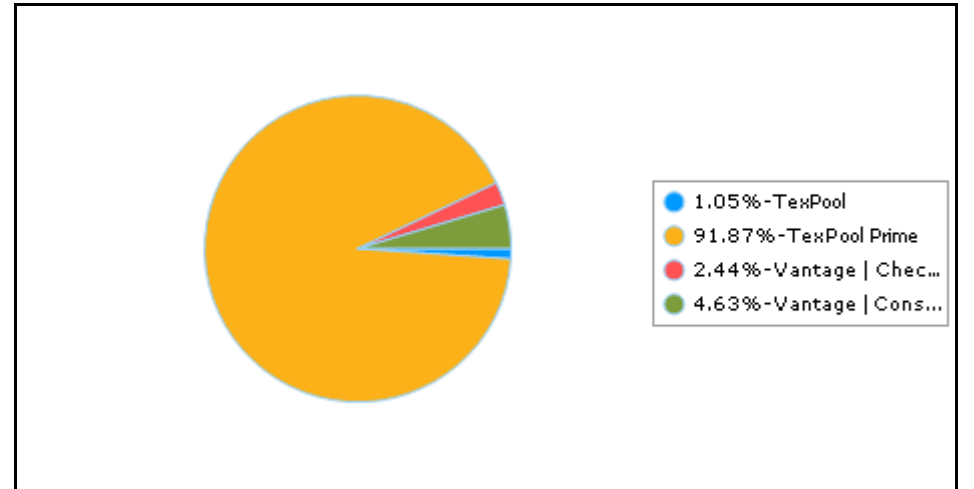
Issuer Allocation

Issuer Allocation				
Issuer	Market Value 12/31/2023	% of Portfolio 12/31/2023	Market Value 3/31/2024	% of Portfolio 3/31/2024
TexPool	45,248,510.66	8.89	5,918,578.95	1.05
TexPool Prime	424,168,423.67	83.29	515,594,085.50	91.87
Vantage Checking	14,187,943.53	2.79	13,685,628.31	2.44
Vantage Consolidated	25,649,657.68	5.04	26,009,452.70	4.63
Total / Average	509,254,535.54	100.00	561,207,745.46	100.00

Portfolio Holdings as of 12/31/2023



Portfolio Holdings as of 3/31/2024



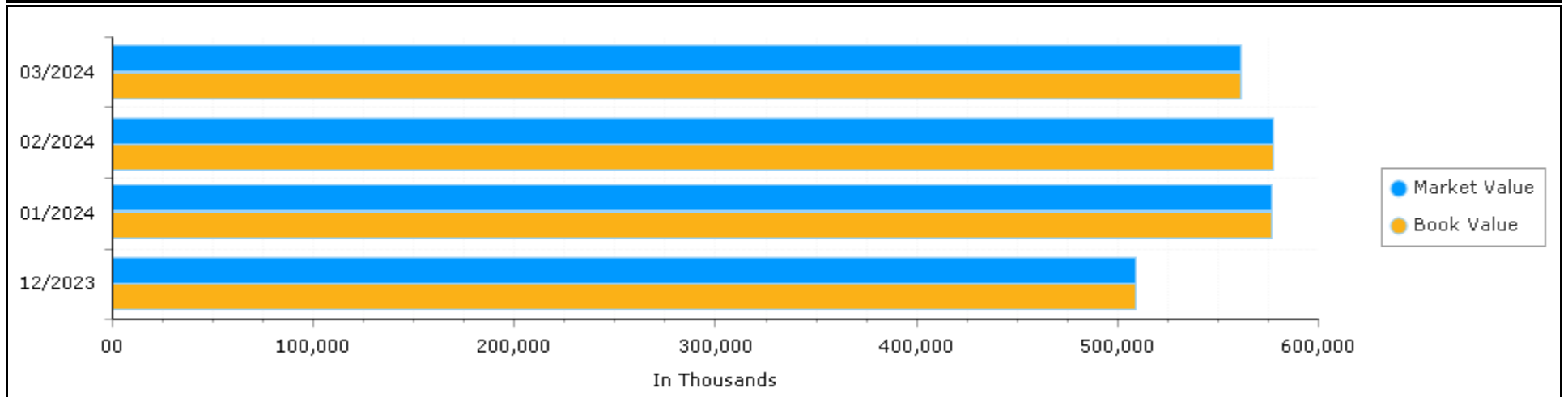


El Paso County TX Portfolio Summary by Month All Portfolios

Begin Date: 12/31/2023, End Date: 3/31/2024

Month	Market Value	Book Value	Unrealized Gain/Loss	YTM @ Cost	YTM @ Market	Duration	Days To Maturity
12/31/2023	509,254,535.54	509,254,535.54	0.00	5.43	5.43	0.00	1
1/31/2024	576,771,978.02	576,771,978.02	0.00	5.37	5.37	0.00	1
2/29/2024	577,145,722.64	577,145,722.64	0.00	5.38	5.38	0.00	1
3/31/2024	561,207,745.46	561,207,745.46	0.00	5.36	5.36	0.00	1
Total / Average	556,094,995.42	556,094,995.42	0.00	5.38	5.38	0.00	1

Market Value / Book Value Comparison

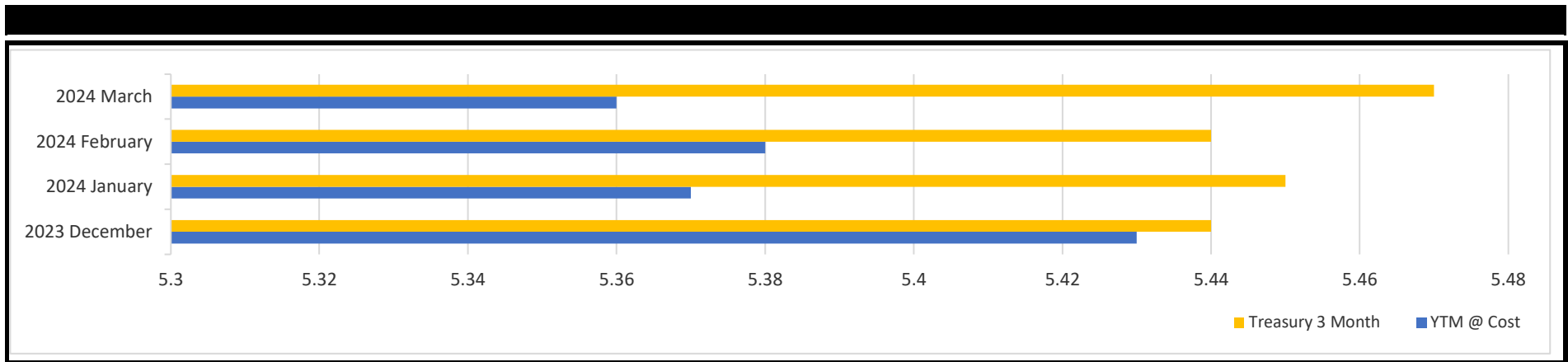




El Paso County TX Investment Income - Book Value by Month All Portfolios

Begin Date: 12/31/2023, End Date: 03/31/2024

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
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
1/31/2024	509,254,535.54	2,526,939.09	0.00	2,526,939.09	576,771,978.02	5.37	5.45
2/29/2024	576,771,978.02	2,615,319.11	0.00	2,615,319.11	577,145,722.64	5.38	5.44
3/31/2024	577,145,722.64	2,644,127.76	0.00	2,644,127.76	561,207,745.46	5.36	5.47
Total/Average	524,024,532.33	9,906,235.52	0.00	9,906,235.52	556,094,995.42	5.39	5.45





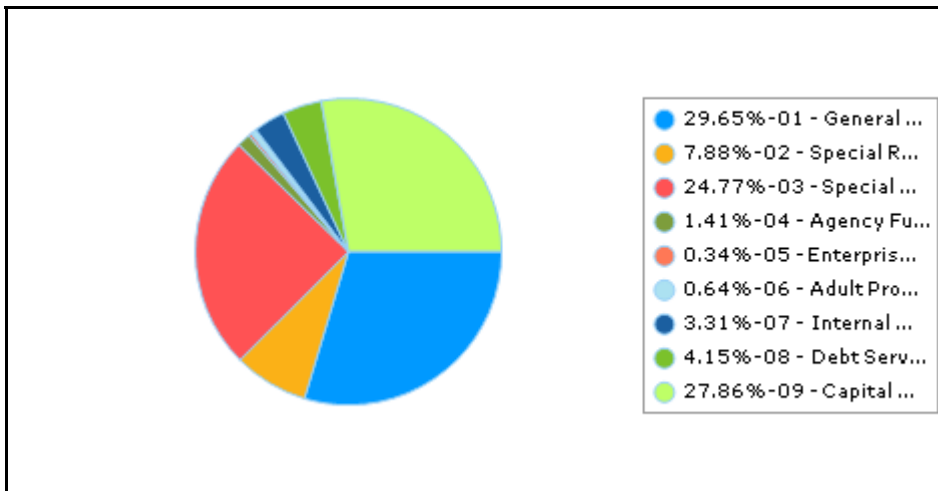
El Paso County TX Distribution by Main Fund - Market Value All Portfolios

Begin Date: 12/31/2023, End Date: 3/31/2024

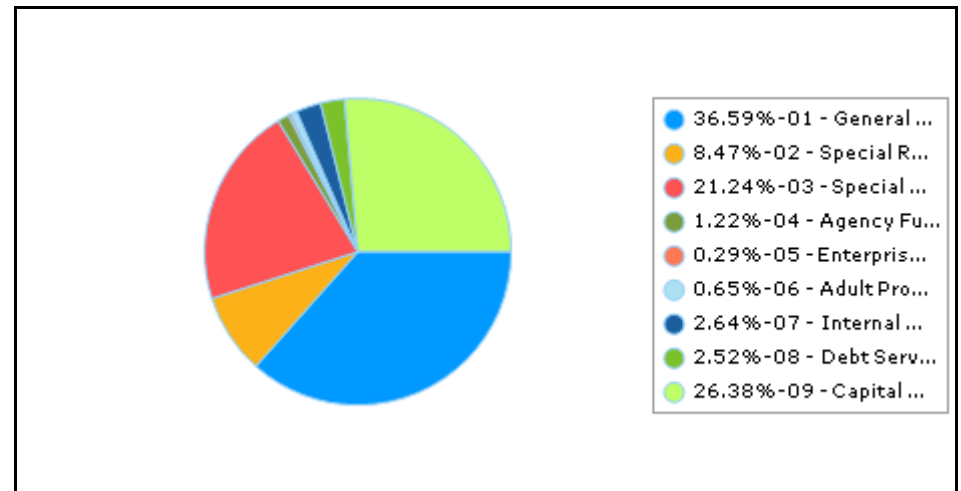
Main Fund Allocation

Main Fund	Market Value 12/31/2023	% of Portfolio 12/31/2023	Market Value 3/31/2024	% of Portfolio 3/31/2024
01 - General Fund	150,992,974.24	29.65	205,351,686.01	36.59
02 - Special Revenue	40,122,006.94	7.88	47,517,680.69	8.47
03 - Special Revenue Grants	126,127,265.77	24.77	119,191,954.20	21.24
04 - Agency Fund	7,185,121.88	1.41	6,839,054.99	1.22
05 - Enterprise Funds	1,728,026.73	0.34	1,620,817.02	0.29
06 - Adult Probation	3,247,849.38	0.64	3,644,098.09	0.65
07 - Internal Service	16,838,874.09	3.31	14,804,611.96	2.64
08 - Debt Service	21,133,613.73	4.15	14,163,846.03	2.52
09 - Capital Projects	141,878,802.78	27.86	148,073,996.47	26.38
Total / Average	509,254,535.54	100.00	561,207,745.46	100.00

Portfolio Holdings as of 12/31/2023



Portfolio Holdings as of 3/31/2024





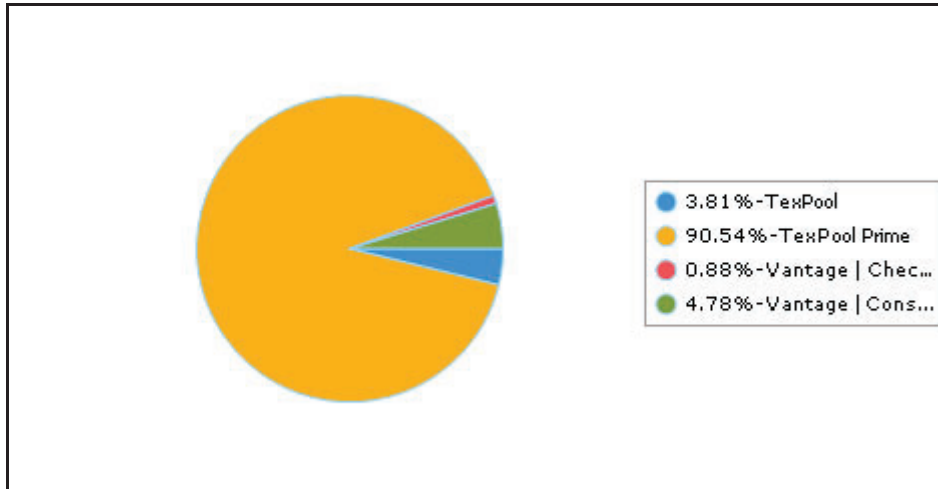
El Paso County TX Distribution by Issuer - Market Value Report Group | General Fund

Begin Date: 12/31/2023, End Date: 3/31/2024

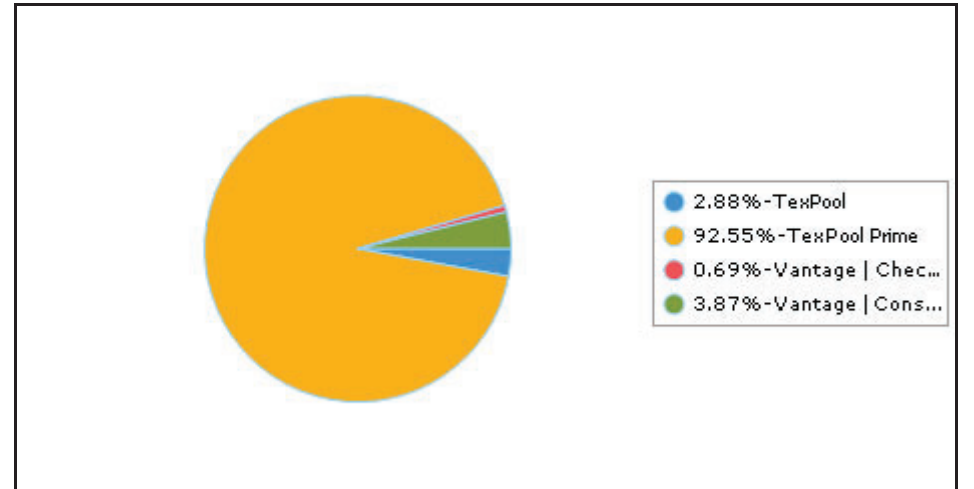
Issuer Allocation

Issuer	Market Value 12/31/2023	% of Portfolio 12/31/2023	Market Value 3/31/2024	% of Portfolio 3/31/2024
TexPool	5,748,510.66	3.81	5,918,578.95	2.88
TexPool Prime	136,708,285.24	90.54	190,060,086.44	92.55
Vantage Checking	1,323,434.17	0.88	1,422,041.05	0.69
Vantage Consolidated	7,212,744.17	4.78	7,950,979.57	3.87
Total / Average	150,992,974.24	100.00	205,351,686.01	100.00

Portfolio Holdings as of 12/31/2023



Portfolio Holdings as of 3/31/2024

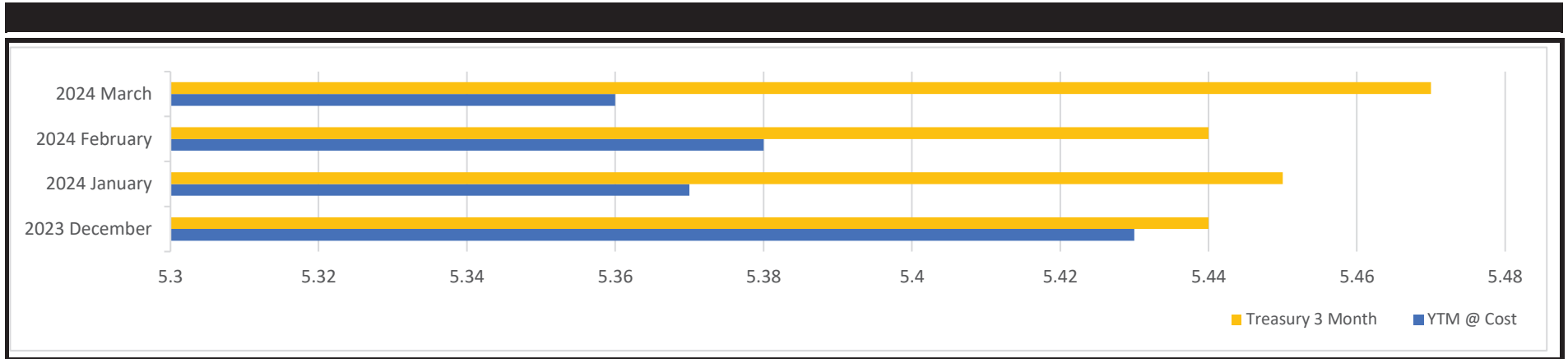




El Paso County TX Investment Income - Book Value by Month Report Group | General Fund

Begin Date: 12/31/2023, End Date: 03/31/2024

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
12/31/2023	85,677,790.34	992,010.12	0.00	992,010.12	150,992,974.24	5.43	5.44
1/31/2024	150,992,974.24	1,363,881.38	0.00	1,363,881.38	212,994,040.88	5.37	5.45
2/29/2024	212,994,040.88	1,555,119.39	0.00	1,555,119.39	236,912,857.45	5.38	5.44
3/31/2024	236,912,857.45	1,514,253.59	0.00	1,514,253.59	205,351,686.01	5.36	5.47
Total/Average	171,644,415.73	5,425,264.48	0.00	5,425,264.48	201,562,889.65	5.39	5.45





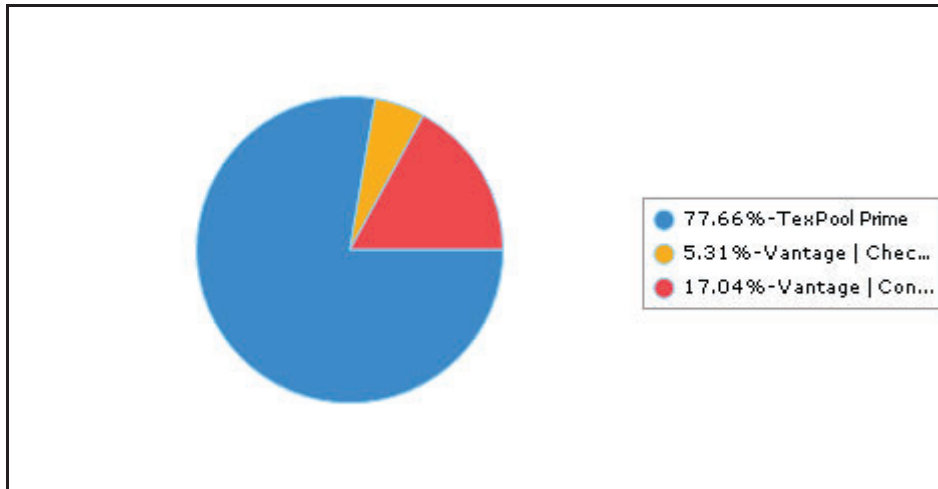
El Paso County TX Distribution by Issuer - Market Value Report Group | Special Revenue

Begin Date: 12/31/2023, End Date: 3/31/2024

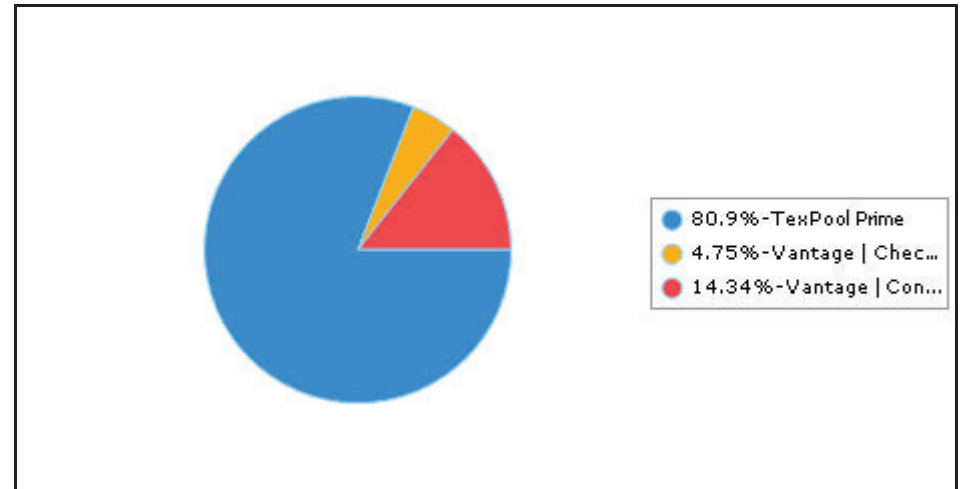
Issuer Allocation

Issuer	Market Value 12/31/2023	% of Portfolio 12/31/2023	Market Value 3/31/2024	% of Portfolio 3/31/2024
TexPool Prime	31,157,012.13	77.66	38,443,252.85	80.90
Vantage Checking	2,128,888.01	5.31	2,258,963.03	4.75
Vantage Consolidated	6,836,106.80	17.04	6,815,464.81	14.34
Total / Average	40,122,006.94	100.00	47,517,680.69	100.00

Portfolio Holdings as of 12/31/2023



Portfolio Holdings as of 3/31/2024

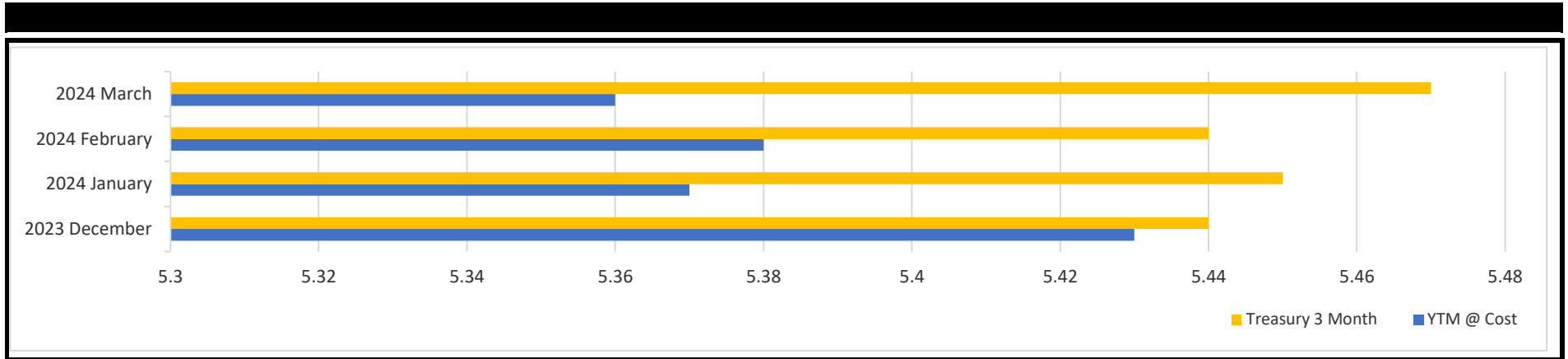




El Paso County TX Investment Income - Book Value by Month Report Group | Special Revenue

Begin Date: 12/31/2023, End Date: 03/31/2024

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
12/31/2023	40,991,059.74	199,915.93	0.00	199,915.93	40,122,006.94	5.43	5.44
1/31/2024	40,122,006.94	195,940.58	0.00	195,940.58	40,483,900.95	5.37	5.45
2/29/2024	40,483,900.95	195,169.12	0.00	195,169.12	40,323,674.57	5.38	5.44
3/31/2024	40,323,674.57	207,876.12	0.00	207,876.12	47,517,680.69	5.36	5.47
Total/Average	40,480,160.55	798,901.75	0.00	798,901.75	42,111,815.79	5.39	5.45





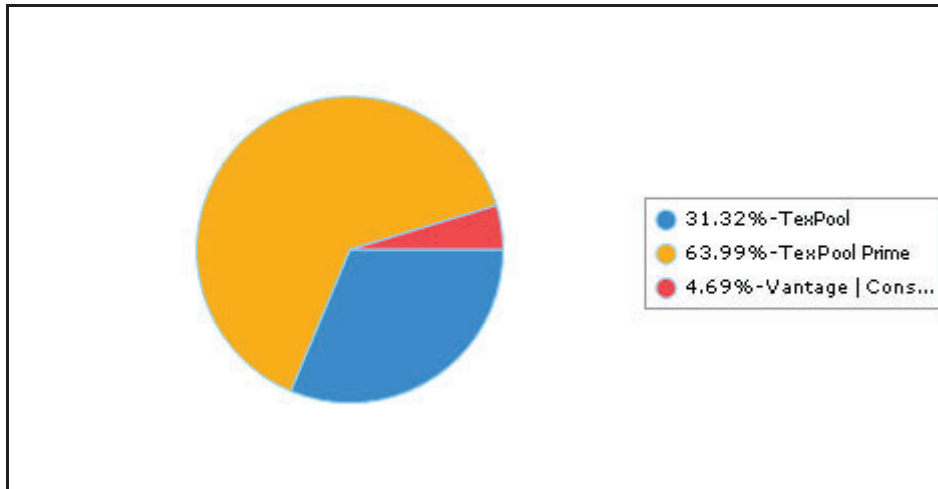
El Paso County TX Distribution by Issuer - Market Value Report Group | Special Revenue Grants

Begin Date: 12/31/2023, End Date: 3/31/2024

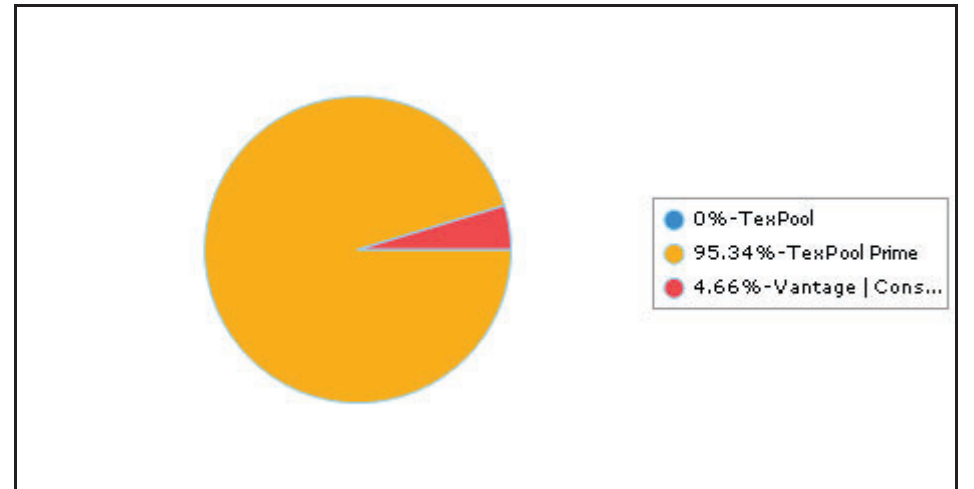
Issuer Allocation

Issuer	Market Value 12/31/2023	% of Portfolio 12/31/2023	Market Value 3/31/2024	% of Portfolio 3/31/2024
TexPool	39,500,000.00	31.32	0.00	0.00
TexPool Prime	80,706,674.06	63.99	113,636,881.13	95.34
Vantage Consolidated	5,920,591.71	4.69	5,555,073.07	4.66
Total / Average	126,127,265.77	100.00	119,191,954.20	100.00

Portfolio Holdings as of 12/31/2023



Portfolio Holdings as of 3/31/2024

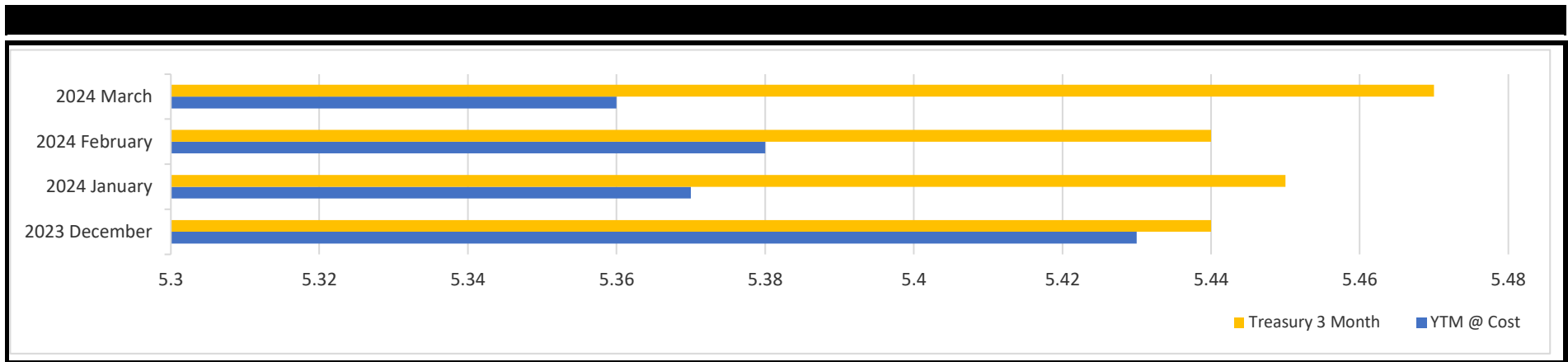




El Paso County TX Investment Income - Book Value by Month Report Group | Special Revenue Grants

Begin Date: 12/31/2023, End Date: 03/31/2024

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
12/31/2023	128,623,117.36	99,859.90	0.00	99,859.90	126,127,265.77	5.43	5.44
1/31/2024	126,127,265.77	89,918.52	0.00	89,918.52	123,806,066.93	5.37	5.45
2/29/2024	123,806,066.93	82,243.52	0.00	82,243.52	122,983,154.28	5.38	5.44
3/31/2024	122,983,154.28	83,586.90	0.00	83,586.90	119,191,954.20	5.36	5.47
Total/Average	125,384,901.09	355,608.84	0.00	355,608.84	123,027,110.30	5.39	5.45





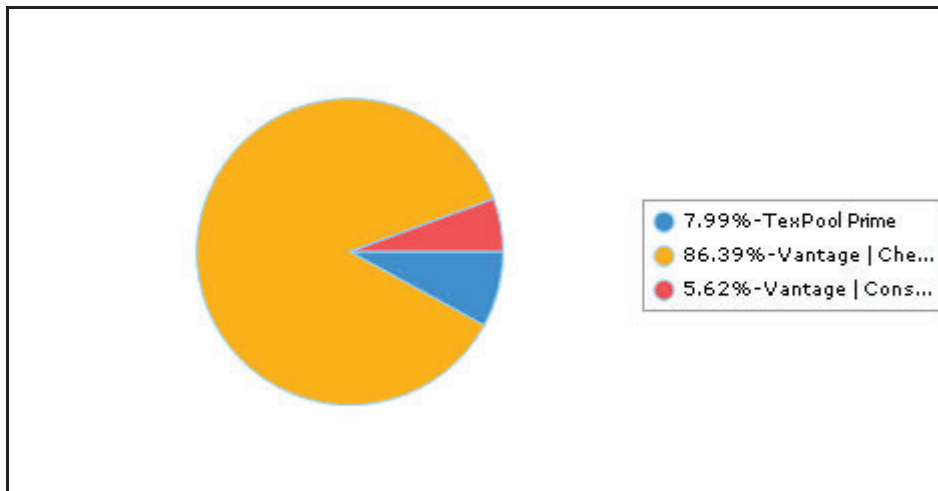
El Paso County TX Distribution by Issuer - Market Value Report Group | Agency Fund

Begin Date: 12/31/2023, End Date: 3/31/2024

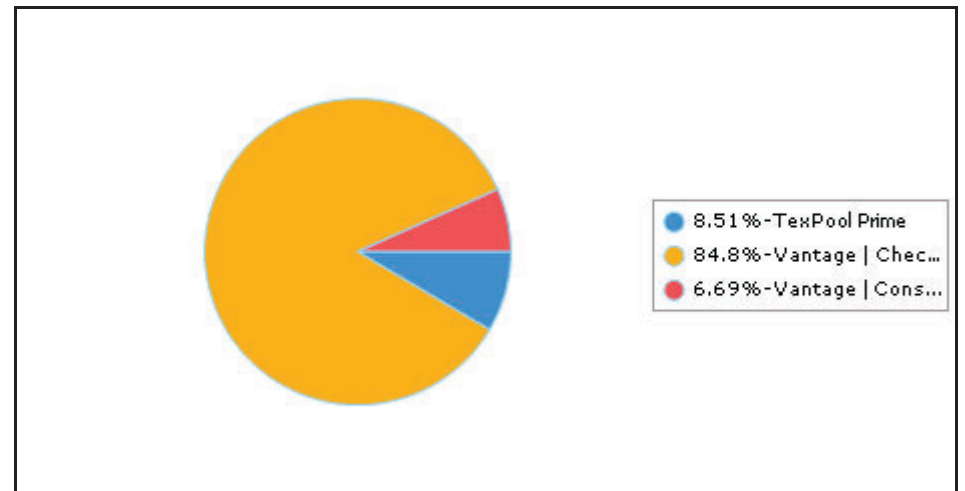
Issuer Allocation

Issuer	Market Value 12/31/2023	% of Portfolio 12/31/2023	Market Value 3/31/2024	% of Portfolio 3/31/2024
TexPool Prime	574,117.26	7.99	582,046.52	8.51
Vantage Checking	6,207,074.80	86.39	5,799,626.34	84.80
Vantage Consolidated	403,929.82	5.62	457,382.13	6.69
Total / Average	7,185,121.88	100.00	6,839,054.99	100.00

Portfolio Holdings as of 12/31/2023



Portfolio Holdings as of 3/31/2024

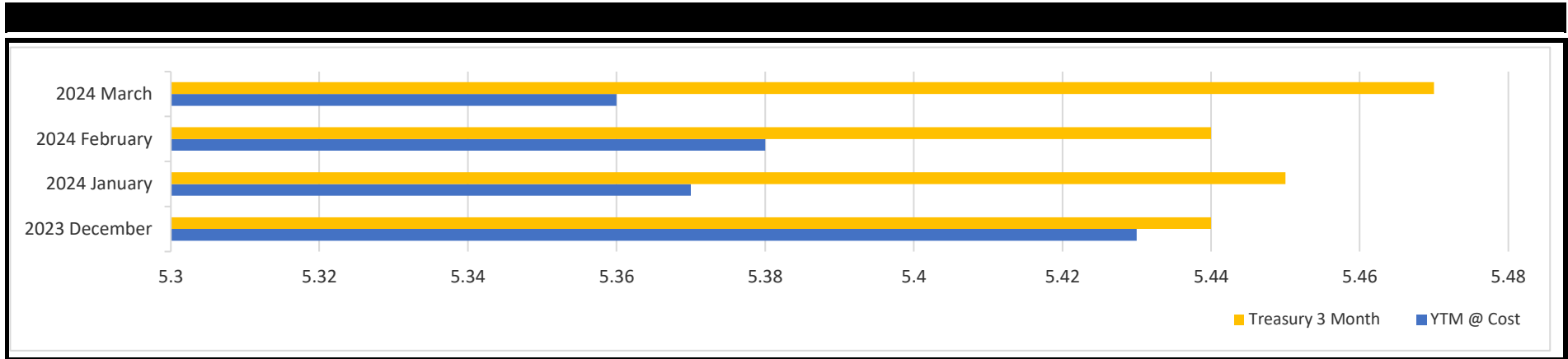




El Paso County TX Investment Income - Book Value by Month Report Group | Agency Fund

Begin Date: 12/31/2023, End Date: 03/31/2024

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
12/31/2023	5,243,805.64	9,721.37	0.00	9,721.37	7,185,121.88	5.43	5.44
1/31/2024	7,185,121.88	14,036.77	0.00	14,036.77	7,431,686.61	5.37	5.45
2/29/2024	7,431,686.61	8,567.22	0.00	8,567.22	6,837,694.21	5.38	5.44
3/31/2024	6,837,694.21	8,929.09	0.00	8,929.09	6,839,054.99	5.36	5.47
Total/Average	6,674,577.09	41,254.45	0.00	41,254.45	7,073,389.42	5.39	5.45





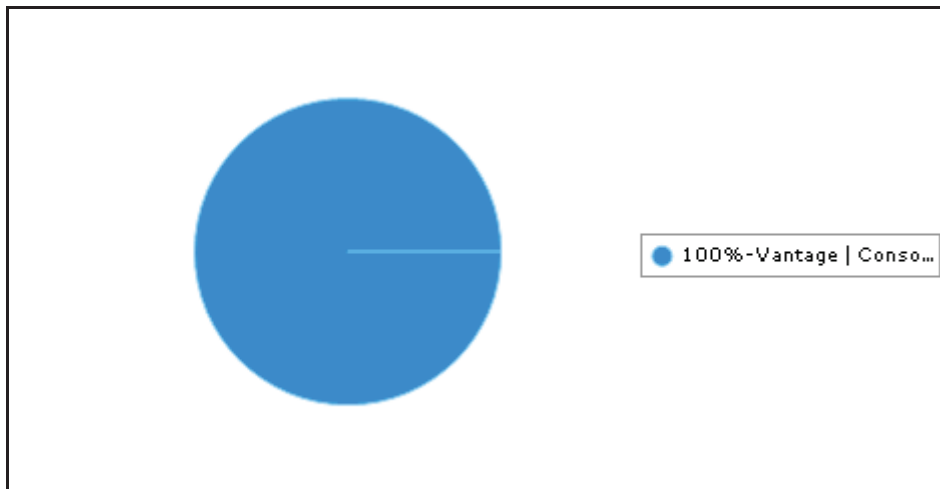
El Paso County TX Distribution by Issuer - Market Value Report Group | Enterprise Fund

Begin Date: 12/31/2023, End Date: 3/31/2024

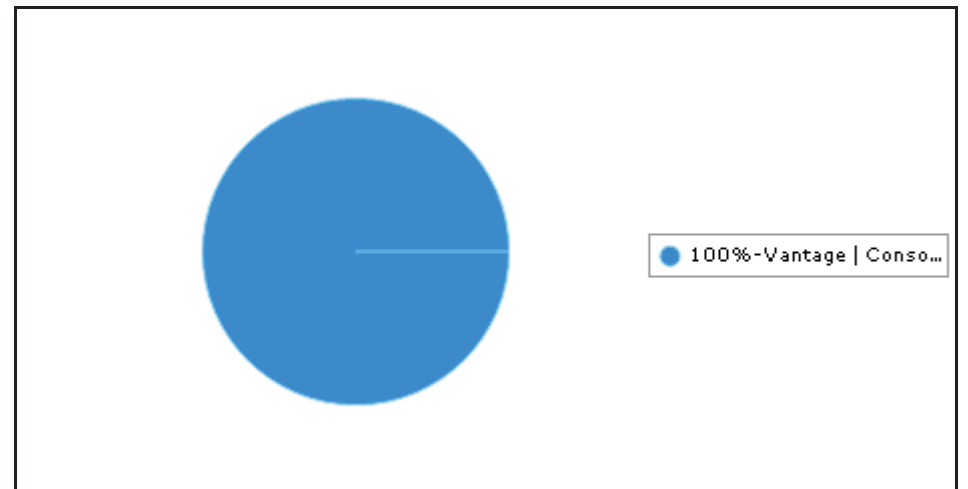
Issuer Allocation

Issuer	Market Value 12/31/2023	% of Portfolio 12/31/2023	Market Value 3/31/2024	% of Portfolio 3/31/2024
Vantage Consolidated	1,728,026.73	100.00	1,620,817.02	100.00
Total / Average	1,728,026.73	100.00	1,620,817.02	100.00

Portfolio Holdings as of 12/31/2023



Portfolio Holdings as of 3/31/2024

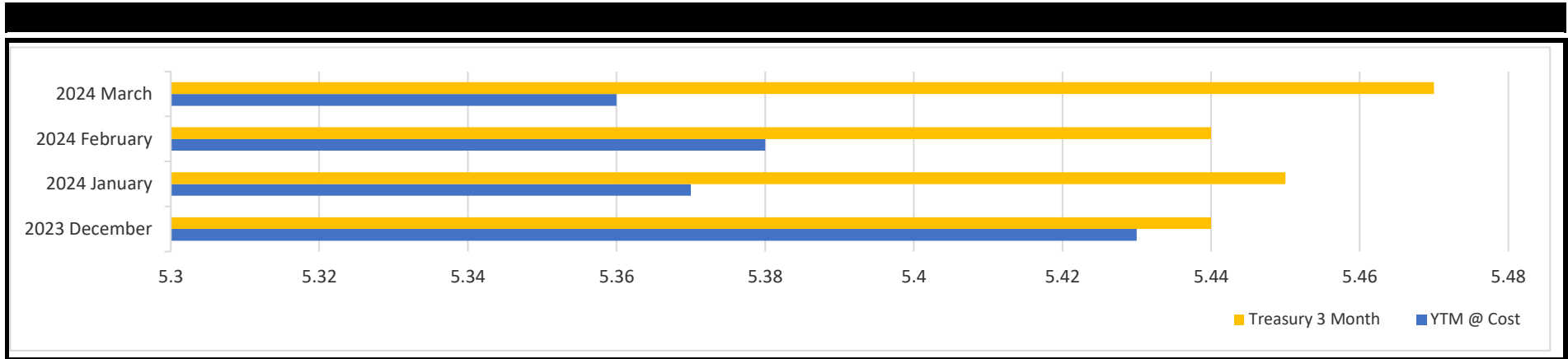




El Paso County TX Investment Income - Book Value by Month Report Group | Enterprise Fund

Begin Date: 12/31/2023, End Date: 03/31/2024

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
12/31/2023	1,834,317.35	7,637.83	0.00	7,637.83	1,728,026.73	5.43	5.44
1/31/2024	1,728,026.73	4,975.16	0.00	4,975.16	1,654,113.84	5.37	5.45
2/29/2024	1,654,113.84	5,680.40	0.00	5,680.40	1,581,400.83	5.38	5.44
3/31/2024	1,581,400.83	5,817.67	0.00	5,817.67	1,620,817.02	5.36	5.47
Total/Average	1,699,464.69	24,111.06	0.00	24,111.06	1,646,089.61	5.39	5.45





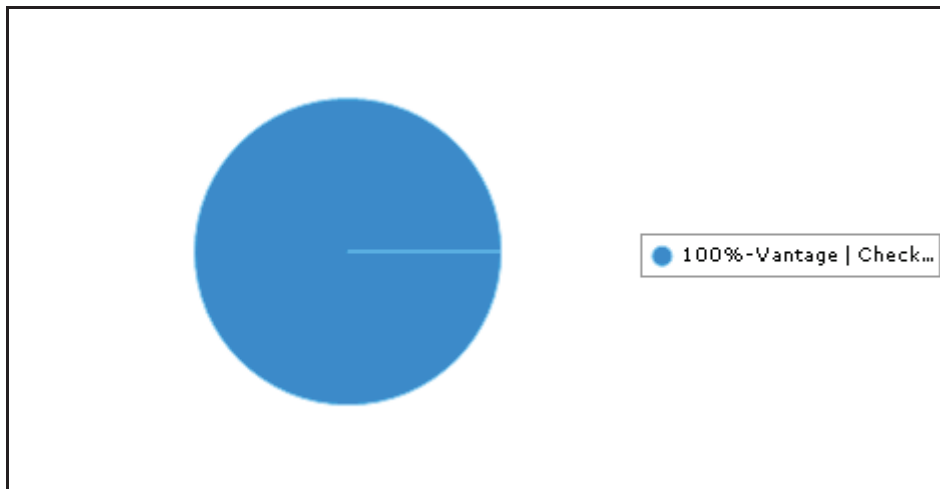
El Paso County TX Distribution by Issuer - Market Value Report Group | Adult Supervision

Begin Date: 12/31/2023, End Date: 3/31/2024

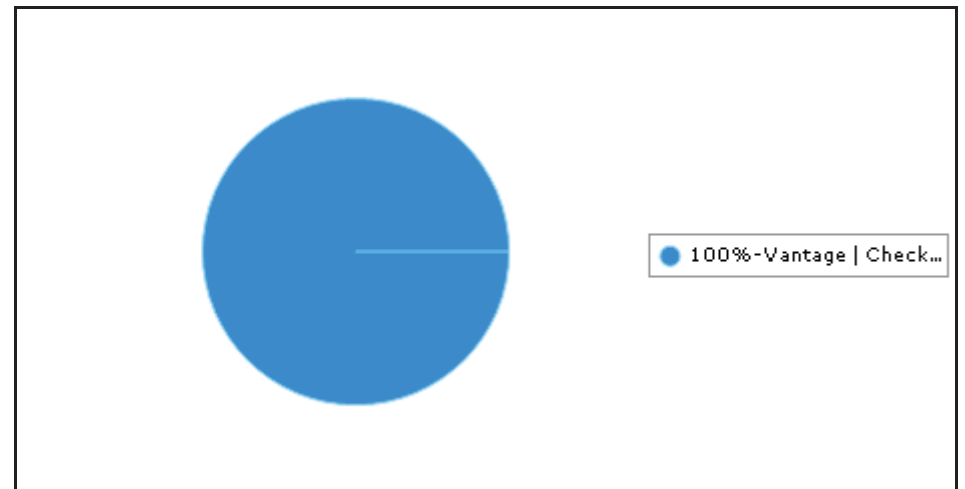
Issuer Allocation

Issuer	Market Value 12/31/2023	% of Portfolio 12/31/2023	Market Value 3/31/2024	% of Portfolio 3/31/2024
Vantage Checking	3,247,849.38	100.00	3,644,098.09	100.00
Total / Average	3,247,849.38	100.00	3,644,098.09	100.00

Portfolio Holdings as of 12/31/2023



Portfolio Holdings as of 3/31/2024

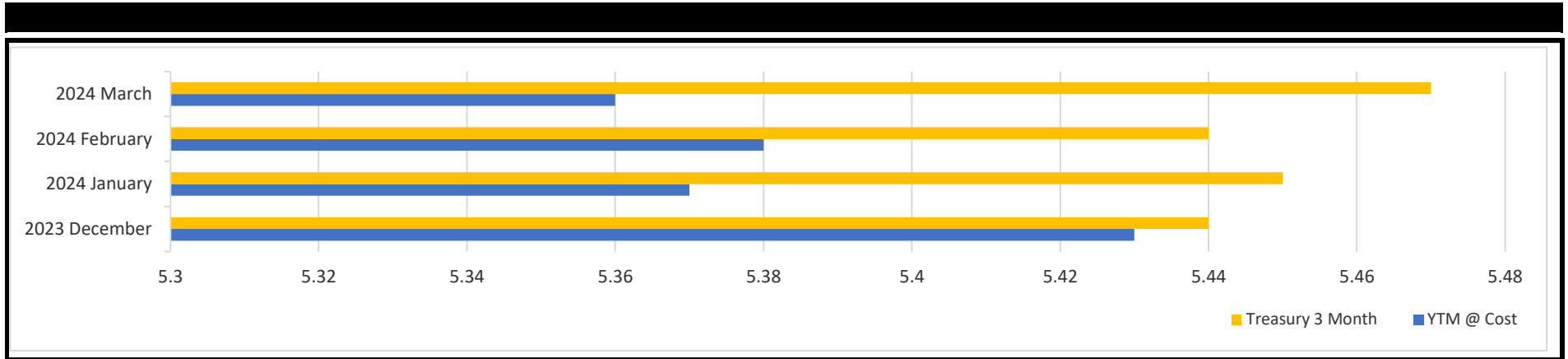




El Paso County TX Investment Income - Book Value by Month Report Group | Adult Supervision

Begin Date: 12/31/2023, End Date: 03/31/2024

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
12/31/2023	1,718,604.70	10,519.51	0.00	10,519.51	3,247,849.38	5.43	5.44
1/31/2024	3,247,849.38	10,224.15	0.00	10,224.15	2,485,628.96	5.37	5.45
2/29/2024	2,485,628.96	6,277.14	0.00	6,277.14	1,778,206.60	5.38	5.44
3/31/2024	1,778,206.60	10,057.93	0.00	10,057.93	3,644,098.09	5.36	5.47
Total/Average	2,307,572.41	37,078.73	0.00	37,078.73	2,788,945.76	5.39	5.45





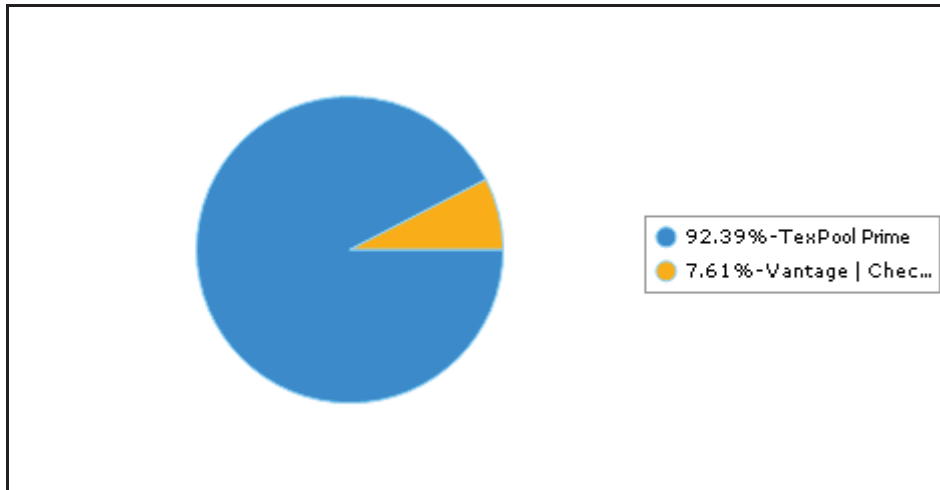
El Paso County TX Distribution by Issuer - Market Value Report Group | Internal Service

Begin Date: 12/31/2023, End Date: 3/31/2024

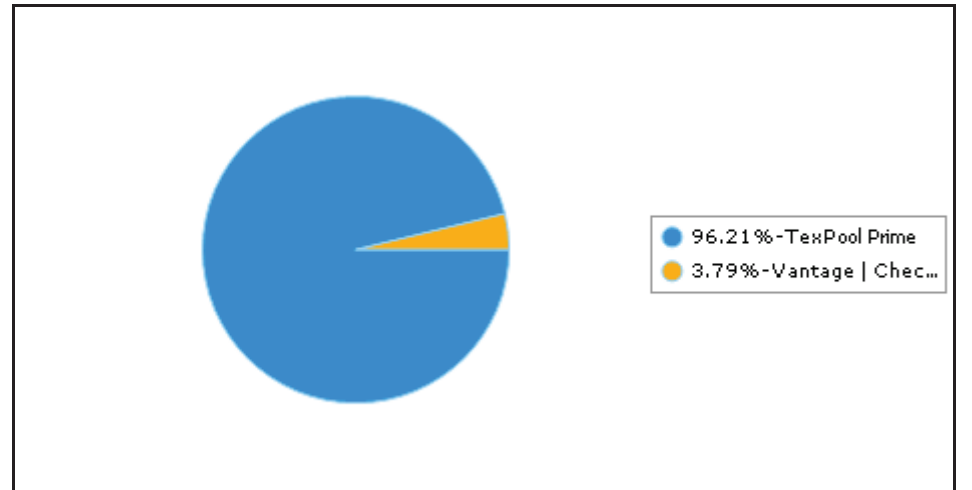
Issuer Allocation

Issuer	Market Value 12/31/2023	% of Portfolio 12/31/2023	Market Value 3/31/2024	% of Portfolio 3/31/2024
TexPool Prime	15,558,176.92	92.39	14,243,712.16	96.21
Vantage Checking	1,280,697.17	7.61	560,899.80	3.79
Total / Average	16,838,874.09	100.00	14,804,611.96	100.00

Portfolio Holdings as of 12/31/2023



Portfolio Holdings as of 3/31/2024

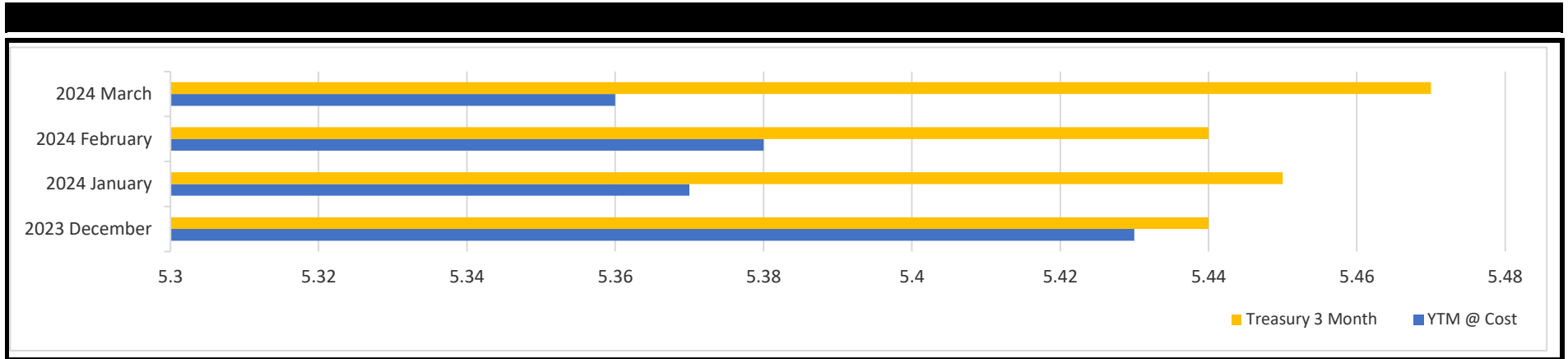




El Paso County TX Investment Income - Book Value by Month Report Group | Internal Service

Begin Date: 12/31/2023, End Date: 03/31/2024

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
12/31/2023	14,220,994.49	72,280.56	0.00	72,280.56	16,838,874.09	5.43	5.44
1/31/2024	16,838,874.09	65,793.96	0.00	65,793.96	13,961,323.21	5.37	5.45
2/29/2024	13,961,323.21	59,786.17	0.00	59,786.17	14,084,334.82	5.38	5.44
3/31/2024	14,084,334.82	67,933.86	0.00	67,933.86	14,804,611.96	5.36	5.47
Total/Average	14,776,381.65	265,794.55	0.00	265,794.55	14,922,286.02	5.39	5.45





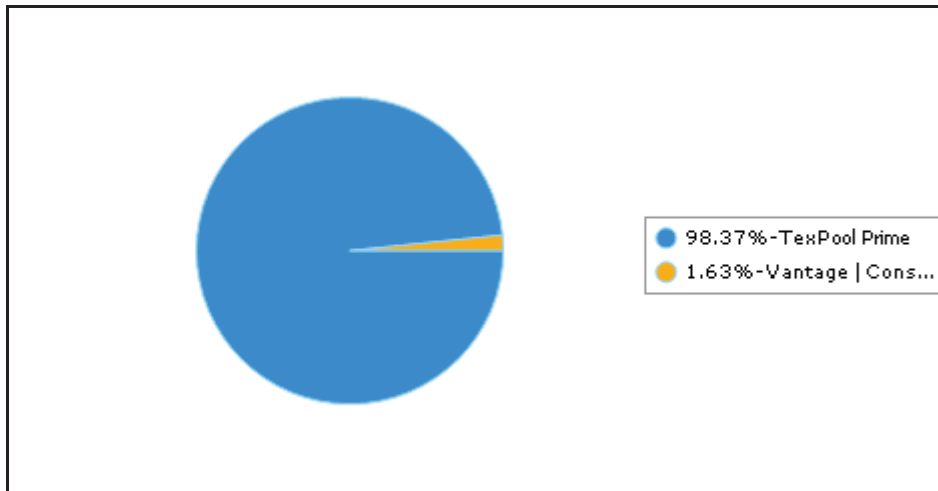
El Paso County TX Distribution by Issuer - Market Value Report Group | Debt Service

Begin Date: 12/31/2023, End Date: 3/31/2024

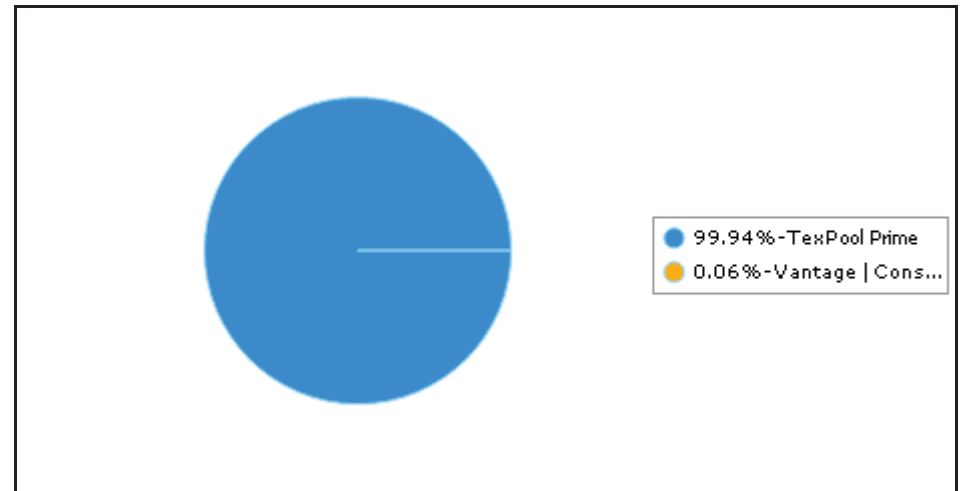
Issuer Allocation

Issuer	Market Value 12/31/2023	% of Portfolio 12/31/2023	Market Value 3/31/2024	% of Portfolio 3/31/2024
TexPool Prime	20,788,656.87	98.37	14,154,964.54	99.94
Vantage Consolidated	344,956.86	1.63	8,881.49	0.06
Total / Average	21,133,613.73	100.00	14,163,846.03	100.00

Portfolio Holdings as of 12/31/2023



Portfolio Holdings as of 3/31/2024

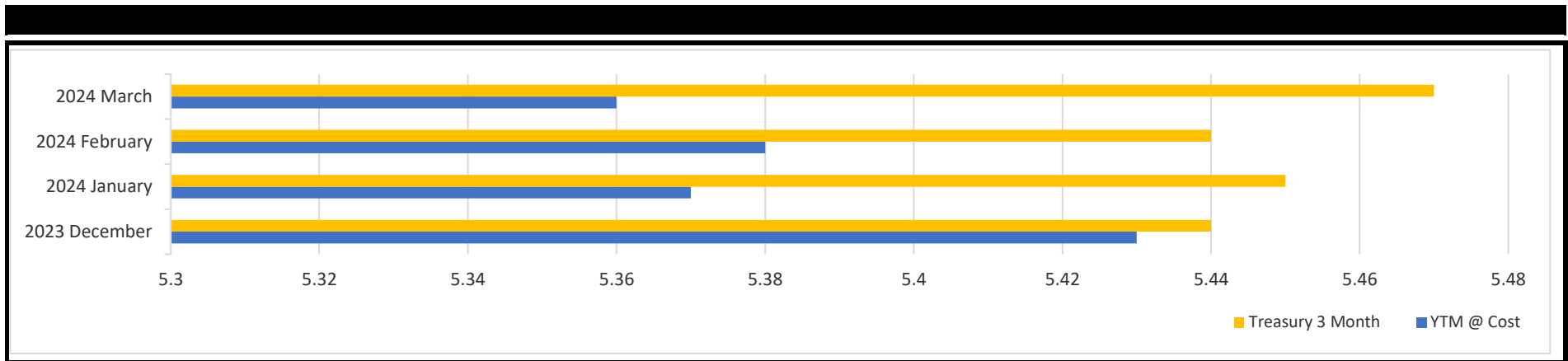




El Paso County TX Investment Income - Book Value by Month Report Group | Debt Service

Begin Date: 12/31/2023, End Date: 03/31/2024

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
12/31/2023	7,335,696.60	44,603.12	0.00	44,603.12	21,133,613.73	5.43	5.44
1/31/2024	21,133,613.73	123,890.83	0.00	123,890.83	32,598,850.83	5.37	5.45
2/29/2024	32,598,850.83	93,925.11	0.00	93,925.11	12,648,536.33	5.38	5.44
3/31/2024	12,648,536.33	75,956.83	0.00	75,956.83	14,163,846.03	5.36	5.47
Total/Average	18,429,174.37	338,375.89	0.00	338,375.89	20,136,211.73	5.39	5.45





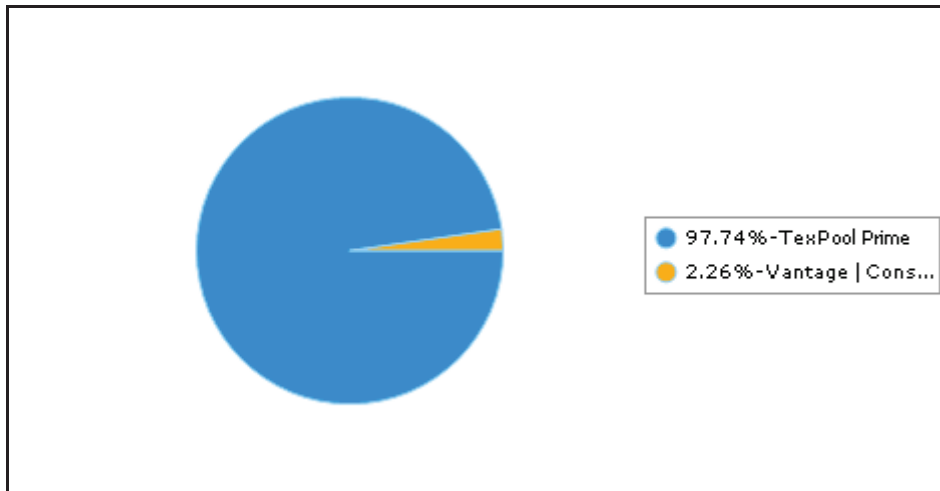
El Paso County TX Distribution by Issuer - Market Value Report Group | Capital Projects

Begin Date: 12/31/2023, End Date: 3/31/2024

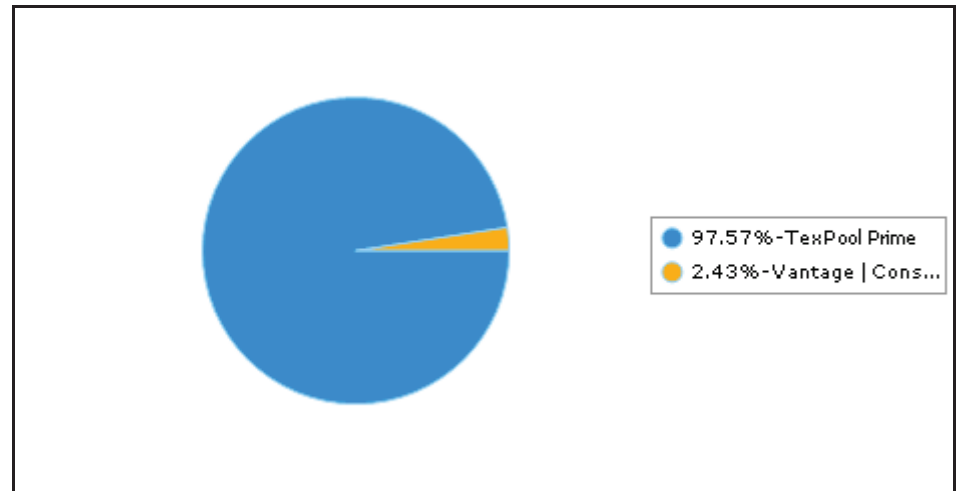
Issuer Allocation

Issuer	Market Value 12/31/2023	% of Portfolio 12/31/2023	Market Value 3/31/2024	% of Portfolio 3/31/2024
TexPool Prime	138,675,501.19	97.74	144,473,141.86	97.57
Vantage Consolidated	3,203,301.59	2.26	3,600,854.61	2.43
Total / Average	141,878,802.78	100.00	148,073,996.47	100.00

Portfolio Holdings as of 12/31/2023



Portfolio Holdings as of 3/31/2024

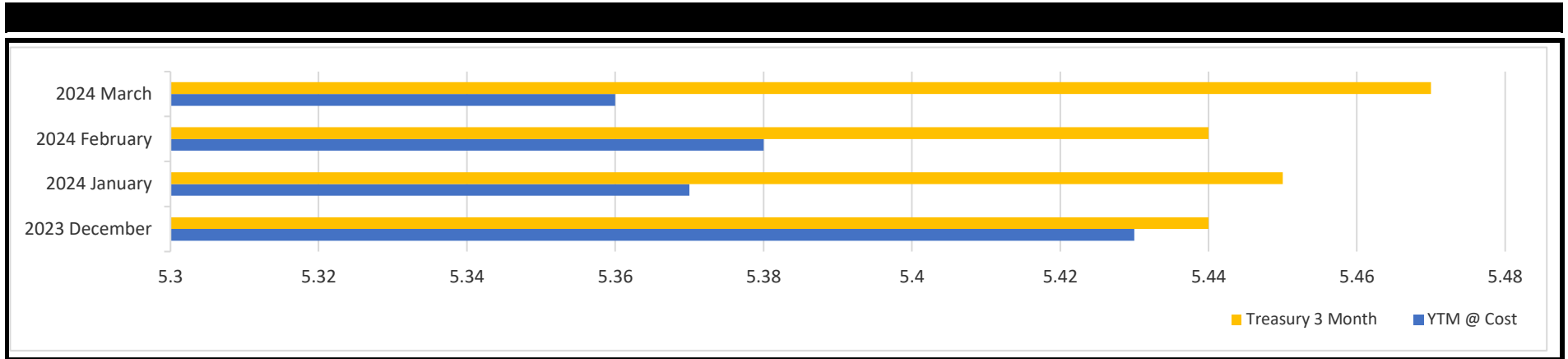




El Paso County TX Investment Income - Book Value by Month Report Group | Capital Projects

Begin Date: 12/31/2023, End Date: 03/31/2024

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
12/31/2023	147,280,506.88	683,301.22	0.00	683,301.22	141,878,802.78	5.43	5.44
1/31/2024	141,878,802.78	658,277.74	0.00	658,277.74	141,356,365.81	5.37	5.45
2/29/2024	141,356,365.81	608,551.04	0.00	608,551.04	139,995,863.55	5.38	5.44
3/31/2024	139,995,863.55	669,715.77	0.00	669,715.77	148,073,996.47	5.36	5.47
Total/Average	142,627,884.76	2,619,845.77	0.00	2,619,845.77	142,826,257.15	5.39	5.45



Economic Summary – Q1 2024

The U.S. economy entered 2024 on the heels of the strongest GDP growth in consecutive quarters in nearly a decade, and once again economists were forecasting a slower pace ahead. It appears the economy did indeed weaken in the first quarter, but while growth moderated, *inflation did not*. The sharp decline in price pressure that prevailed in the second half of last year abruptly flattened out as the new quarter unfolded. Since inflation drives monetary policy, investors anticipated Fed rate cuts would be delayed and yields moved higher in response. The quarter began with almost 175 basis points of rate cuts priced in for 2024, but by the end of March, those expectations had been trimmed to just 75 bps.

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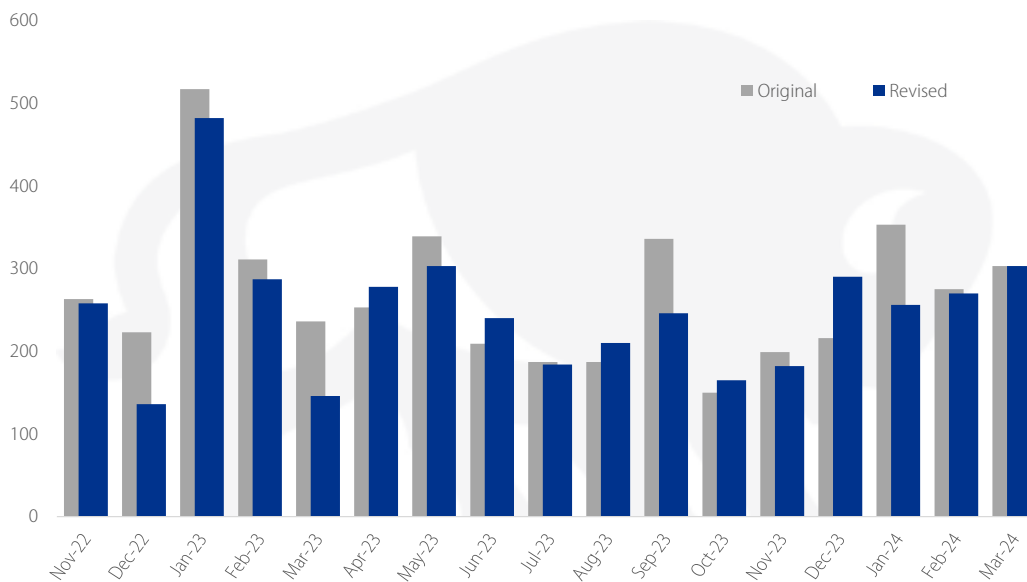
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Employment

Most of the market focus during the first quarter was on inflation, but because labor costs have been a primary contributor to overall prices, employment data shared the spotlight. Any hope that labor pressure would ease in early 2024 was quickly dashed when the January employment report turned out to be an unexpected “blowout.” The BLS announced +353k jobs were added to company payrolls, *doubling the median forecast with the biggest single month increase in a year*. Upward revisions added +117k to the December count, bringing the revised total to +333k and marking the strongest back-to-back payroll gains in 18 months.

It appears the economy did indeed weaken in the first quarter, but while growth moderated, inflation did not.

Non-Farm Payrolls Total Change (in thousands)



The quarter began with almost 175 basis points of rate cuts priced in for 2024, but by the end of March, those expectations had been trimmed to just 75 bps.

Source: Bureau of Labor Statistics

Average hourly earnings jumped +0.6% in January, twice the median forecast and up +4.5% year-over-year, also well above expectations. The unwelcome combination of surging payrolls and higher wages drove bond yields sharply higher, taking a March rate cut completely off the table and pushing expectations for the first ease to May.

The February payroll number was also higher than expected, but large downward revisions to the previous two months drove the three-month average down to +280k, still historically strong. The separate household survey (in puzzling contrast to the business survey) shed another -184k workers in February, which helped push the unemployment rate up from 3.7% to 3.9%, while the increase in average hourly earnings mercifully cooled to just +0.1%.

Inflation

The January consumer price index (CPI) was arguably the most pivotal release of the quarter as both headline and core consumer prices came in warmer than forecast. Overall CPI rose +0.3% while core CPI climbed +0.4%, *the biggest monthly increase since last May*. Shelter costs rose +0.6% after two months of +0.4% gains, accounting for two-thirds of the headline gain. Lower energy prices counterbalanced much of the increase, down -0.9% in January and -4.6% for the year.

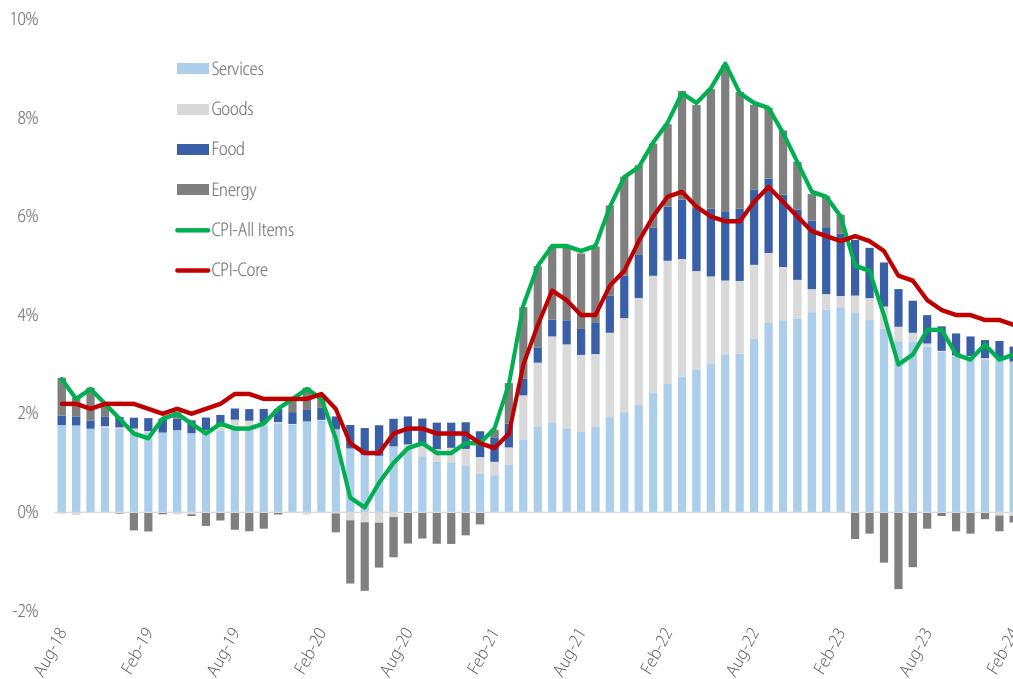
However, so called “supercore” inflation, which measures core services costs minus housing, jumped +0.8% in January, *the fastest monthly rate since April 2022*, while the annual pace reaccelerated to an eight-month high. Since Fed officials have continually emphasized the importance of the supercore measure, the sharp rise pushed expectations for the first rate cut out from May to June.

The more familiar headline CPI retreated from +3.4% to +3.1% but missed the +2.9% median forecast, while core CPI held stubbornly at an annual pace of +3.9%. Core personal consumption expenditures (PCE), quietly released on Good Friday when the financial markets were closed, was up a restrained +0.3% in February and +2.5% year-over-year, *much closer to the Fed’s elusive +2.0% target*. Although core PCE has significantly less emphasis on housing and more on healthcare than CPI, elevated shelter costs were again responsible for all of the excess inflation.

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Consumer Price Index (Year-over-Year Percent Change)



This stagnant inventory problem pushed the median price for an existing home up +5.7% year-over-year to the highest level for any February on record.

Source: Bureau of Labor Statistics

There are numerous pieces to the inflation puzzle, but *the key seems to be housing*. Shelter costs make up roughly 33% of the headline CPI index and 42% of core CPI, but only 18% of core PCE (Boston Fed).

Housing

Existing homes, which typically account for 85% to 90% of total sales, experienced the worst volume year in three decades in 2023. The problem is not a lack of demand, but rather a massive supply shortfall, estimated between two and seven million units, depending on the analyst. The availability of existing homes is restrained by the reluctance of current homeowners to part with historically low mortgage rates. This stagnant inventory problem pushed the median price for an existing home up +5.7% year-over-year to the highest level for any February on record. The near-term remedy would be a meaningful drop in rates. Unfortunately, lending rates rose in the first quarter, adding to the ongoing affordability problem.

Freddie Mac predicts 9.2 million units will free-up by 2035 as 32 million homes owned by baby boomers drop to 23 million when the oldest of the group turns 90.

The Atlanta Fed’s Home Ownership Affordability Monitor (HOAM) Index, which measures home price relative to income, continues to hover near an all-time low. Over a four-year period from January 2020, the median U.S. home price climbed +39% to \$358k, which combined with near 7% mortgage rates has more than doubled monthly P&I payments. At the same time, median income has increased by just +20% to \$78k, bringing the total annual payment as a percentage of income up from 28.4% to 40.5%, well above 30% HUD rule of thumb.

However, a margin of relief is in sight on several fronts. *Realtor.com* recently reported the

number of price reductions on open listings reached a four-year high in February, while total active listings were +14.8% above the same period a year ago. Over the longer term, Freddie Mac predicts 9.2 million units will free-up by 2035 as 32 million homes owned by baby boomers drop to 23 million when the oldest of the group turns 90.

New home sales, which account for 10% to 15% of total home sales, have actually been rising on an annual basis since last March. Homebuilders have responded to the affordability problem by offering smaller units. According to the Census Bureau, the median size of a new home shrank from 2,411 square feet to 2,179 in 2023, the smallest since 2010. The average price for a new home, in sharp contrast to existing homes, has been falling for more than a year and is currently at the lowest point since the summer of 2021.

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US Home Median Sales Price (\$ Thousands)



Source: National Association of Realtors, US Census Bureau

According to data from *Realtor.com*, asking rents in the 50 largest metro areas have now decreased on an annual basis for seven consecutive months. Since reaching a peak in August 2022, the median asking rent has dropped by -2.8% ... *although that's still +17.3% higher than four years earlier*. The recently developed New Tenant Rate Index (NTRI) from the BLS is even more dramatic, down -8.8% in the fourth quarter and -4.6% from a year earlier.

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The housing picture is ever evolving, but available inventory has improved, and demographics are leaning in the right direction. Lower lending rates, presumably appearing later this year, should have a double positive effect in loosening the grip of existing homeowners while increasing affordability. All of this hints at falling shelter costs, correspondingly lower consumer inflation and a dwindling need for overly

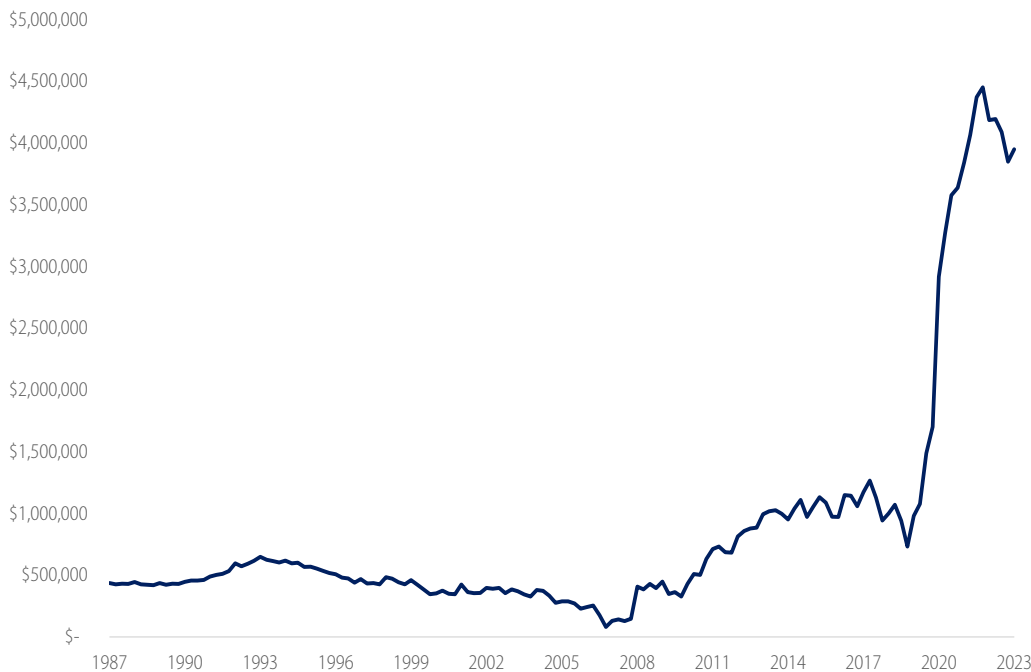
restrictive Fed policy. Oddly enough, the biggest hurdle in this scenario is the strength of the economy.

Consumers/Small Businesses

The U.S. economy, despite the Fed's efforts to slow growth, has been extraordinarily (and frustratingly) resilient for well over a year as defiant Americans continue to spend, regardless of means. Total checkable deposits (checking, savings, money market accounts) and currency exploded from just over \$1 trillion pre-pandemic to a \$4.5 trillion peak in Q3 2022, ending 2023 at just under \$4 trillion. However, that massive capacity is concentrated within a relatively small portion of the population more inclined to invest than consume.

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Households: Checkable Deposits & Currency, Asset, Level (in Millions, Quarterly)



According to a recent Fed survey of small businesses, 56% regularly use credit cards for financing.

Source: St. Louis FRED, Board of Governors of the Federal Reserve System

A much larger portion of the population is struggling. Record credit card debt in the U.S. has been widely reported, but the details are even more troubling. According to a recent Fed survey of small businesses, 56% regularly use credit cards for financing. The average interest rate on commercial bank credit card balances in the fourth quarter was 21.5%, the highest in the 30-year history of the series, and well above the 14.9% average from four years ago (WSJ). *If small businesses are the backbone of the economy, there is a lot of pressure building up.*

Overall card balances climbed above \$1.1 trillion in the fourth quarter. Delinquencies of 90 days past due have risen to nearly 10%, the highest in a decade, while interest paid on outstanding balances has more than tripled from 2020 to 2023 to \$157 billion.

Overall card balances climbed above \$1.1 trillion in the fourth quarter. Delinquencies of 90 days past due have risen to nearly 10%, the highest in a decade, while interest paid on outstanding balances has more than tripled from 2020 to 2023 to \$157 billion (Financial Times). *This isn't sustainable.*

The Fed

The big question at the January FOMC meeting was whether Fed officials would telegraph a quarter point rate cut for March. Fortunately, they were patient. Powell did acknowledge the previous six months of inflation data had been very good, but emphasized the committee would not reduce the overnight target range until it had greater confidence inflation was moving sustainably toward its +2.0% target. By the March FOMC meeting, the downtrend in inflation was on hold, confidence was waning, and committee members were tasked with revising their summary of economic projections and interest rate forecast for the first time since December.

The big question at the January FOMC meeting was whether Fed officials would telegraph a quarter point rate cut for March. Fortunately, they were patient.

In somewhat of a surprise given the unpleasant inflation data, the Fed's updated "dot plot" continued to show a total of 75 basis points in rate cuts in 2024, leaving the median fed funds forecast at 4.6% by yearend. The 2025 projection indicated one fewer cut, moving the yearend funds forecast up from 3.6% to 3.9% and 2026 from 2.9% to 3.1%. The committee's GDP forecast for 2024 was upped from +1.4% to +2.1%, while the 2025 growth forecast was revised from +1.8% to +2.0% and 2026 from +1.9% to +2.0%. *In the Fed's mind, the likelihood of recession had faded away.*

The committee acknowledged recently elevated price pressure by revising its 2024 yearend core PCE forecast higher, from +2.4% to +2.6%, although the 2025 and 2026 core inflation forecasts were unchanged at +2.2% and +2.0% respectively.

Powell was asked several questions during his March press conference about the higher-than-expected inflation readings earlier this year. He responded by saying inflation was gradually coming down but repeated that the road is "bumpy," while warning that the lower base that prevailed during the second half of 2023 will make it challenging to bring the annual pace lower in late 2024.

The Markets

All three major stock indexes reached progressively higher peaks in January, February and March. Early in the quarter, market rallies were fueled by rate cut expectations, then record corporate profits, momentum, and finally the fear of missing out. The Nasdaq gained +9.1% during the quarter, the DOW +5.6% and the S&P 500 +10.1%, with both the S&P 500 and DOW closing at all-time highs.

Although the unrelenting five-month equity rally from October lows may feel a little topy, a Bank of America survey of fund managers in late March showed the highest degree of bullish sentiment in more than two years.

Investors embraced equity risk during the quarter, and with the exception of bonds, just about every major asset class rallied big, with safe haven gold (+8.1%) and speculative Bitcoin (+66%) both logging fresh highs. Although the unrelenting five-month equity rally from October lows may feel a little topy, a Bank of America survey of fund managers in late March showed the highest degree of bullish sentiment in more than two years (WSJ).

Q1 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	12/31/23	5.25%-5.50%	5.33%	4.76%	4.25%	3.85%	3.88%
High			5.40%	5.08%	4.73%	4.34%	4.32%
Low			5.33%	4.65%	4.14%	3.81%	3.88%
End	3/31/24	5.25%-5.50%	5.36%	5.02%	4.62%	4.21%	4.20%

Source: U.S. Department of the Treasury

Economic and Interest Rate Outlook

By the end of the quarter, it was clear that the Fed would not be cutting rates in May, ... *and probably not in June.* Inflationary pressure had receded for a while, and then stalled. *This shouldn't have been a surprise.* Powell warned there would be bumps along the way. One of many upside risks to the inflation outlook is that the increase in household wealth associated with historically high home and stock market values will ignite even more consumer demand.

The monthly *Bloomberg* survey of economists showed a +2.4% median PCE core forecast at the end of the year, and a combined 75 basis points of rate cuts, beginning in the second quarter. This mirrors the dot plot and assumes the economy slows. The Fed's own inflation forecast indicated core PCE at +2.6% by yearend, a little less optimistic than the nation's economists, and still considerably above their +2.0% target. Given that the committee just boosted its 2024 GDP outlook, there doesn't seem to be any compelling reason to cut rates. *Not yet anyway.*

Fed Governor Chris Waller told members of the New York Economic Club in late March that he was in "no rush" to begin rate cuts. Waller pointed to "disappointing" inflation data, along with the continued strength of the U.S. economy and a resilient labor market. *Nothing new there.*

The concern is that Fed policymakers ease too early, inflation reemerges, and they're forced to reverse course, eroding hard-fought credibility.

Higher pump prices and shipping costs will most certainly have increased inflationary pressure for March. With luck, shelter costs will fade enough during the month to keep the headline in check, but *the Fed is likely to see at least one more uncomfortably warm CPI report.*

Fed mandates don't include keeping interest costs in check, but that particular issue has entered the national consciousness as the nation's debt swells. At the end of the first quarter, the national debt stood at \$34.6 trillion, up from \$27.5 trillion before the pandemic began, while the Congressional Budget Office (CBO) projects interest costs will total \$870 billion in 2024, up +32% from 2023 and more than doubling over a two-year period. The CBO forecast just gets uglier from here despite a fairly optimistic long-

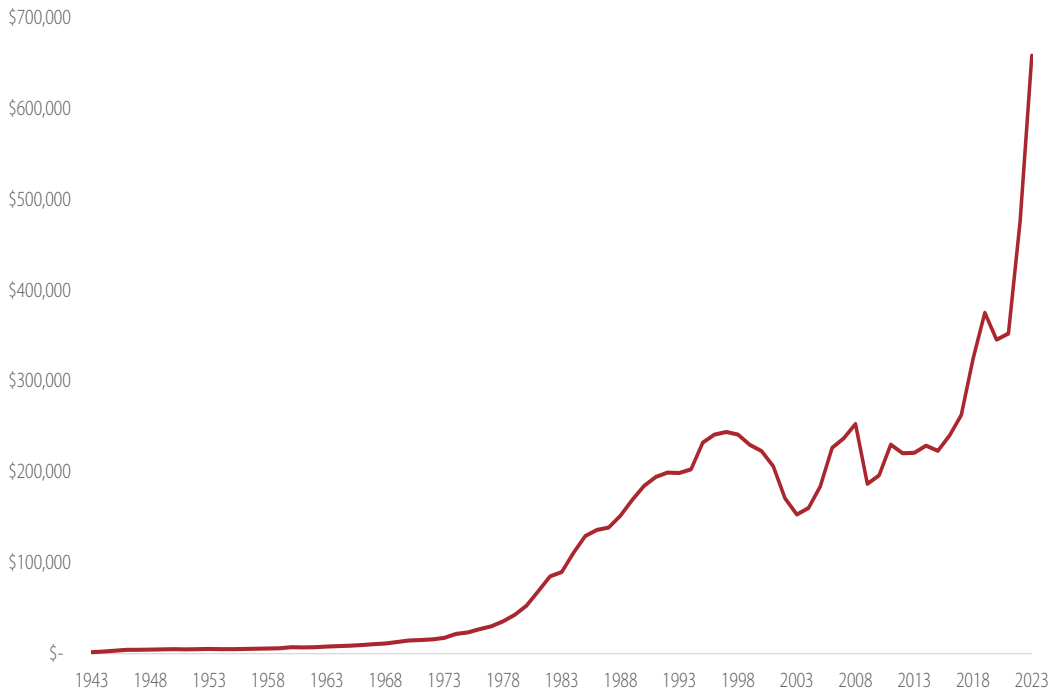
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term inflation outlook and no expectations of recession or another pandemic. However, there are thousands of inputs to the equation and they're all subject to change and interpretation. *The best hope is in technology.*

Federal Outlays: Interest Expense (in millions)



Fed mandates don't include keeping interest costs in check, but that particular issue has entered the national consciousness as the nation's debt swells.

Source: St. Louis FRED, U.S. Office of Management & Budget

In the 15-year period before the pandemic, worker output per hour averaged +1.4%, well below the +2.2% long term productivity rate. Worker productivity surged (by necessity) during the early stages of the pandemic and then inexplicably dropped. Over a five-quarter period ending in March 2023, productivity in the U.S. was negative, the longest losing streak since record keeping began in 1948. Last year, in the midst of the slump, the *McKinsey Global Institute* calculated that a return to the long-term annual productivity growth rate of +2.2% would boost GDP by \$10 trillion over an eight-year period. As if on cue, worker output per hour rebounded from a -0.6% annualized rate in the first quarter of 2023 to a surprising +3.6% in the second quarter, followed by a +4.7% jump in the third quarter and a +3.2% increase to cap the year. For all of 2023, productivity gained +2.7%, a dramatic resurgence from a year earlier. If this trend continues, *it's a potential game-changer.*

For all of 2023, productivity gained +2.7%, a dramatic resurgence from a year earlier. If this trend continues, it's a potential game-changer.

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