



THE HEART OF CUYAHOGA COUNTY

**6800 Brecksville Road
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MEMORANDUM

To: Mayor Gregory P. Kurtz
Members of Council

From: Finance Director Vernon Blaze

Date: Friday, January 26, 2024

Re: Finance Office and Related Topic Updates

Investment Portfolio

The City had a few securities in its Fifth Third account mature recently.

The Finance Office is constantly evaluating current market conditions for the best way to re-invest maturing securities so as to earn the optimum amount of yield while ensuring that "Safety" is still the primary investment priority.

Part of the maturing securities (\$1.1 million) were reinvested this week in a Federal Home Loan Bank bond that will yield 4.65% for five years.

This bond is callable once a year during the life of it. So the worst that can happen is that the City earns 4.65% on it for the next 12 months.

(Callable means the issuer has the right to redeem, or pay off, the bond prior to its maturity date).

Investment Portfolio - Continued

If interest rates start to decline and the rates/yields on similar bonds fall under 4.65%, it is quite possible then that this bond will be called (redeemed) at that point.

If so, the City will either utilize the cash received for the bond at that time to pay for upcoming capital acquisitions or infrastructure projects or re-invest some or all of the principal into another investment security.

The Federal Home Loan Bank bond was acquired to at least partially diversify the City's overall investment portfolio. But U.S. Treasury instruments remain the primary investment security of choice in this Fifth Third Account.

The following transactions have not settled yet like the above-noted one has, but the City also reinvested an additional \$3.3 million in U.S. Treasuries this week as follows (With the exact yields not known until the transactions close):

- \$1.1 million for One (1) year at approximately 4.81%+-
- \$1.1 million for Two (2) years at approximately 4.31%+-
- \$1.1 million for Three (3) years at approximately 4.16%+-

“Conventional wisdom” is saying that the Federal Reserve (The Fed) will embark on an interest rate reduction initiative here in 2024, with several 2024 interest rate cuts priced into various securities and the market at this time.

But some market watchers have recently started to opine that the Fed may not start cutting the Federal Funds Rate until this summer at the earliest, and the latest narratives being floated by some of them is that the Fed may not cut the Federal Funds Rate at all here in 2024.

No matter what happens with interest rates here in 2024, the City is well diversified between short and mid-term length securities, being positioned to provide the Safety, Liquidity and Yield the City needs on its Investment Portfolio.