



MARTIN COUNTY, FLORIDA INVESTMENT PORTFOLIO REPORT February 2019



INVESTMENT RECAP

Summary of February Investments: During June 2018, the County embarked on a strategy to reduce holdings in overnight investments such as Florida Prime and to build a portfolio of fixed income securities. Phase one of that strategy was completed this January and the County now holds a core \$100 million fixed income portfolio invested in a diversified mix of U.S. Treasuries and agencies with maturities of \$5 million laddered every month from June 2019 through January 2021. As positions begin to mature later this year, they will be reinvested to the end of this ladder. Phase two of our strategy would invest recent tax inflows in short-term instruments with maturities matched to expected cash needs. Thus far, we have made three purchases totaling \$21 million, positioning \$7 million per month from August 2019 through October 2019. Additional purchases in this cyclical portion of the portfolio have been postponed indefinitely as it is now more advantageous to hold these shorter funds in overnight alternatives such as Florida Prime.

KEY ECONOMIC INDICATORS

- **EMPLOYMENT:** Nonfarm payrolls grew by just +20k during February, well short of the Bloomberg median forecast for +180k. However, it appears that seasonal adjustments and the government shutdown are distorting the data as January's already huge +304k figure was revised higher to +311k. Averaging the last three months yields much more realistic gains of +186k per month. The unemployment rate fell from 4.0% to 3.8%, just above the 3.7% low reached last September.
- **INFLATION:** Inflation moderated further as headline CPI rose 0.2% in February while the core rate rose just 0.1%. On a year-over-year basis, CPI slid from +1.6% a month ago to +1.5% in February and core CPI slipped from +2.2% to +2.1%.
- **FACTORY SECTOR:** The ISM manufacturing index declined from 56.6 to a two-year low of 54.2 in February. Readings above 50 indicate expansion, but the pace has clearly slowed given that the average level for all of 2018 was 58.8.
- **SERVICE SECTOR:** The ISM non-manufacturing index, on the other hand, boomed during February, surging from 56.7 to 59.7. That's within 1.6 points of the highest level in the 30 year history of this series. The forward looking new orders component rocketed to 64.7.
- **CONSUMER SPENDING:** January's shutdown delayed retail sales data barely recovered from December's extreme weakness, advancing +0.2% on the month while December's original -1.2% was revised downward to an even worse -1.6%. The "control group" figure that is used in GDP calculations rose +1.1% in January, but that was hardly any consolation after December's figure was revised down from -1.7% to -2.3%.
- **ECO GROWTH:** Q4-2018 GDP data was finally released in late-February and although the +2.6% gain bettered forecasts for +2.2%, the subsequent revisions to December retail sales will likely mean a downward revision later this month. Early estimates for Q1-2019 suggest even slower growth, perhaps less than +1.0%. The Atlanta Fed's Q1 GDP Now forecast as of March 13th was just +0.4%.

NEWS and EVENTS

- Consumer confidence measures rebounded along with stock valuations following the end of the government shutdown, but actual spending has not followed suit as December and January retail sales data disappointed.
- Weaker economic data abroad, particularly from Europe and China, have heightened concerns about a global slowdown. The ongoing trade war and Brexit headlines compound these worries.
- The Federal Reserve has adopted a "patient" approach, suggesting additional rate hikes are on hold. Financial markets no longer expect any rate hikes in 2019. Fed fund futures imply the next move is more likely to be a rate cut.
- The Trump administration decided to postpone the escalation of tariffs originally due to take effect in early March, but there is still no official agreement. While markets maintain their optimism a deal will be reached, many thorny issues remain unresolved. Resolution of the trade war remains key to the economic outlook.
- Interest rates stabilized, rising slightly during the month. The intermediate part of the yield curve remains flat to inverted, as the chances for additional rate hikes in 2019 have all but died. The two-year Treasury note yield closed the month at 2.51% while the three-year was lower at 2.49% and five-year equal at 2.51%.

PORTFOLIO SUMMARY

	9/30/2018	10/31/2018	11/30/2018	12/31/2018	1/31/2019	2/28/2019
Book Value	\$202,988,063	\$183,430,133	\$214,394,483	\$318,846,108	\$309,362,569	\$306,989,895
Market Value	\$202,889,782	\$183,287,135	\$214,288,619	\$318,988,330	\$309,575,837	\$307,153,155
Market Value%	99.95%	99.92%	99.95%	100.04%	100.07%	100.05%
Weighted Average Maturity - Days	174 days	181 days	144 days	133 days	154 days	144 days
Weighted Average Yield	2.646%	2.433%	2.537%	2.572%	2.623%	2.624%
Earned Income	\$440,783	\$378,048	\$380,748	\$586,220	\$700,039	\$616,191
Earned Income-Fiscal Year-to-Date	\$4,209,412	\$378,048	\$758,795	\$1,345,015	\$2,045,054	\$2,661,245
Change in Market Value *	(\$66,719)	\$12,903	\$100,054	\$334,644	\$155,709	\$37,503
Income Net of Change in Mkt Val	\$374,064	\$390,951	\$480,801	\$920,864	\$855,748	\$653,693

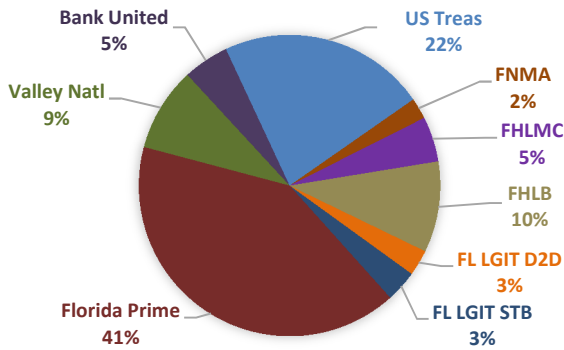
* Change in market value is net of additions/withdrawals and represents unrealized gains and losses in the portfolio.



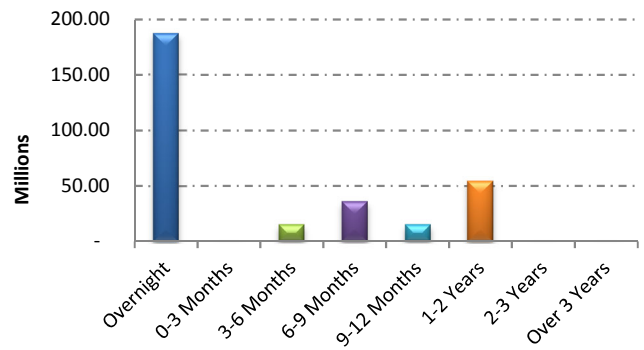
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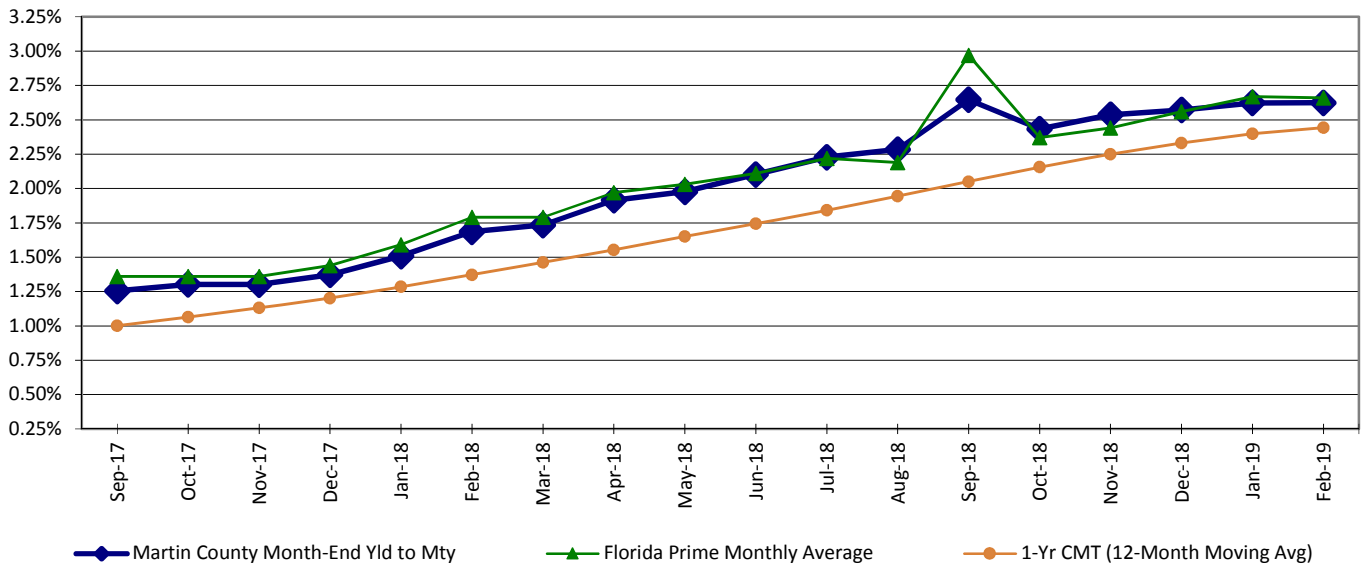
Portfolio Composition by Issuer



Portfolio Composition by Maturity



YIELD COMPARISONS



SHOCK ANALYSIS

	Down 50 Basis Points	Down 25 Basis Points	Base	Up 25 Basis Points	Up 50 Basis Points	Up 100 Basis Points
Book Value	\$306,989,895	\$306,989,895	\$306,989,895	\$306,989,895	\$306,989,895	\$306,989,895
Market Value	\$307,834,785	\$307,493,970	\$307,153,155	\$306,812,340	\$306,471,526	\$305,789,896
Unrealized Gain/(Loss)	\$844,890	\$504,076	\$163,261	-\$177,554	-\$518,369	-\$1,199,999
Market Price	100.28%	100.16%	100.05%	99.94%	99.83%	99.61%
Book Yield	2.337%	2.481%	2.624%	2.768%	2.912%	3.199%
Duration	0.444	0.444	0.444	0.444	0.444	0.444

The portfolio shock analysis is intended as a risk management tool and should not be considered a definitive assessment of market value. The analysis assumes an instantaneous parallel shift in interest rates. Cash equivalent holdings such as bank deposits, Florida Prime, and FL LGIT Day to Day are assumed to have a duration of zero and their yields are assumed to shift immediately. The FL LGIT Short Term Bond Fund duration is taken from the FL LGIT web-site and was 1.59 as of 1/31/19 (2/28/19 hasn't been published yet).