



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 5/18/2021

ITEM NO: 6

DATE: May 12, 2021
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the Third Quarter Investment Report (January through March 2021) for Fiscal Year 2020/21.

RECOMMENDATION:

Receive the Third Quarter Investment Report (January through March 2021) for Fiscal Year 2020/21.

DISCUSSION:

As of March 31, 2021, the Town's weighted portfolio yield was 1.43% which trended above the Local Agency Investment Fund (LAIF) yield of 0.36%. This favorable yield differential was primarily due to the LAIF portfolio's weighted average maturity (WAM) of 220 days and the Town's longer WAM of 572 days. The Town's weighted average rate of return of 1.43% at the close of the third quarter was 52 basis points lower when compared to the third quarter return of 1.95% in 2020.

During the third quarter, with LAIF yields dropping steadily each month, staff in coordination with the Town's investment advisor began replacing maturing investments in shorter term maturities in the two to three year maturity range to capture current yields available that exceed the rates expected to be earned in the State Local Agency Investment Fund (LAIF) pool during that same time period. The State LAIF pool typically lags the market when current market yields are either increasing or decreasing. However, with LAIF's WAM of 220 days, staff continues to expect a steady decline in LAIF portfolio yields until the LAIF portfolio reflects the low short-term investment yields prevailing in the market.

The Federal Reserve (Fed) continues to confirm no expected change to its policy until late 2023. The Fed said it is committed to keeping the target range for the federal funds rate at 0% to 0.25% until "labor market conditions have reached levels consistent with the Committee's assessment of maximum employment."

PREPARED BY: Stephen Conway
Finance Director

Reviewed by: Town Manager, Assistant Town Manager, and Town Attorney

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The Fed's quarterly economic forecasts improved significantly reflecting the President's \$1.9 billion stimulus package and the accelerating pace of COVID-19 vaccinations. Unemployment is expected to fall below 4% by the end of calendar year 2022, compared to the Fed's previous estimate of 5.5%. The Fed also forecasts a gross domestic product (GDP) of 6.5%, which if achieved, would mean a recovery in GDP beyond the pre-pandemic levels. The forecast also anticipates that inflation could be approaching or at the Fed's annual target of 2%. In recent months, perceptions about potential inflation has led to Treasury yields rising dramatically. For example, on March 31, 2020, ten-year US Treasury notes were yielding .70% versus 1.74% on March 31, 2020.

To meet the Town's Investment Policy deadline for submittal of this report to the Town Council, staff was not able to provide this report to the Finance Commission prior to Town Council deadline. Staff plans on bringing this report to the Finance Commission for review in its June 2021 meeting. Staff's current goal is to have all subsequent Investment Reports available to the Finance Commission for review prior to submittal to the Town Council.

CONCLUSION:

Staff recommends that the Town Council receive the Third Quarter Investment Report (January through March 2021) for Fiscal Year 2020/21.

Attachment:

1. Third Quarter Investment Report for FY 2020/21 (January through March 2021)