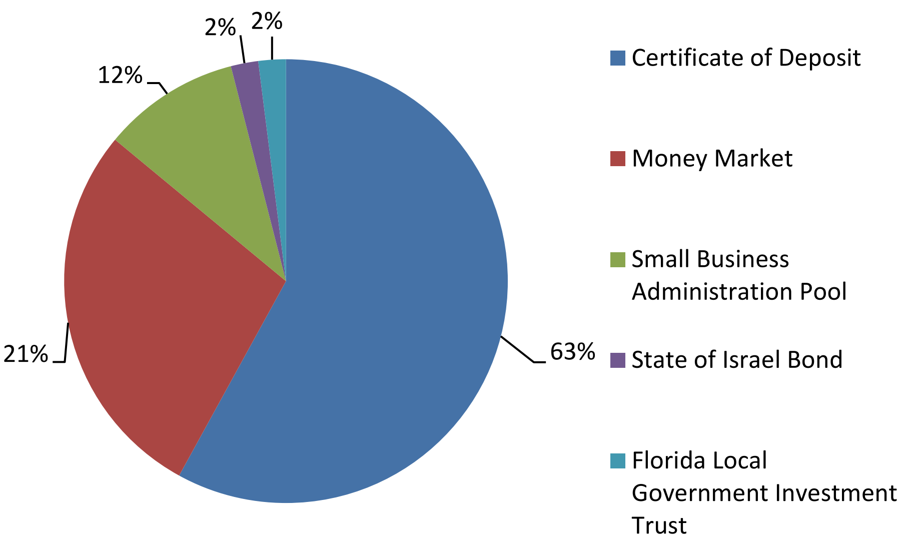
Consolidated Investment Report

May 2019

SHARON R. BOCK
Clerk & Comptroller
Palm Beach County

As Palm Beach County's Chief Financial Officer, the Clerk & Comptroller is charged with safeguarding and investing all County funds. The Clerk's management of the fixed income portfolio is in accordance with regulations set forth in Palm Beach County's Investment Policy. The County Investment Policy is very specific in terms of its stated investment objectives. The primary objective of the policy is to prevent any loss of principal and, secondarily, to meet the County's expenditures. After meeting these two objectives, the Clerk actively seeks opportunities to maximize investment income.

Portfolio Allocation
May 31, 2019



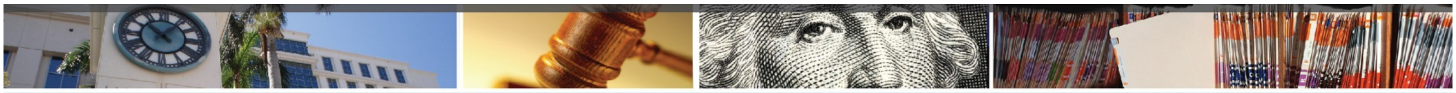
Performance
Total Return

Fiscal Year to Date	1.60%
Prior Month	0.25%
Prior Quarter	0.71%
Prior Year	1.87%*
Prior 3 Years	1.63%*
Prior 5 Years	1.53%*
Prior 8 Years	1.60%*

*figures annualized

Portfolio Statistics

	May '19	April '19	March '19	February '19	January '19	December '18
Month-end Market Value	$2,222,292,169.20	$2,335,403,694.84	$2,369,288,854.75	$2,400,548,666.82	$2,370,520,165.14	$2,365,107,393.26
Book Value	$2,205,392,443.10	$2,318,875,311.19	$2,352,871,447.84	$2,384,277,450.02	$2,354,390,226.95	$2,349,111,544.45
Unrealized Gain/Loss	$16,899,726.10	$16,528,383.66	$16,417,406.91	$16,271,216.80	$16,129,938.19	$15,995,848.50
Book Yield	2.756%	2.747%	2.745%	2.739%	2.72%	2.701%
Market Yield	2.783%	2.772%	2.755%	2.757%	2.744%	2.757%
Effective Duration	0.475 years	0.514	0.544 years	0.593 years	0.610 years	0.596 years
Convexity	0.488	0.233	0.231	0.232	0.239	0.275
Average Credit Rating	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+	AA+/Aa1/AA+



Portfolio Income

	May '19	April '19	March '19	February '19	January '19	December '18
Interest Income (FYTD)	$38,720,982.81	$33,511,140.50	$28,137,955.85	$22,372,270.09	$17,257,281.69	$12,215,279.38
Investment Income (FYTD)	$40,010,532.84	$34,500,778.81	$29,087,226.93	$23,181,551.08	$17,963,582.11	$12,791,443.00
Interest Income (current month)	$5,209,842.31	$5,373,184.65	$5,756,685.76	$5,114,988.40	$5,042,002.32	$4,568,361.60

May 2019 Economic Overview

During May, the 10-year Treasury note plunged and short term interest rates sank while stock prices declined on trade war news (more tariffs). The ten year Treasury note yield closed at 2.13% on 5/31/19 vs. 2.50% at the end of April while the 2 year note yield fell to 1.92% on 5/31/19 vs. 2.27% on 4/30/19. The large declines in Treasury yields were due to tariffs announced for U.S. imports from both China and Mexico. The collapse of trade talks with China led to new tariffs on the Middle Kingdom. President Trump's frustration with the lack of Mexican help to stop immigration from Central America through Mexico to the U.S. led to new tariffs on Mexico set for early June. Those higher taxes seem likely to slow global economic growth, damage the U.S. economy, and hurt corporate earnings. The Dow Jones Industrial Average closed at 24,815 on 5/31/19 vs. the 26,593 close on 4/30/19. Now most Treasury yields are below the Fed Funds Target Range of 2.25% to 2.50%. The bond market expects a Fed rate cut soon.

Consumers:

The April labor data showed a strong gain of 263,000 nonfarm payroll jobs vs. the 189,000 increase in March. The April unemployment rate fell to 3.6%, a 49-year low, vs. 3.8% in March while average hourly earnings were 3.2% higher year over year, the same annual increase reported in March. April retail sales fell 0.2% vs. a 1.7% gain in March. Personal consumption in the first quarter was revised lower and early indications for the second quarter suggest slower spending ahead. Initial jobless claims remained low and wage gains continued to be above 3% providing consumer spending power. The University of Michigan and Conference Board consumer confidence numbers remained elevated but most of the data was compiled before the new tariffs were announced. Post-tariff data were weaker later in the month.

Business:

Business investment spending was revised lower in the first quarter and early second quarter numbers pointed to more weakness. April capital goods orders and shipments were much weaker than expected and so were both April ISM surveys. The manufacturing PMI fell to a 30-month low while the non-manufacturing index slipped to a 21-month low. May small business confidence was higher, but probably did not reflect trade worries. The May Markit PMIs might have reflected trade war concerns with the slowest services activity since 2016 and the worst month for manufacturing since 2009.

International:

The March advanced goods trade data showed less widening in the deficit than expected, but total trade flows were weaker as both imports and exports declined due to building trade war tensions.

Inflation:

Core, ex-food & energy, Consumer Price Index inflation was weaker than expected in April on a big drop in goods prices, while the core Personal Consumption Expenditures Deflator, the Fed's preferred inflation gauge, had it firmest month since October but was still a low annual pace of 1.6%, below the Fed's 2.0% target rate.

Housing:

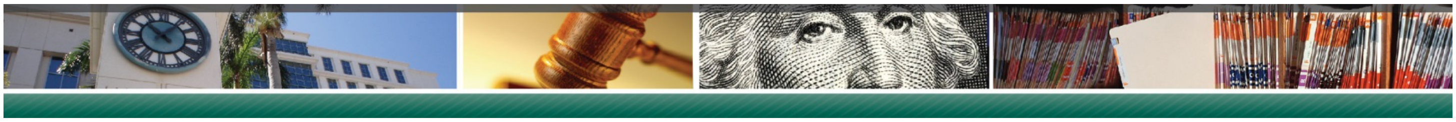
Housing data showed home prices continued to slip and mortgage rates declined but did not spark more activity. S&P CoreLogic reported home price gains fell to the lowest since 2012, while pending home sales, actual sales, and new home sales fell more than expected. Most housing demand is in the entry level market where new and existing inventories are low.

Monetary Policy:

As of May 1, Fed Chair Powell believed that recent below-Fed-2.0%-target inflation was "transient." The May Fed FOMC meeting minutes indicated that most Fed officials agreed. Historically, when the Fed has paused a rate hike program for more than five months, the next rate move has been a trend reversing rate cut. The last hike was on 12/19/18. More than five months ago. Low inflation would give the Fed room to cut rates, despite a strong job market, in order to support the economy and the stock market.

Bottom Line:

At the end of May, the Dow Jones Industrial Average fell below its 200 day average putting stocks into a long term downtrend. If that downtrend persists, stock market performance could be forecasting a meaningful economic downtrend. However, the Federal Reserve's patient rate hike pause and monetary policy flexibility could eventually support the stock market and return it to a long term uptrend again. The long-term trends for



both bonds and short-term interest rates remain down indicating slower economic growth, low inflation, and possible Fed rate cuts ahead.