



# INVESTMENT PLANNING

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The logo consists of the letters 'C' and 'O' in a white, sans-serif font, with a small white dot positioned below the 'O'. The logo is set against a dark blue background that is part of a larger decorative element on the left side of the slide, which includes a green diagonal line.

# How and why rates move

Hint: it's the FED

# Defining the Fed

- Federal Reserve System
  - Board of Governors, Reserve Banks, FOMC
- Dual Mandate
  - Price stability and full employment

## Fed Statement Tracker

May 3, 2023 → Jun 14, 2023 [hide changes](#)

**Economic activity** Recent indicators suggest that economic activity has continued to expand at a modest pace in the first quarter. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated.

The U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to ~~raise~~ maintain the target range for the federal funds rate at 5 to 5-1/4 percent. ~~The Committee will closely monitor incoming~~ Holding the target range steady at this meeting allows the Committee to assess additional information and assess its implications for monetary policy. In determining the extent to which of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective.

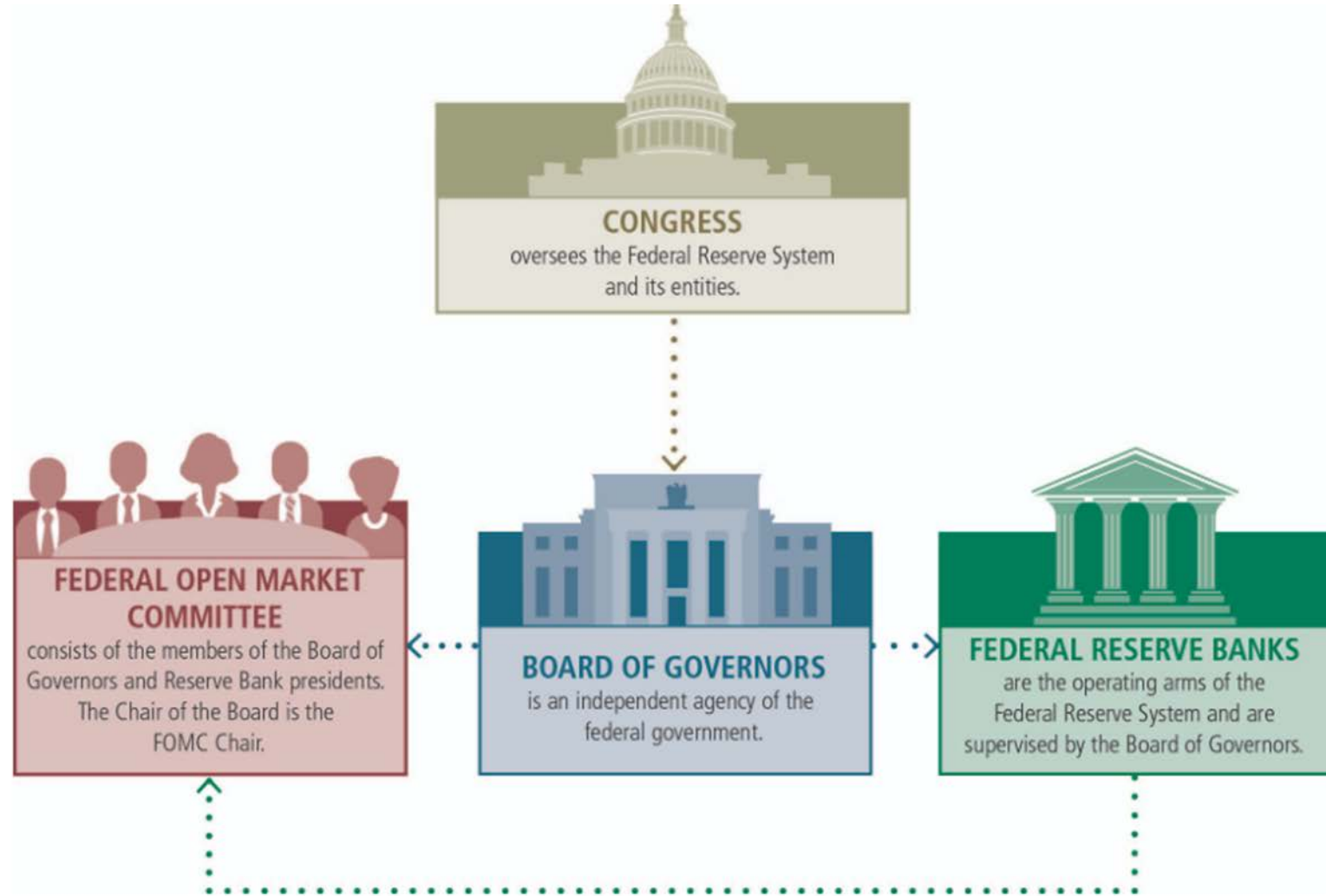
In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Lisa D. Cook; Austan D. Goolsbee; Patrick Harker; Philip N. Jefferson; Neel Kashkari; Lorie K. Logan; and Christopher J. Waller.

For media inquiries, please email [email protected] or call 202-452-2955.

Implementation Note issued ~~May 3~~ June 14, 2023

# Defining the Fed

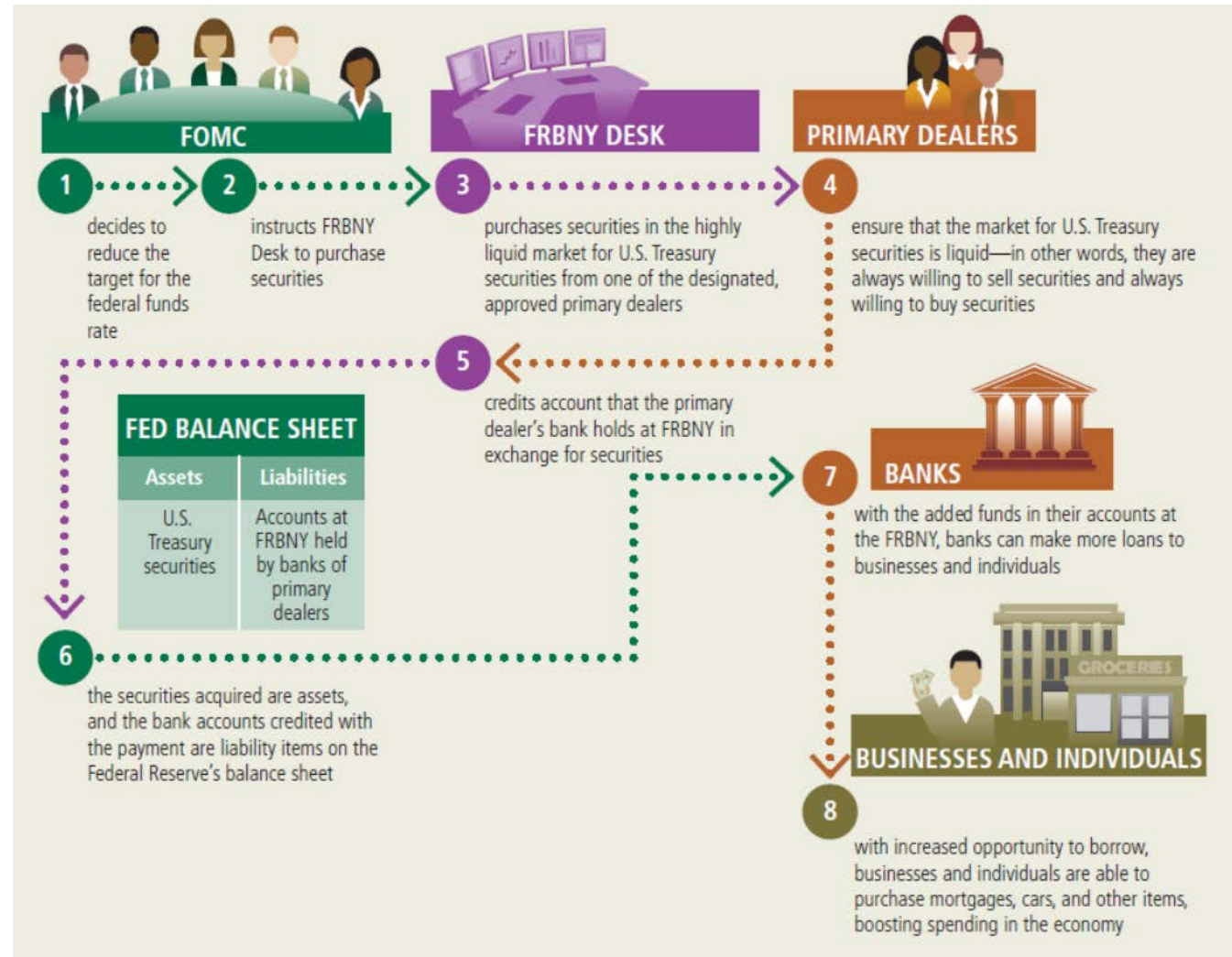


# Defining the Fed

## **Federal Reserve System (Board of Governors, Reserve Banks, FOMC)**

- Dual mandate – Price stability and full employment
- How do they establish/implement monetary policy?
  - FOMC meeting (12 voting members) deliberate policy action and commentary
  - Open Market Operations
  - Bank Reserve Requirements
  - Discount Window
- How do their actions/comments affect the markets?
  - Purchase or sell securities to affect value of treasuries in the open market
  - Inverse rate/price relationship on bonds

# Defining the Fed



# Defining the Fed

## How do their actions/comments affect the markets?

- Purchases/sales change yields
- Comments filtered by market participants looking to “bet” on their next move, or make investments according to their perspective on the economy at large

## What *actually* happens when the FED changes rates

- Federal Reserve moves
  - Higher rates make borrowing more expensive
  - Lower rates pull demand forward, that eventually needs to be reset
  - Mortgage for \$100k for 30 yrs @ 4%=\$477 5%=537
- Banks reaction
  - Rising rates: shorten loan terms to keep up with deposit rate rises
  - Falling rates: extend loan terms (avoid lower reset) and follow deposit rates down
- Investor reaction: opposite
  - Rising rates: lock in rates on loans for longer terms, stay liquid in cash
  - Falling rates: float rates on loans, lock in rates on cash





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## What are your options?

Not a lot of excitement here 😊

## What are your options?

### **Options (Wis. Stat. § 66.0603, 34.05-07, 219.02)**

- Treasuries - US gov't debt, low risk low return
- Banks - CDs, repos, collateralized liquid, US gov't backed to a point, implied higher risk, higher return
- Agencies - Implied US gov't backing, slightly higher risk, slightly higher return
- Corp Bonds – secured debt from public corporations
- Commercial Paper - short term unsecured debt from major corps, higher risk highest return
- All fluctuate in value EXCEPT bank products (mark to market)
- Opportunity to sell for profit, or lose principal if selling at a discount



## What are your options?

### **Wis. Stat. § 66.0603 Investments.**

(1m) INVESTMENTS.

1. Time deposits in any credit union, bank, savings bank, trust company, or savings and loan association which is authorized to transact business in this state.

5. Securities of an open-end management investment company or investment trust, if the investment company or investment trust does not charge a sales load, if the investment company or investment trust is registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, and if the portfolio of the investment company or investment trust is limited to the following:

- a. Bonds and securities issued by the federal government or a commission, board or other instrumentality of the federal government.
- b. Bonds that are guaranteed as to principal and interest by the federal government or a commission, board or other instrumentality of the federal government.
- c. Repurchase agreements that are fully collateralized by bonds or securities under subd. 5. a. or b.



## What are your options?

### **Wis. Stat. § 66.0603 Investments.**

2. Bonds or securities issued or guaranteed as to principal and interest by the federal government, or by a commission, board or other instrumentality of the federal government.
3. Bonds or securities of any county, city, drainage district, technical college district, village, town or school district of this state.
  - 3m. Bonds issued by a local exposition district under subch. II of ch. 229.
  - 3p. Bonds issued by a local professional baseball park district created under subch. III of ch. 229.
  - 3q. Bonds issued by a local professional football stadium district created under subch. IV of ch. 229.
  - 3s. Bonds issued by the University of Wisconsin Hospitals and Clinics Authority.
  - 3t. Bonds issued by a local cultural arts district under subch. V of ch. 229.
  - 3u. Bonds issued by the Wisconsin Aerospace Authority.
4. Any security which matures or which may be tendered for purchase at the option of the holder within not more than 7 years of the date on which it is acquired, if that security has a rating which is the highest or 2nd highest rating category assigned by Standard & Poor's corporation, Moody's investors service or other similar nationally recognized rating agency or if that security is senior to, or on a parity with, a security of the same issuer which has such a rating.



## What are your options?

### **Wis. Stat. § 34.05 Designation of public depositories.**

(1) The governing board of each public depositor shall, by resolution, designate one or more public depositories, organized and doing business under the laws of this state or federal law and located in this state, in which the treasurer of the governing board shall deposit all public moneys received by him or her and specify whether the moneys shall be maintained in time deposits subject to the limitations of s. 66.0603 (1m), demand deposits, or savings deposits and whether a surety bond or other security shall be required to be furnished under s. 34.07 by the public depository to secure the repayment of such deposits. A designation of a public depository by the governing board shall be a designation of the public depository for all treasurers of the governing board and for all public depositors for which each treasurer shall act.

(4) Notwithstanding sub. (1), s. 66.0603 (1m) (a), or any other provision of law, the governing board of a public depositor may direct the treasurer of the governing board to deposit public moneys in a selected public depository and, directly or through an authorized agent, instruct the public depository to arrange for the redeposit of the moneys through a deposit placement program that meets all of the following conditions: (a) On or after the date that it receives the public moneys, the selected public depository arranges for the redeposit of the moneys into deposit accounts in one or more federal or state savings and loan associations, state banks, federal or state savings banks, savings and trust companies, or national banks insured by the federal deposit insurance corporation or federal or state credit unions insured by the national credit union administration. (b) The full amount of the public depositor's moneys redeposited by the selected depository into deposit accounts with the financial institutions identified in par. (a), plus any accrued interest, are insured by the federal deposit insurance corporation or national credit union administration



## What are your options?

### **Wis. Stat. § 34.07 Security.**

A surety bond or other security, including an irrevocable letter of credit issued by a federal home loan bank, state bank, national bank, federal or state savings bank, federal or state credit union, or federal or state savings and loan association, may be required of or given by any public depository for any public deposits that exceed the amount of deposit insurance provided by an agency of the United States and the coverage provided under s. [34.08 \(2\)](#).

### **Wis. Stat. § 219.02 Securities eligible for investment may be used as collateral.**

Wherever, by statute of this state, collateral is required as security for the deposit of public or other funds; or deposits are required to be made with any public official or department; or an investment of capital or surplus, or a reserve or other fund, is required to be maintained consisting of designated securities, notes and bonds insured and debentures issued by the federal housing administrator and obligations of national mortgage associations shall be eligible for such purposes.