



What's in Store for 2017?

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Today – Quick Topic Overview

Economic Theme

- Continues to grow moderately

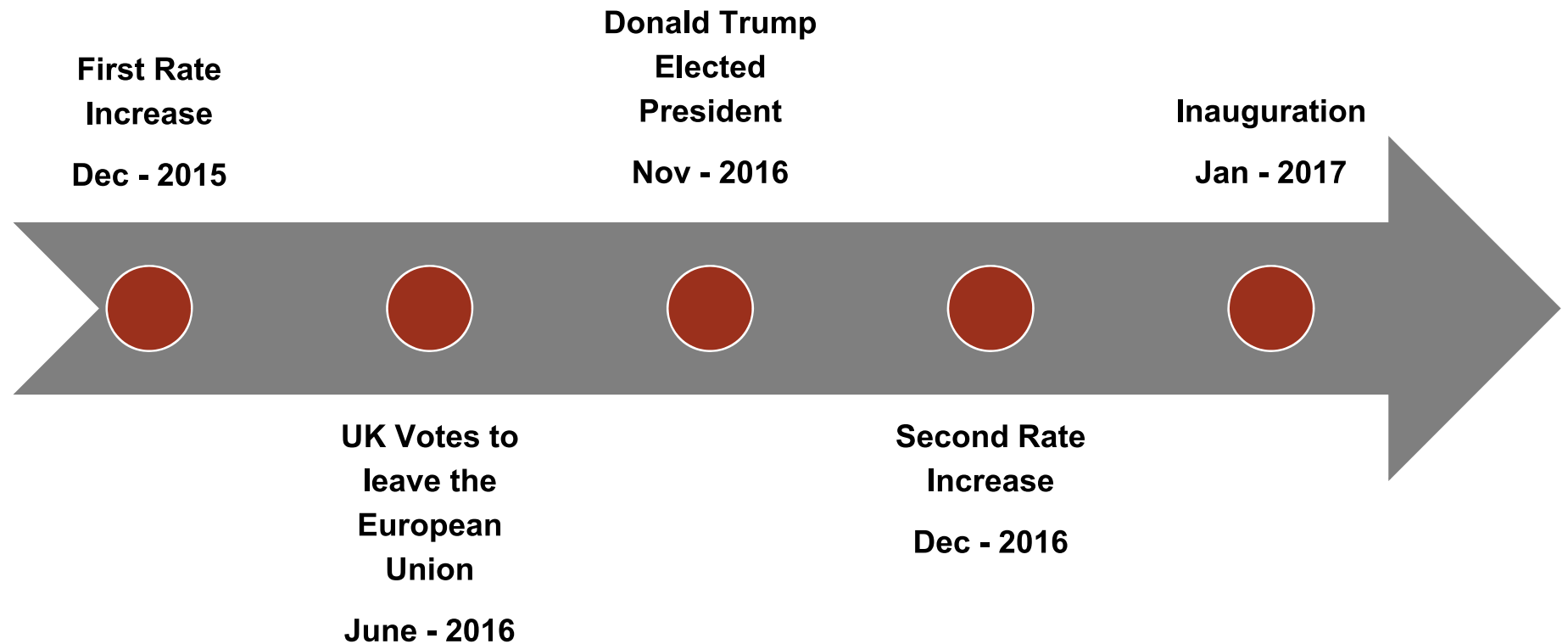
Federal Reserve & Interest Rates

- Past, present and future

Investment options

- Current rates

What's Happened Lately?

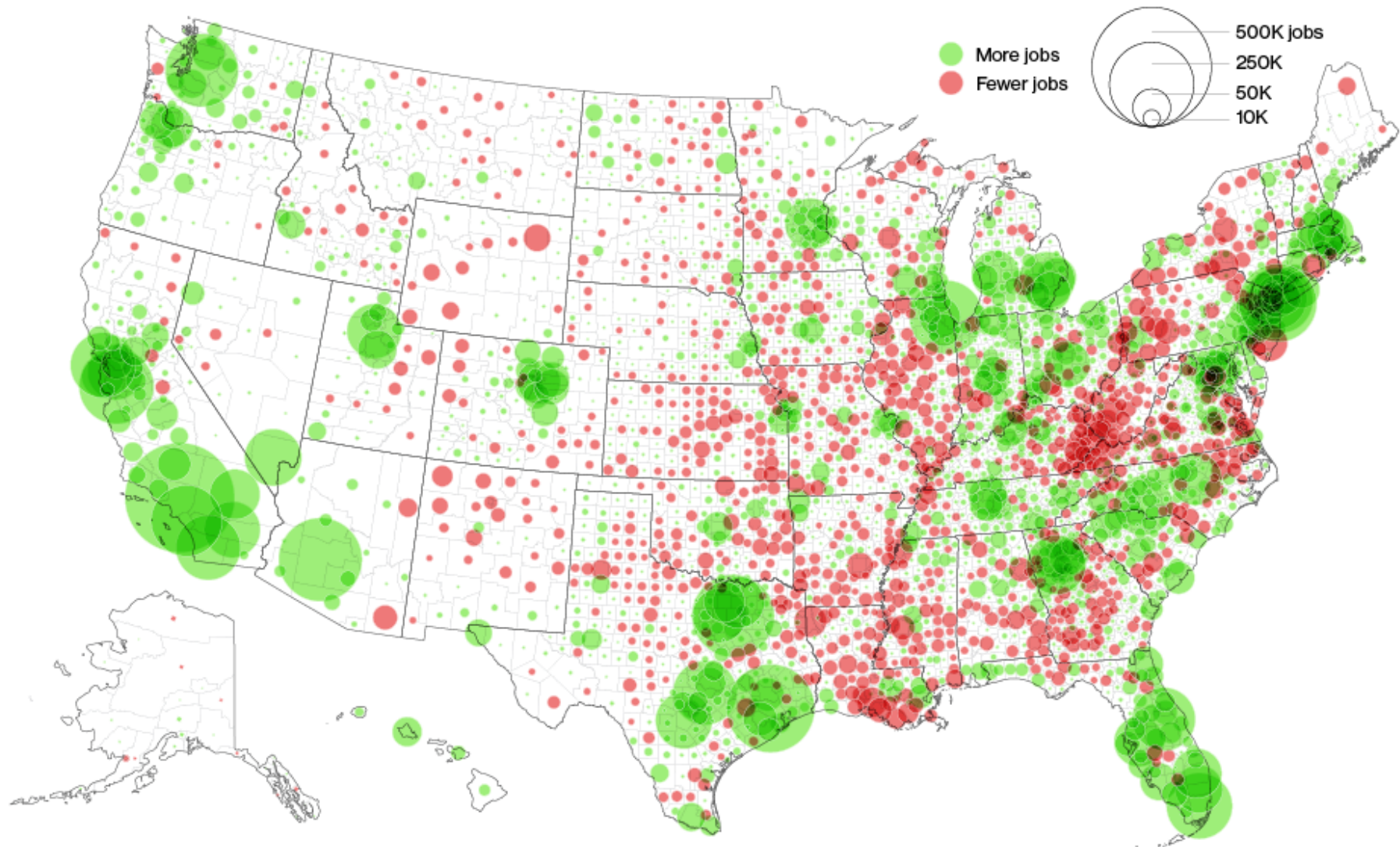


Economy



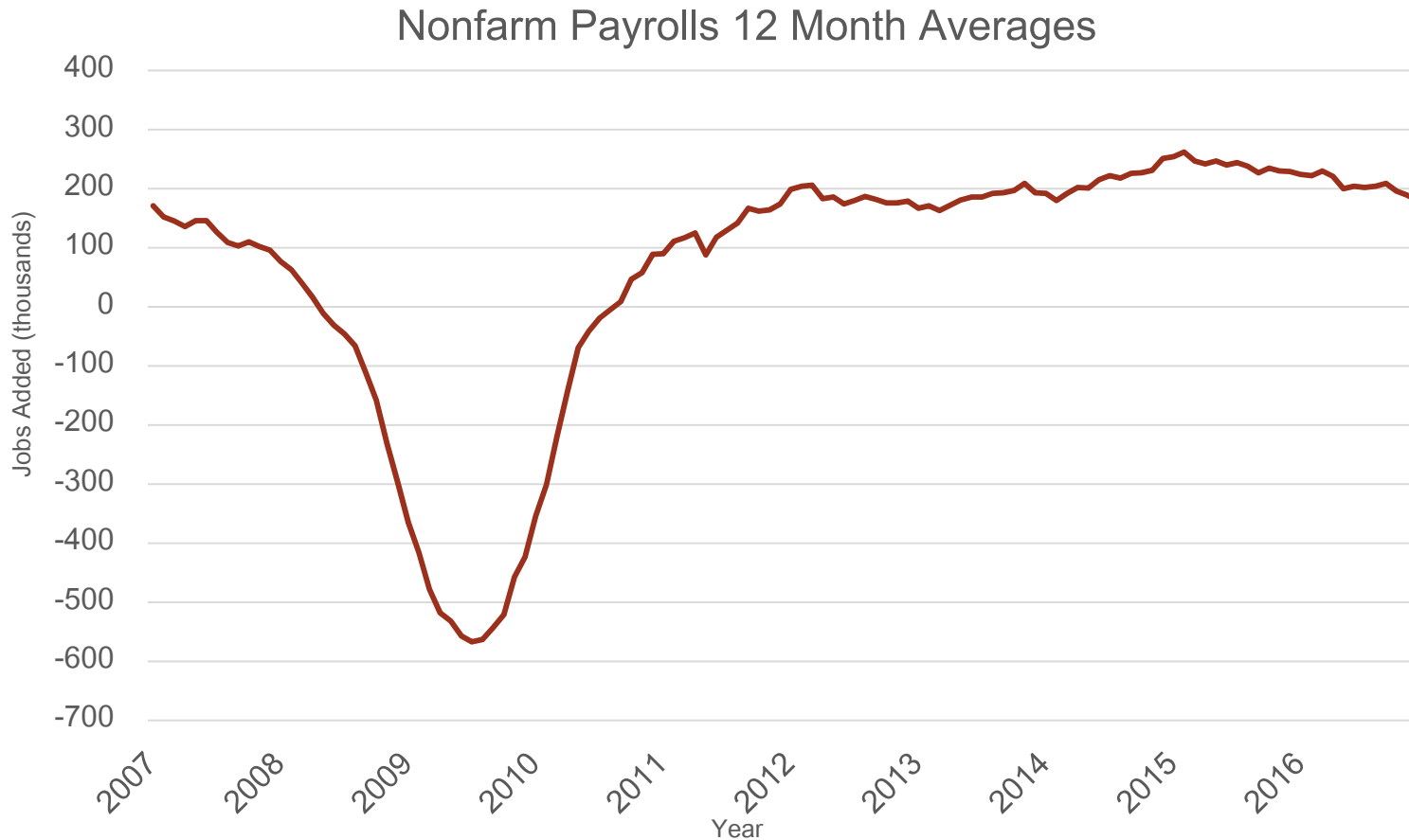
Where Were the Jobs?

Change in total employment from June 2009 to June 2016



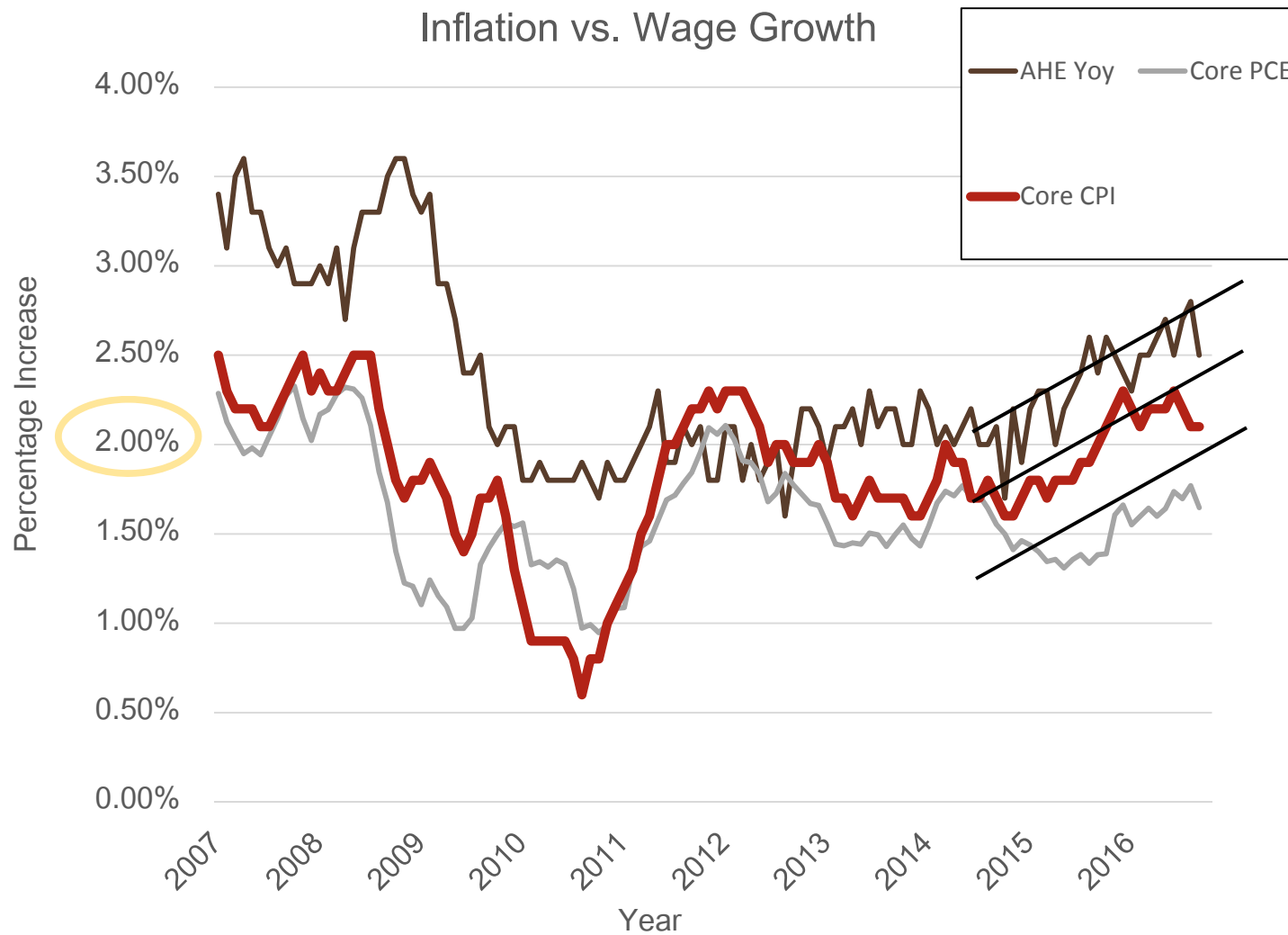
Source: U.S Bureau of Labor Statistics

Employment Landscape



- Huge job growth since the '08-09 Recession
- Job creation is now flat/slowing
- Typically a sign of an economy reaching a peak in an economic growth cycle

Wage Growth & Inflation



Auto Sales Data

Wednesday, January 04, 2017

Segment totals, ranked by Dec unit sales

	Dec 2016	% Chg from Dec'15	YTD 2016	% Chg from YTD 2015
Cars	624,837	-4.7	7,105,162	-8.1
Midsize	284,728	-5.4	3,213,880	-8.4
Small	239,376	-2.1	2,892,600	-6.2
Luxury	100,609	-8.5	997,661	-12.4
Large	124	-43.6	1,021	-44.7
Light-duty trucks	1,065,592	8.3	10,445,189	7.2
Pickup	269,729	2.6	2,692,540	5.9
Cross-over	524,312	17.0	4,950,966	8.5
Minivan	41,635	-17.7	553,131	8.0
Small Van	8,689	-27.0	90,376	-2.0
Large Van	39,548	10.3	372,757	13.2
Midsize SUV	91,641	-2.5	965,605	2.0
Large SUV	40,910	27.3	340,530	21.6
Small SUV	21,118	3.1	243,719	-4.2
Luxury SUV	28,010	0.5	235,565	3.2
Total SUV/Cross-over	705,991	13.4	6,736,385	7.4
Total SUV	181,679	4.1	1,785,419	4.4
Total Cross-over	524,312	17.0	4,950,966	8.5

- People are buying larger vehicles
- Why? Gas is cheap
- People are spending more on big ticket items > this fuels economic growth

Source: Wall Street Journal. January 2017

The Federal Reserve Recap

The Fed Funds Rate

- Reduced to near zero in December 2008
- Cut in rates due to financial crisis
- Interest rates on all products followed

December 2016

- Increased by another 0.25%
- Second increase in a decade
- Improved labor markets and better economy led to increase
- Fed will be watching effects of new administration policies closely

The Federal Reserve Characteristics

Doves – placid nature

- Emphasize low unemployment over inflation
- Favor expansionary monetary policy
- Results in lower interest rates

Hawks – on inflation

- Project higher inflation risks
- Favor tighter monetary policy
- Results in higher interest rates

- Most recently, the Fed has had more Doves as voting members
- Trump administration will appoint two members in 2017
- Therefore ideology of the Federal Reserve Board could shift

Interest Rates



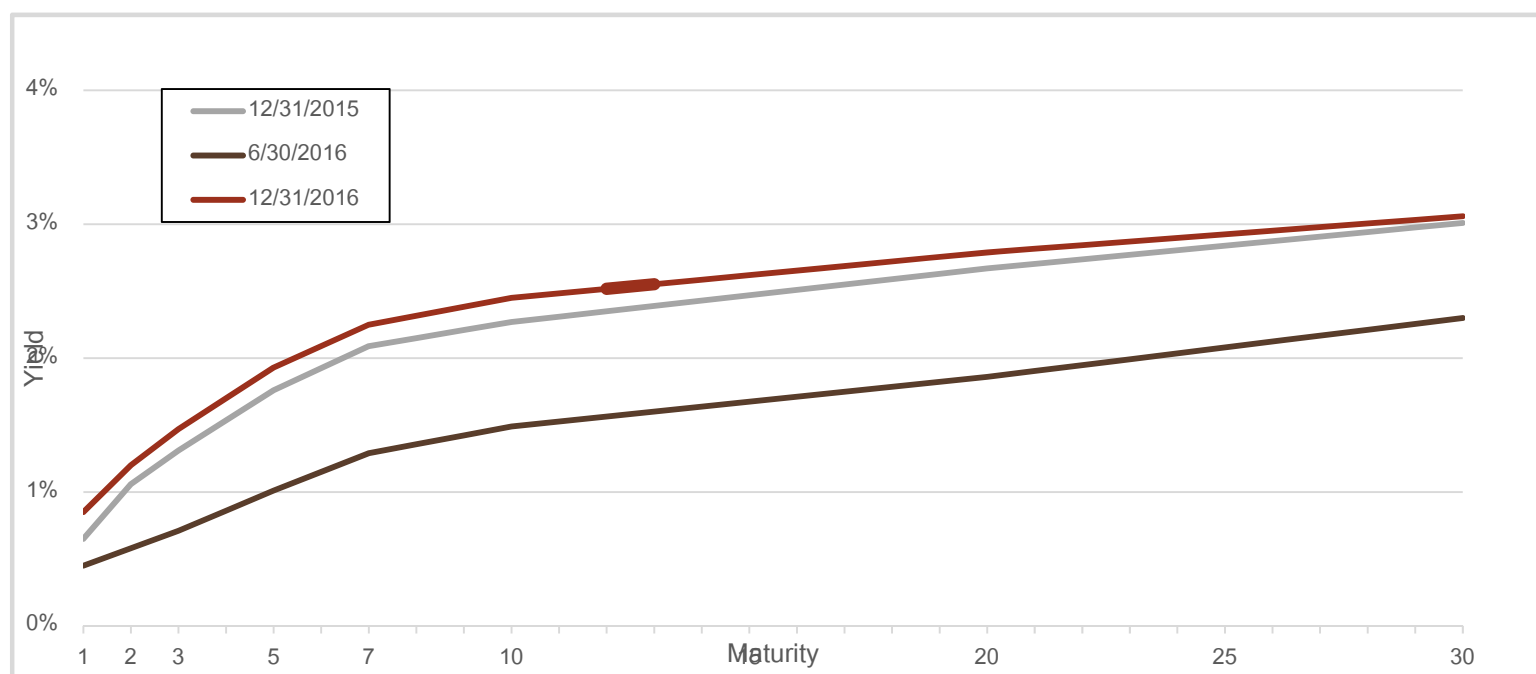
Election – Surprise!

- Clinton heavily favored to win
- Republican party won all 3 races
 - *Market had priced in a Clinton victory*
- After Trump and Republicans won, markets changed course
 - Stocks, oil, and bond yields all increased

Change in	Before Election ⇨ Today
2 Year US Treasury Note	+41%
10 Year US Treasury Note	+28%
S&P 500	+6%
Dow Index	+8%
Oil (Barrel)	+17%

Interest Rates Comparison

Maturity	December 31, 2015	June 30, 2016	December 31, 2016	First Half	Second Half	2016 Change
1	0.65%	0.45%	0.85%	-0.20%	0.40%	0.20%
2	1.06%	0.58%	1.20%	-0.48%	0.62%	0.14%
5	1.76%	1.01%	1.93%	-0.75%	0.92%	0.17%
10	2.27%	1.49%	2.45%	-0.78%	0.96%	0.18%
30	3.01%	2.30%	3.06%	-0.71%	0.76%	0.05%

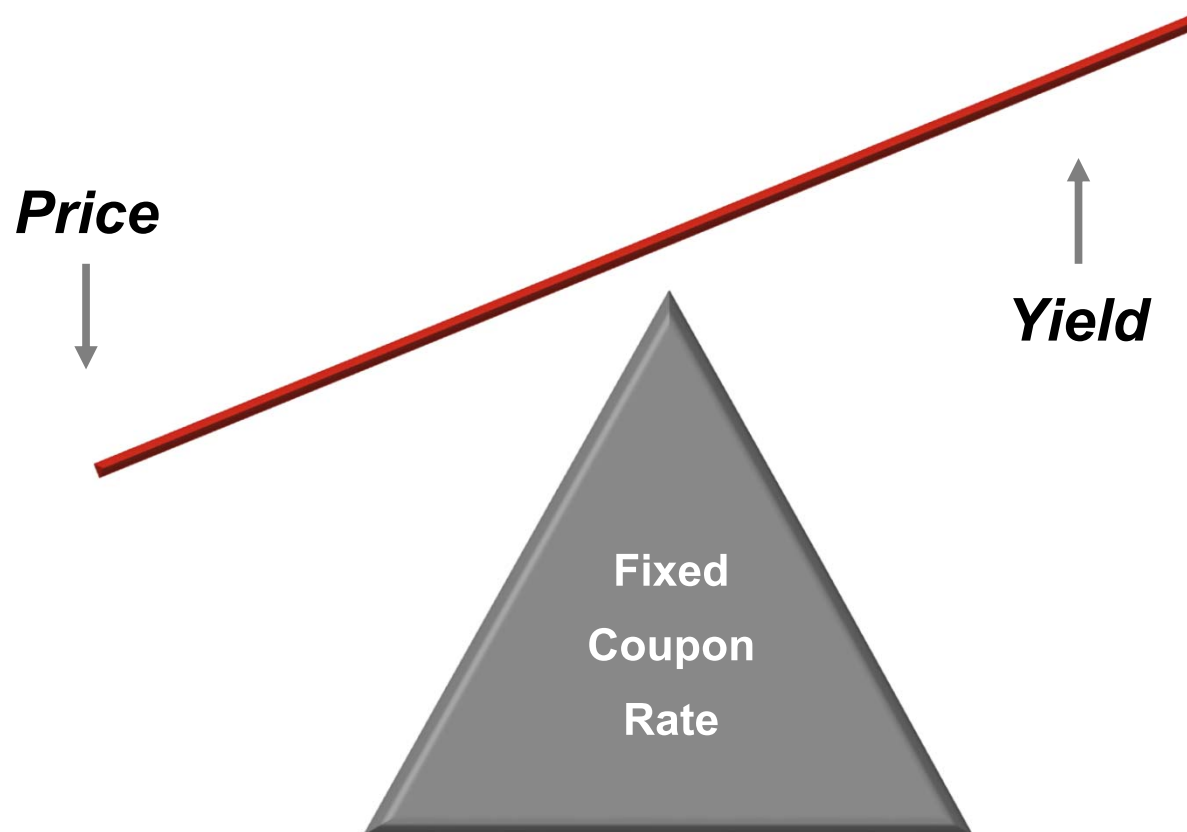


Source: U.S. Department of the Treasury

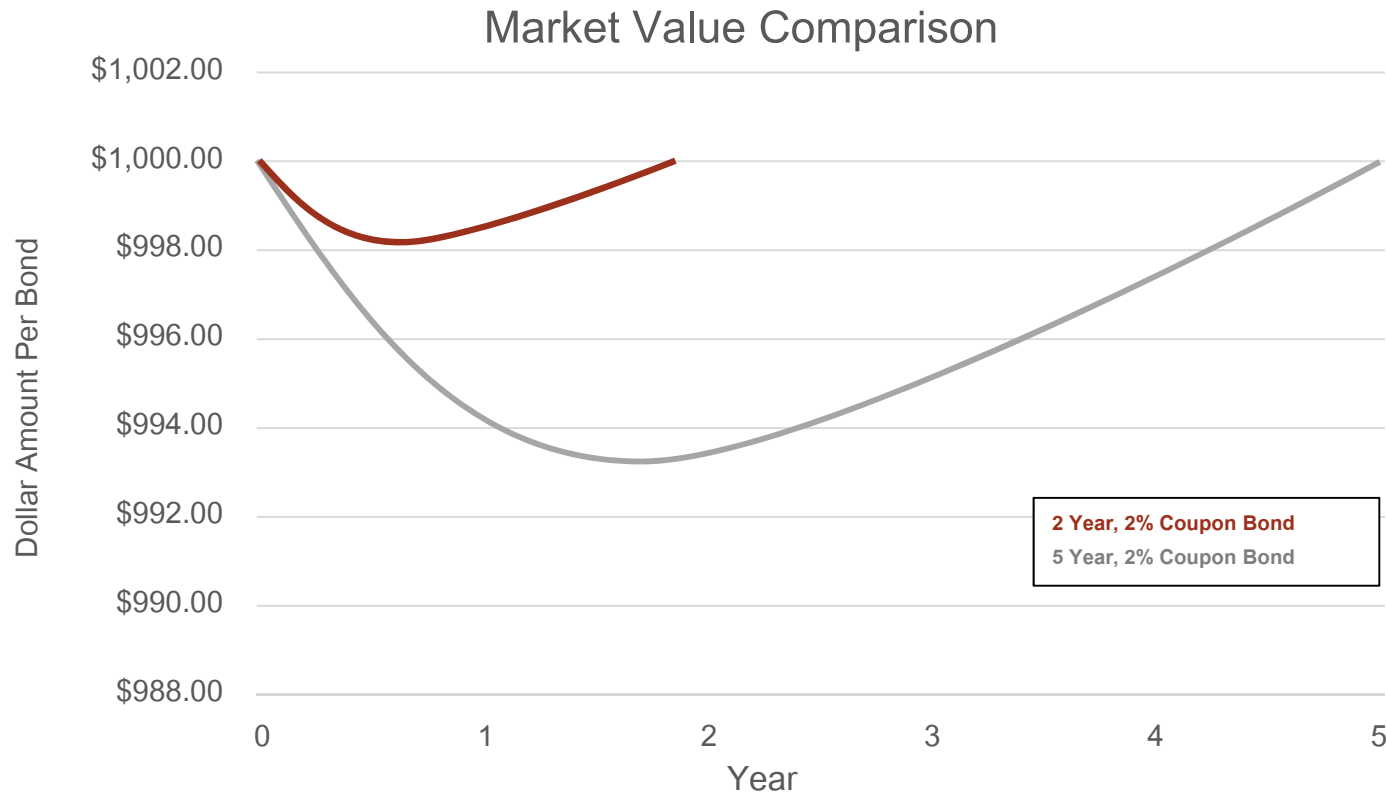
Market Value Changes



Price Yield Relationship



Market Value Changes



- This example holds true in a rising rate environment (remember seesaw)
- Market values for short-term bonds have less price change than longer-term bonds (*all else equal*)
 - Due to shorter maturity, have less interest rate risk
 - Over the long term, greater chance of a rise in interest rates, thus negatively affecting bond's market price

When Market Value Moves

What determines degree of market value change?

- Maturity date
- Type of security
- Coupon rate
- Call options

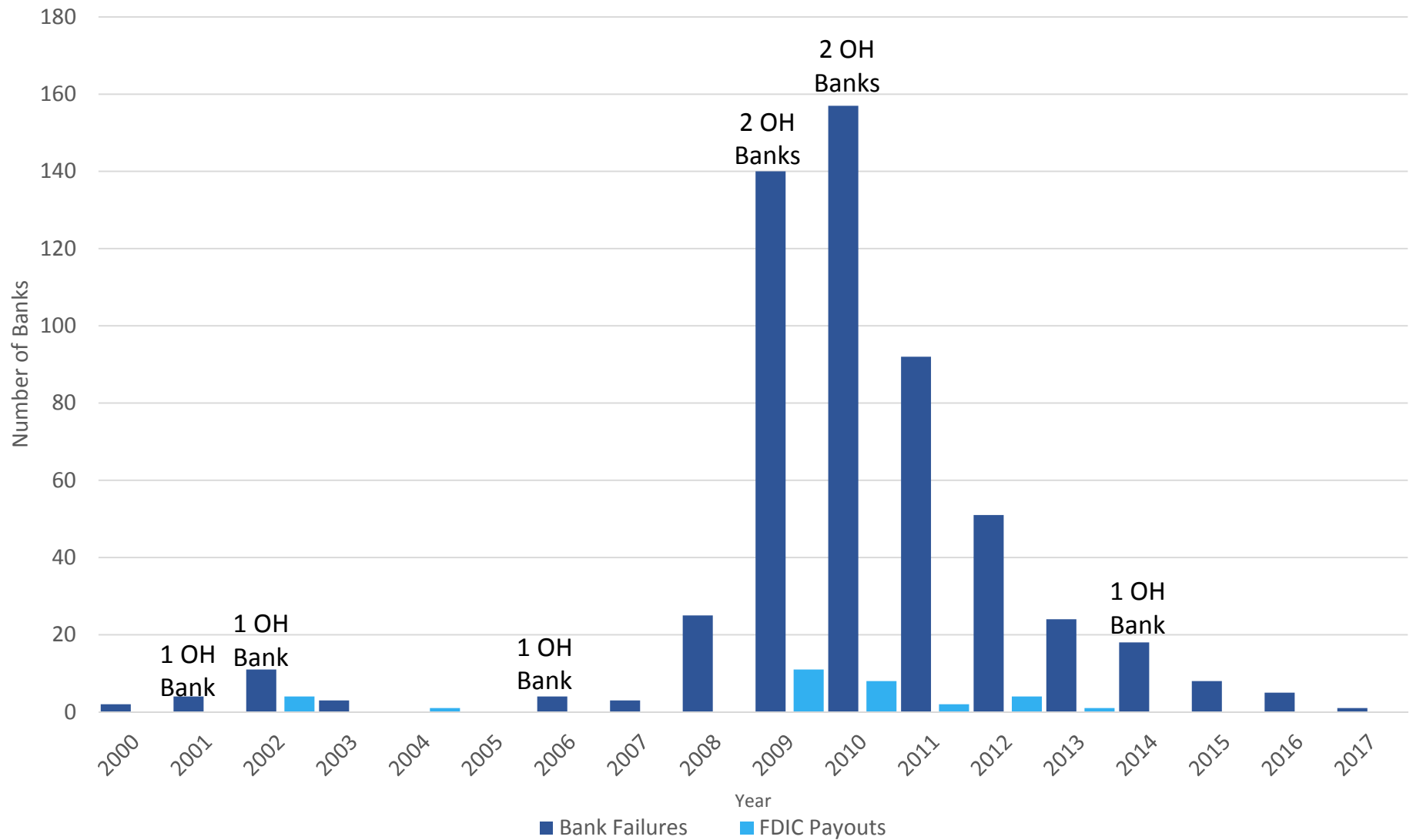
Should you be concerned?

- Held to maturity - no realized loss
- Need to sell for liquidity – *may* realize a loss
- Less flexibility if rates rise rapidly
- May get questions from board or finance committee

How to minimize market value fluctuations in a portfolio

- Diversify
- Own different types, maturities, call structures
- Continually monitor and reposition

FDIC Bank Failures – as of January 18, 2017



Source:

"Federal Deposit Insurance Corporation." *FDIC: Failed Bank List*. N.p., n.d. Web. 18 Jan. 2017.

Things to Know When Purchasing Brokered CD's

Bank Overlap – do you already own elsewhere?

- Cross-check FDIC bank numbers www.fdic.gov
- Example:
 - American Express Bank FSB – FDIC #35328
 - American Express Centurion Bank – FDIC #27471
- Be aware if work multiple providers

BankFind

Learn if your bank is insured, view locations, track history, and more.

Watch premiums

- Any amount paid over par (\$100) result NOT be covered by FDIC insurance
- Example:
 - Buy \$100,000 par of XYZ Bank CD @101.50 = cost \$101,500
 - Bank fails before CD matures.
 - Assuming no other deposits at XYZ Bank, ***only \$100,000 (plus any accrued interest) is paid.***

WHY? The \$1,500 over the \$100,000 originally paid for the security is not a deposit.
This premium is a market driven amount and therefore not covered.

Value in Commercial Paper



Investing in Commercial Paper

- 1) Ensure IPS is updated to allow CP
- 2) Is Board ok with it?
- 3) Need additional training approved by TOS
- 4) Criteria for portfolio holding(s):
 - Up to 40% of interim funds / 5% per issuer
 - Maturity restriction of 270 days
 - Highest rating category from at least two rating agencies (Moody's, S&P, Fitch)
 - Company assets >\$500 million
 - Holding must be <10% of issuer's outstanding CP program

Resources

Federal Reserve Bank of Cleveland – Economic Research

<https://www.clevelandfed.org/>

U.S. Department of the Treasury

<https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield>

- Good place to find benchmark yields!

Ohio My CPIM –find CP/Municipal classes

<https://www.tos.ohio.gov/cpim>

FDIC Numbers for banks

<https://www.fdic.gov>

Questions





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