



Quarterly Investment Report
Ending March 31, 2019

PATTERSON & ASSOCIATES



INVESTMENT PROFESSIONALS



Is it Downhill From Here?

Not necessarily. The debate on US growth however has shifted away from whether the US can hold out against global downward pressures to how long can it hold out absent Fed intervention. The Fed u-turn in December has spooked the markets and created a definite negative narrative.

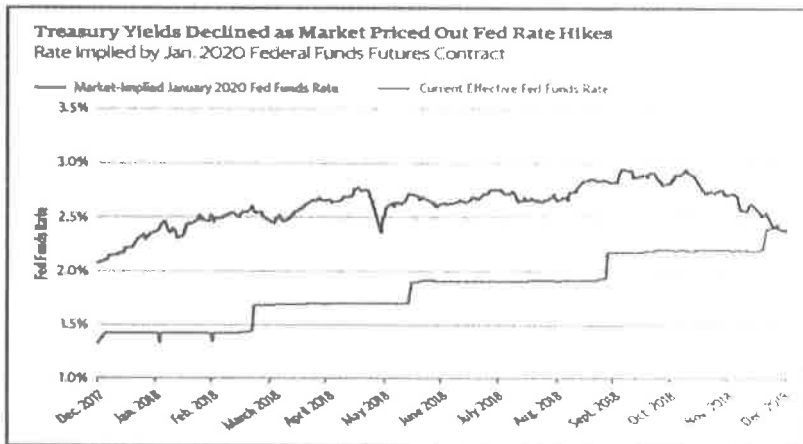
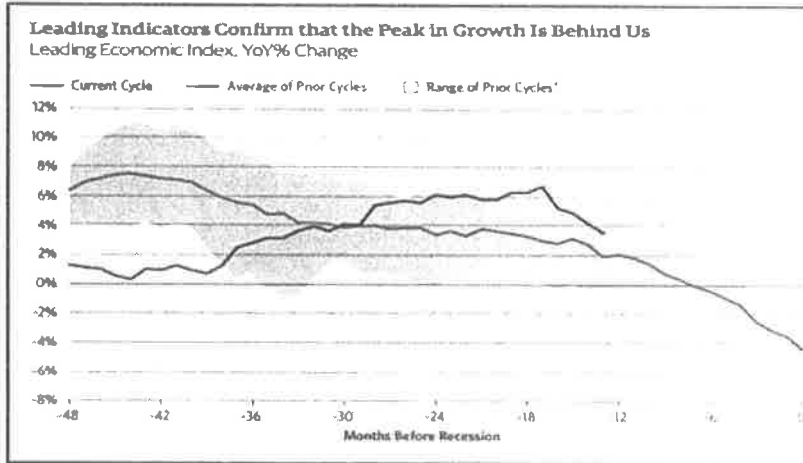
The current global soft-patch is without question. The question is how much it will impact the US. The US has become ground zero for the slowdown debate so every indicator has to be viewed carefully and trends identified as well as contradictions weighed.

The third estimate for Q4 GDP certainly declined pointing to the general southward direction (2.6% to 2.2%) on softer consumer spending, trade and business investment. A smaller trade deficit offset some of the negativity which is positive for net exports. Further, Q1 for 2019 estimates have slumped to 1.7%.

With LEI, the consumer, and housing slowing, clearly the economy is slowing. Housing reversed its previous strong trend which gave folks predicting a recession a pedestal but as rates have fallen purchase and refinance indexes have picked up. The impact of the unseasonably warm winter will have to be later factored in. The consumer meanwhile has slowed spending markedly. The GDP report showed consumers slowing from a 2.8% to 2.2% pace.

The lack of inflation will tend to keep the Fed on hold. Why fight inflation when inflation hasn't come to the fight? PCE inflation is down but CPI is slightly up MOM as owner equivalent rents offset lower energy prices. The core inflation is stable and deflation risks are low so inflation around the Fed's target 2% is a non-issue. A major factor in inflation will always be energy prices and OPEC cuts continue to increase prices as will sanctions in Venezuela and Iran. Although demand is down in Europe it remains strong in Asia and the US keeping the pressure on.

The payroll situation continues to counter the negatives also. Payrolls are still strong although signals are still hazy after the extended shut-down. Major industries like construction, education and retail trade are down but the participation rate is strong which will pressure the increasing wage pressure. Wage pressure in turn pressures the consumer to spend.



Macroeconomics and Geopolitics

Macroeconomic and geopolitical events on trade, oil prices and concerns on slow global growth overshadowed everything in March and even contributed to a major equity sell-off. Global economics are weak with Europe leading the way down. The weakness paralleling the Brexit news may drive the ECB to introducing another targeted program to encourage bank lending.

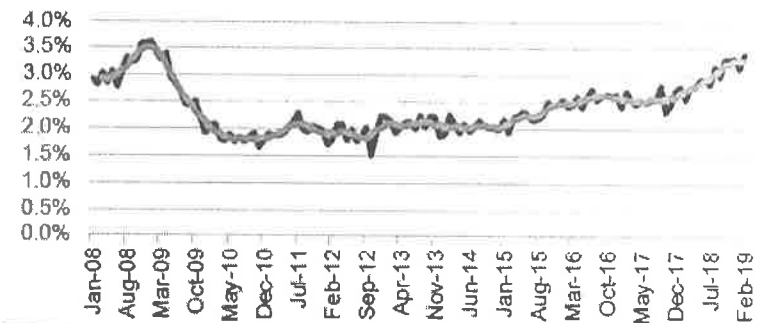
In the UK Parliament delivered a third strike to the PM's plan so now either there will be a disastrous no-plan exit, an extension from the EU or a general election. None are good alternatives. The EU has emphatically declined to negotiate so an agreement goes nowhere. The EU cannot afford a Brexit at all and the uncertainty is causing a major risk-off trade but must prepare for a no-plan exit which will exacerbate their slowing economic grind.

In general the flat, patient, tone out of the Fed creates a concern among central bankers that their currencies may strengthen against the US dollar thereby weakening their domestic economies further as their goods become relatively more expensive on the global markets. This concern in turn makes central bankers more dovish than they may desire.

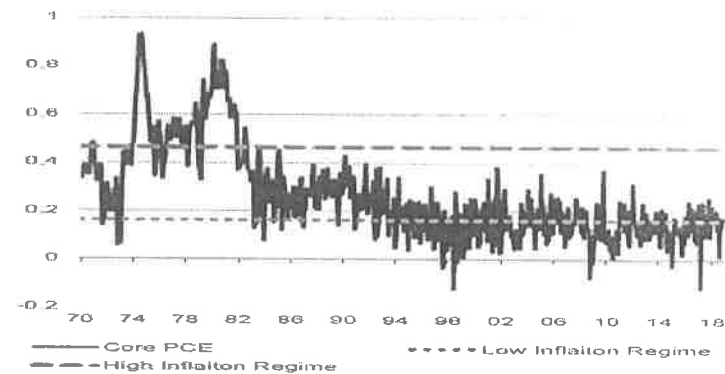
One bright spot is that growth comes from China in which massive multi-pronged stimulus packages initiated during the past year have begun to bear fruit and foster some recovery. The Chinese are being pressured not as much from the US as from their own economy to come to the trading table. This month the Chinese state media has cited *concrete progress* on the trade talks. Despite delays, as details are worked out, the tone remains optimistic that a deal can be reached. That will reduce a great deal of the uncertainly roiling the markets currently.

These are the *international cross-currents* and *unresolved government policy issues* the Fed referenced in February. A lack of domestic inflation and rising concerns regarding growth in the U.S. have compounded the FOMC's need for "patience," potentially sidelining the Fed indefinitely. Unless things materially improve at home and abroad, the Fed has little, if any, room for additional policy action. And until they have some clear indication of major slowing in growth or a jump in inflation, they have no need to move. The numerous, and conflicting, projections of *hikes* or *cuts* in rates for the first half of 2019 will remain only projections with no strong foundation. Along with the Fed we have to wait on the data.

Average Hourly Earnings
(YoY% & 5mcm)

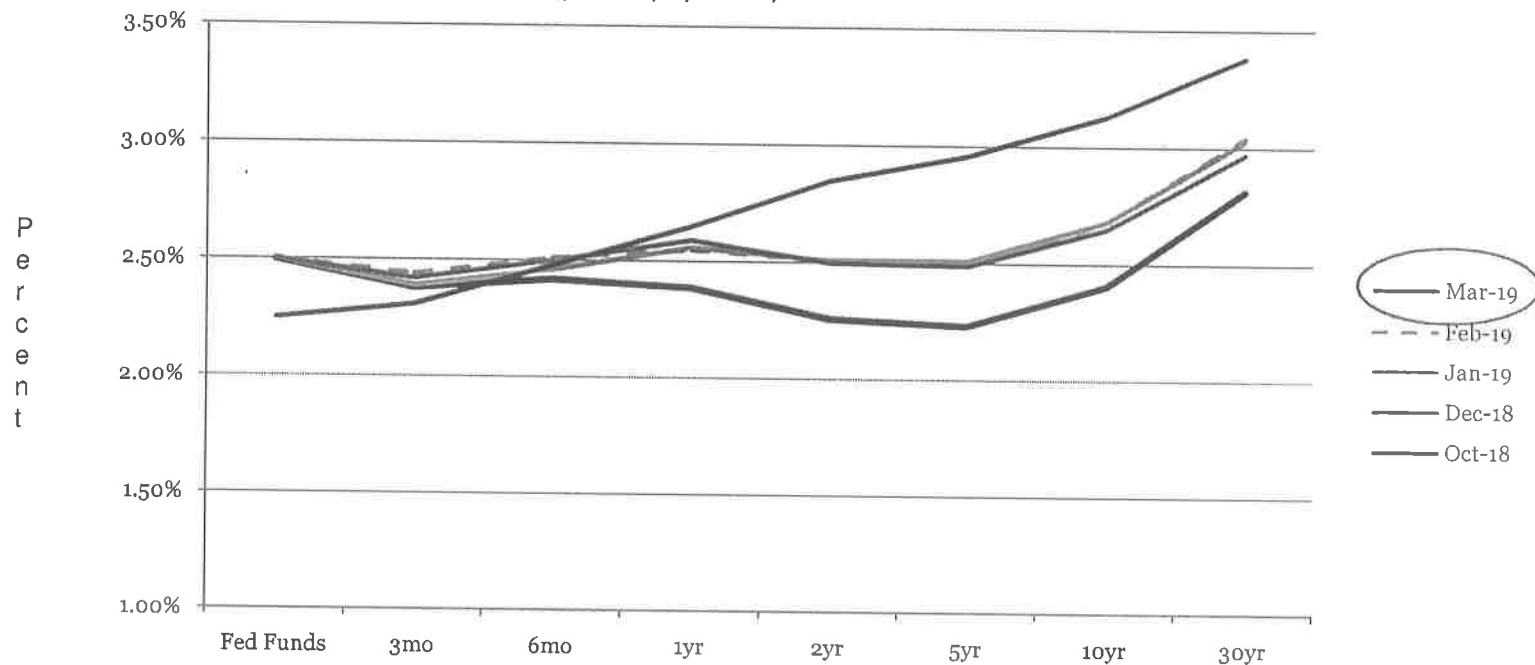


Core PCE Price Index & Inflation Regimes
Month-over-month %



The Flattening Curve

- The growing yield curve inversion intensified in March with a downward sloping curve out to the five year area. Much of the move was narrative driven on trade concerns and Brexit. With the US curve continuing to outperform all other major markets the situation is clearly not a result of weakness in the economy but a move to higher credit quality and comparative rates.
- Talk of rate cuts (especially from a potential Fed appointee) has accelerated the inversion.
- The inversion has so many external pressures that it still does not portend a recession anytime soon
- The key to interpreting the yield curve continues to come from the general slowing of the global economy and the fact that without inflation or stronger growth the Fed will not be able to continue raising rates and may cut rates.
- The (slim) possibility of a cut is the reason we are recommending a slight extension in maturities to lock in rates on a small portion of the portfolios. A cut will immediately reduce pool rates (probably by 0.25%).



End of Month Rates - Full Yield Curve - Fed Funds to 30yr

City of West Lake Hills, Texas

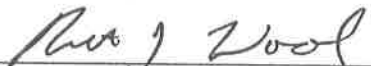
Quarterly Investment Report
January – March 2019
Portfolio Summary Management Report

This quarterly report is prepared in compliance with the Investment Policy and Strategy of the City and the Public Funds Investment Act (Chapter 2256., Texas Government Code).

<u>Portfolio as of December 31, 2018</u>		<u>Portfolio as of March 31, 2019</u>	
Beginning Book Value	\$ 6,894,717	Ending Book Value	\$ 9,034,214
Beginning Market Value	\$ 6,894,717	Ending Market Value	\$ 9,034,214
Unrealized Gain/Loss	\$ 0	Investment Income for the period	\$ 43,080
		Unrealized Gain/Loss	\$ 0
		Change in Unrealized Gain/Loss	\$ 0
WAM at Beginning Period Date ¹	1 day	WAM at Ending Period Date ¹	1 day
		Change in Market Value ²	\$2,139,497

Average Yield to Maturity for period 1.994%
Average Yielded 6 month Treasury Bill for period 2.510%


Authorized by:



Robert J Wood, City Administrator
City of West Lake Hills



Vonda Ragsdale, Finance Officer
City of West Lake Hills



Ms. Linda Patterson, President
Patterson & Associates, Registered Investment Advisor

¹ WAM, represents weighted average maturity.

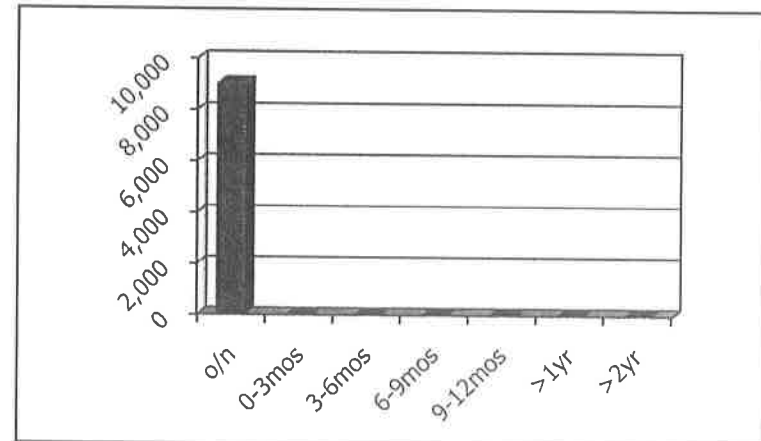
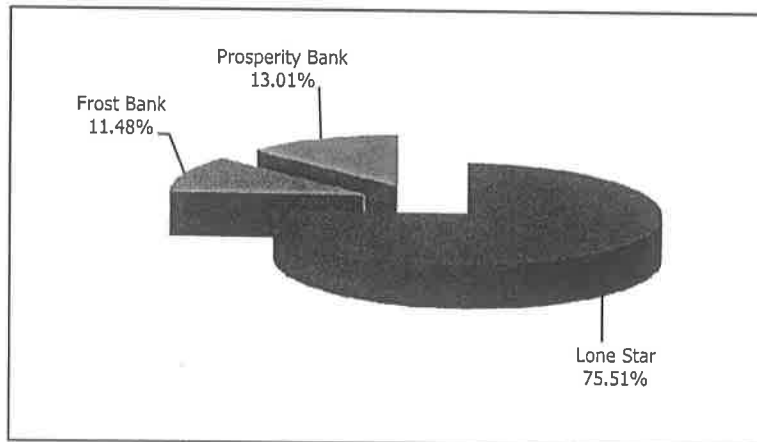
² "Change in Market Value" is required data, but will primarily reflect the receipt and expenditure of the City's funds from quarter to quarter.

Your Portfolio

As of March 31, 2019



- P&A constantly reviews your portfolio for optimal asset allocation and a controlled average maturity because a diversified portfolio can better adjust to volatile market conditions.
- The graphs below show asset allocations by market sector and by maturity. They do reflect our anticipation of a rate increase in 2019 – and possibly two –but not in the first quarter. This slowdown in rate hikes and the potential of decreasing rates indicates the need to extend portfolios. Extending now will lock in yields even though rates may decrease and provides for extra safety.





**City of West Lake Hills, Texas
Portfolio Management
Portfolio Summary
March 31, 2019**

Patterson & Associates
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Austin, TX 78746

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM 365 Equiv.
Lone Star	6,821,749.41	6,821,749.41	6,821,749.41	75.51	1	1	2.590
Frost Bank	1,037,171.09	1,037,171.09	1,037,171.09	11.48	1	1	0.000
Prosperity Bank	1,175,293.48	1,175,293.48	1,175,293.48	13.01	1	1	0.750
Investments	9,034,213.98	9,034,213.98	9,034,213.98	100.00%	1	1	2.053

Total Earnings	March 31 Month Ending	Fiscal Year To Date
Current Year	15,739.11	78,461.97

The following reports are submitted in accordance with the Public Funds Investment Act (Texas Gov't Code 2256). The reports also offer supplemental information not required by the act in order to fully inform the governing body of the City of Westlake Hills, Texas of the position and activity within the City's portfolio of investment. The reports include a management summary overview, a detailed inventory report for the end of the period, a transaction report, as well as graphic representations of the portfolio to provide full disclosure to the governing body.


 Robert J Wood, City Administrator 1 May 2019