

# Washoe County Total Portfolio First Quarter 2025

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### **Tug of War: The Stagflation Scenario and Competing Macro Forces**

Several macro and policy forces are pushing in opposing directions, creating an environment of heightened uncertainty. Some factors, such as immigration and fiscal policy, contribute both to inflationary pressures and to long-term growth constraints—appearing on both sides of the ledger. These competing dynamics underscore the rising risk of stagflation as markets weigh faster inflation against slowing real growth.

Higher Rates / Faster Growth	Lower Rates / Slower Growth
Tariffs (inflationary pressures)	Global Trade Frictions
Deregulation	Business and Consumer Confidence
Immigration (higher wage inflation)	Immigration (lower GDP growth)
GSE Reform	Don't Fight the <del>Fed</del> Treasury
Supply and Demand for Government Debt	Increased Domestic Oil Production (lower energy costs)
Easing of Bank Capital Requirements	Consumer Credit Fundamentals
Tax Cuts	Flight to Quality
	Data Reliability
	DOGE / Deficit Reduction

### **Trump Tariffs in Historical Context**



Tariffs implemented during the first Trump administration impacted approximately 16% of imports and increased the effective tariff rate, or the average tariff rate across all imported goods, from 1.4% to 2.8%. If made permanent, the tariffs announced in early April 2025 will affect all imports, and bring the US' effective tariff rate to approximately **25.5%**.

On April 9, 2025, the White House announced a 90 day pause to most reciprocal tariffs implemented earlier in the month, while maintaining the 10% baseline tariff on most countries (with the notable exception of China). Estimates vary, but if the pause were made permanent, the effective tariff rate would most likely be in the range of 10-15%. Most estimates assume a significant decline in imports from China due to the 125%-145% tariff currently in place.

### **Yield Curve Changes**



Yields in the front end of the curve dropped during the second half of 2024, as the Fed cut rates three times over that period. Stronger than expected economic growth and persistent inflation drove rates up on the long end of the curve during the same period.

Rates in the long end of the curve declined dramatically between January 1, 2025, and April 1, 2025, due to growing recession fears and uncertainty surrounding tariffs, which resulted in a flight to quality. However, rates climbed during the first several weeks of the second quarter due to multiple factors, most specifically concerns about the longer- term impacts of inflation.

### Stagflation

**Stagflation** is an economic environment characterized by the simultaneous occurrence of slow economic growth, high unemployment, and high inflation.

Stagflation is problematic because the usual economic tools available to the Fed to combat inflation (like raising interest rates) can worsen unemployment, while measures to reduce unemployment (like lowering interest rates) can increase inflation. This effectively puts the Fed's dual mandate in tension, making it very difficult to effectively implement policy.

Jerome Powell on stagflation pressures - "the impulses we're seeing and feeling are for higher unemployment and higher inflation, and you know our tool only does one of those two things at the same time. So, it's a difficult place for central banks to be in in terms of what to do" (Economic Club of Chicago Interview April 16, 2025)

Stagflation was a defining feature of the 1970s, during which two oil price shocks led to sharp increases in energy prices, coupled with declines in industrial production.



Stagflation During the 1970s

## **Fixed Income Process: Strategy Overview**

### Duration



**Neutral to Long:** We believe the Federal Reserve will ultimately be more sensitive to a weakening labor market than to lingering inflation pressures. While inflation may remain somewhat elevated, we expect the Fed to be willing to look through it—particularly if unemployment begins to rise meaningfully. In light of this, we are positioned modestly longer than neutral in duration.

### **Curve Position**



**Bullet** – We view the most probable curve outcomes as either (1) a re-steepening driven by persistent inflation and structurally higher long-term rates, or (2) a front-end rally if the Fed cuts rates in response to slower growth. By maintaining a bulleted structure, the portfolios will benefit from a steepening of the curve.

### Sector Rotation

- Overweight: Governments, Municipals, ABS, Agency-CMBS
- Underweight: Class B and C Office, Corporates, Callables

### **Security Selection**

Amid the current volatile rate environment, we prioritize securities with robust and predictable cash flows while minimizing exposure to optionality. Given tight credit spreads, we are emphasizing a move up in quality to ensure resilience and stability in portfolios.

## **Portfolio Characteristics**

### Washoe County Total Portfolio

#### **Portfolio Characteristics\***

	Portfolio	Benchmark
Market Value	\$997,209,927	
Accrued Interest	\$3,341,255	
Total Market Value	\$1,000,551,183	
Average Coupon	3.27	3.23
Est Annual Income	\$28,076,500	
# of Securities	119	46
Years to Effective Maturity	2.25	2.43
Effective Duration	1.91	2.26
Market Yield	4.327	3.990
Average Rating	AA+	AA+

#### **Distribution by Market Sector**

	Portfolio	Benchmark
Cash Equivalents	4.10%	-
U.S. Treasuries	14.21%	100%
Agencies	41.17%	-
Corporates	11.10%	-
Commercial Paper	10.12%	-
Asset Backed Securities	19.30%	-

#### **Distribution by Effective Duration**



\* The portfolio is benchmarked against the ICE BofA Treasury Index , 0-5Yr (90%), 5-10Yr (10%).

#### **Distribution by Quality**



### Portfolio Duration vs. 5 Year US Treasury Yield



## **Reshaping the Portfolio**

Over the past six months, we've reallocated away from Treasuries and Agency debentures and into higher-yielding structured sectors—primarily Agency CMBS and ABS—while maintaining strong liquidity and credit quality.

As of: <b>9/30/2024</b>				
Sector		\$ Amount	% Weight	Yield
U.S. Agencies	\$	289,452,560	35.5%	4.03%
U.S. Treasuries	\$	264,624,909	32.5%	4.28%
Financials	\$	108,699,894	13.3%	4.41%
Asset Backed Securities	\$	65,866,553	8.1%	4.52%
Industrials	\$	35,356,417	4.3%	3.94%
Cash Equivalents	\$	26,301,866	3.2%	4.78%
<b>Commercial Paper</b>	\$	24,970,000	3.1%	5.46%
Total	\$	815,272,199		

#### As of: 03/31/2025

	Change in Weight							
Sector		\$ Amount	% Weight	from 9/30/24	Yield			
U.S. Agencies	\$	177,828,084	18.0%	-17.1%	4.18%			
Agency CMBS	\$	232,686,684	23.5%	23.10%	4.33%			
Asset Backed Securities	\$	192,773,380	19.5%	11.4%	4.52%			
Financials	\$	101,911,426	10.3%	-3.0%	4.52%			
U.S. Treasuries	\$	141,418,340	14.3%	-21.3%	4.34%			
<b>Commercial Paper</b>	\$	101,252,451	10.2%	7.1%	4.58%			
Cash Equivalents	\$	34,318,989	3.4%	0.2%	4.22%			
Industrials	\$	8,306,907	0.8%	-3.5%	4.36%			
	\$	990,496,260						

### **Income Growth and Budget Impact**

Our active management approach has generated significantly more income than the previous strategy—resulting in a positive budget impact relative to projections.

Washoe County - Pooled Investments - Fiscal Year 2025 (July 1, 2024 - June 30, 2025) For the nine months ending March 31, 2025

#### BUDGET COMPARISON OF INVESTMENT EARNINGS

	Fu	II Yr Budget	Budget Trend **			YTD	Var to Budget			
Washoe County										
Interest	\$	5,368,269	\$	4,026,202	\$	17,913,193	\$	13,886,991		
Realized/Unrealized G/(L)		-		-		14,380,437		14,380,437		
Total	\$	5,368,269	\$	4,026,202	\$	32,293,630	\$	28,267,428		
General Fund										
Interest	\$	1,600,000	\$	1,200,000	\$	8,243,312	\$	7,043,312		
Realized/Unrealized G/(L)		-		-		6,227,454		6,227,454		
Total	\$	1,600,000	\$	1,200,000	\$	14,470,766	\$	13,270,766		

\*\* Budget trend is based on average monthly budget.

MONTHLY EARNINGS TREND									
		Earned		Realized		Unrealized	Т	otal Income	Same Period
		Interest	Gain / (Loss)		G	Gain / (Loss)		ore Expenses	FY 2024
July	\$	1,811,455	\$	(59,078)	\$	7,479,302	\$	9,231,679	\$ (7,829,535)
August	\$	1,826,599		260,010		4,798,515		6,885,124	\$ 3,093,671
September	\$	2,244,150		715,370		4,076,984		7,036,504	\$ (1,748,914)
October	\$	4,687,153		253,040		(8,706,508)		(3,766,315)	\$ 1,856,891
November	\$	2,688,839		587,696		1,866,428		5,142,963	\$ 11,649,643
December	\$	2,761,930		118,617		(2,401,436)		479,111	\$ 10,589,870
January	\$	1,845,545		24,005		2,488,538		4,358,088	\$ 4,427,258
February	\$	2,838,745		(175,479)		6,467,831		9,131,097	\$ (1,695,363)
March	\$	2,719,261		635,093		770,244		4,124,598	\$ 3,997,115
April	\$	-		-		-		-	
May	\$	-		-		-		-	
June	\$	-		-		-		-	
Total Earnings to date	\$	23,423,677	\$	2,359,274	\$	16,839,898	\$	42,622,849	\$ 24,340,636

### **Realized Gains & Losses at Maturity**

#### SCHEDULE OF SECURITY DISPOSITIONS FOR THE PERIOD FEBRUARY 1, 2025 THROUGH FEBRUARY 28, 2025

TRADE DATE	PAR VALUE/SHARES	DESCRIPTION	BROKER COMMISSION	TRANSACTION PROCEEDS	COST VALUE	REALIZED GAIN/LOSS
	В	ADOBE INC 1.900% 2/	/01/25			
2/01/25	2,850,000.000-	MATURED 2,850,000 SHARES/UNITS AT 100 ON TRADE DATE 2/01/25 TO SETTLE 2/01/25 COMMISSION \$0.00 2,850,000 PAR VALUE AT 100 %	0.00	2,850,000.00	2,985,175.50-	135,175.50-
2/12/25	4,670,000.000-	MICROSOFT CORP 2.700% 2 CUSIP 594918BB9 MATURED 4,670,000 SHARES/UNITS AT 100 ON TRADE DATE 2/12/25 TO SETTLE 2/12/25 COMMISSION \$0.00 4,670,000 PAR VALUE AT 100 %	/12/25	4,670,000.00	4,999,235.00-	329,235.00-
2/18/25	16,000,000.000-	FORD CREDIT AUTO OWN 2.040% 8 CUSIP 34531NAA4 PAID DOWN 16,000,000 SHARES/UNITS AT 100 ON TRADE DATE 2/18/25 TO SETTLE 2/18/25 COMMISSION \$0.00	/15/31	16,000,000.00	15,885,546.89-	114,453.11

### **Premiums and Discounts**

Bonds sell at a premium when the coupon rate of the bond is higher than the current market rate. You pay more (premium) because you will receive more coupon interest over the life of the bond than for a new bond selling at par. Conversely, bonds sell at a discount when the coupon rate of the bond is lower than the current market rate. You pay less (discount) than par because you will receive less coupon interest over the life of the bond than for a new bond selling at par. Selling at par.

In an efficient market, a premium and discount bond purchased at the same time will have the same yield.



Example of premium and discount bond in a 4% yield environment:

### **Performance Summary**

### Washoe County Total Portfolio



#### **Annualized Performance**

#### **Calendar Year Performance**

Year	Q1	Q2	Q3	Q4	Annual
2025	1.89%				1.89%
2024				0.06%	0.06%

# **Compliance Report**

### Washoe County Total Portfolio

Category	Limit	Value	Status
Concentration			
Tax-Exempt Municipal Securities - Maximum Total Concentration	20.0		Compliant
Max Total Concentration - Non-Negotiable CDs	10.0		Compliant
Max Total Concentration - Repurchase Agreements	50.0		Compliant
Max Total Concentration - Supranationals	15.0		Compliant
Municipals - Maximum Issuer Concentration (as a % of total market value)	10.0		Compliant
Max Issuer Concentration of Foreign Corporate Bonds	5.0		Compliant
Max Total Concentration - Commercial Paper	25.0	10.1	Compliant
Max Total Concentration - Foreign Corporate Securities	10.0		Compliant
Max Total Concentration - Negotiable CDs	20.0		Compliant
Maximum Total Concentration - Nevada LGIP	20.0	0.7	Compliant
Max Issuer Concentration - Negotiable Certificates of Deposit	5.0		Compliant
Max Issuer Concentration - Non-negotiable Certificates of Deposit	5.0		Compliant
Max Issuer Concentration - Supranationals	15.0		Compliant
Max Issuer Concentration - US Agencies and Instrumentalities	35.0	12.7	Compliant
Maximum Total Dollar Amount Per Bank - Non-Negotiable Certificates of Deposit	250,000.0		Compliant
Agency MBS - Maximum Issuer Concentration (as a % of market value)	25.0	12.7	Compliant
Agency MBS - Maximum Total Concentration (as a % of market value)	40.0	23.3	Compliant
Combination CP, Corp Bonds, and CD - Maximum Issuer Concentration (as a % of market value)	5.0	2.0	Compliant
Corporate Securities - Maximum Total Concentration (as a % of total market value)	25.0	11.1	Compliant
ABS - Maximum Issuer Concentration (as a % of total market value)	5.0	2.0	Compliant
ABS - Maximum Total Concentration (as a % of market value)	25.0	19.3	Compliant
Credit Quality Rules			
ABS - Minimum Rating per Security AAA	0.0		Compliant
Commercial Paper - Minimum Rating A-1/P-2	0.0		Compliant
Corporates - Minimum Rating per Security A-	0.0		Compliant
If Repurchase Agreement - Minimum Collateralized Amount (as % of security)	0.0		Compliant
Min Credit Rating for CDs (A1/P1)	0.0	0.0	Compliant
Minimum Credit Rating for Municipals (A)	0.0		Compliant
Minimum Credit Rating for Supranationals (AA)	0.0		Compliant
Minimum Credit Rating for Foreign Coporate Bonds (AA)	0.0		Compliant
Maturity Rules			
Maximum Maturity Per Security - Supranationals	5.0		Compliant

1. Certain compliance rules such as ratings minimums and prohibited securities constraints show policy limits as zero, indicating that zero securities are permitted to violate the constraint.

For these rules, an actual value of zero indicates that the portfolio is in compliance, and that zero securities are violating the constraint.

2. The compliance report allows for resolutions to be documented if an actual value exceeds a limit. The specific resolution can be found on the client portal site.

### **Compliance Report** Washoe County Total Portfolio

Category	Limit	Value	Status
Maximum Maturity Per Security - Foreign Corporate Bonds	5.0		Compliant
Maximum Weighted Average Life for ABS	5.0	8.0	Compliant
Repurchase Agreement - Maximum Maturity per Security (in days)	90.0		Compliant
Commercial Paper - Maximum Maturity per Security (in days)	270.0	50.0	Compliant
Negotiable Certificates of Deposit - Maximum Maturity per Security	5.0		Compliant
Non-Negotiable Certificates of Deposit - Maximum Maturity per Security	5.0		Compliant
Maximum Average Maturity of Portfolio	3.5	2.2	Compliant
Maximum Maturity Per Security - Municipals	5.0		Compliant
Corporates - Maximum Maturity per Security (in years)	5.0	4.9	Compliant
Minimum % of Portfolio Maturing Within 90 Days	5.0	30.4	Compliant
Maximum Final Maturity Per Security (in years)	10.0	9.1	Compliant
Prohibited Investments			
Permissible Supranational ISIN/Tickers	0.0		Compliant
144a securities from foreign issuers	0.0		Compliant

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#### Washoe County - Pooled Investments - Fiscal Year 2025 For the Quarter Ending December 31, 2024

#### CURRENT YEAR - STATUS BY INVESTMENT GROUP COMPONENTS OF FUNDS INVESTED

	Cash			Investments at Cost		Investments at Cost		Investments at Cost		Cash Investments at Cost		ivest. Market alue Adjust.	I	Purchased Interest	Total Investment	B	alance - Prior Year
LGIP	\$	-	\$	102,386,010	\$	-	\$	-	\$ 102,386,010	\$	188						
Group A - Liquidity		-		62,187,930		-		-	62,187,930		79,237,793						
Group B - County Core		24,194,151		799,326,780		(17,490,248)	_	3,933,584	 809,964,268	_	890,568,660						
<b>Total Investment Pool</b>	\$	24,194,151	\$	963,900,721	\$	(17,490,248)	\$	3,933,584	\$ 974,538,208	\$	969,806,640						

### All Formulas: INVESTMENT EARNINGS

	FOR THE QUARTER									YTD	:	Same Qtr - Prior Year	
		Earned Interest		Realized Gain / (Loss)		Unrealized Gain / (Loss)		Total Income		Total Income		Total Income	
LGIP	\$	1,474,899	\$	-	\$	-	\$	1,474,899	\$	2,738,631	\$	2,821	
Group A - Liquidity	\$	551,524	\$	-	\$	-	\$	551,524	\$	1,153,516	\$	556,209	
Group B - County Core	\$	8,111,499	\$	959,353	\$	(9,241,516)	\$	(170,664)	\$	21,116,919	\$	17,052,596	
<b>Total Investment Pool</b>	\$	10,137,922	\$	959,353	\$	(9,241,516)	\$	1,855,759	\$	25,009,066	\$	17,611,626	

#### Washoe County - Pooled Investments - Fiscal Year 2025 For the Quarter Ending December 31, 2024

	FOR THE QUARTER								YTD		Same Qtr - Prior Year	
	Earned Interest		Realized Gain / (Loss)		Unrealized Gain / (Loss)		Total Income					
									Total Income		Total Income	
Washoe County												
General Fund	\$	3,622,600	\$	338,430	\$	(3,442,186)	\$	518,844	\$	8,368,189	\$	6,883,299
Special Revenue Funds		969,025		92,758		(853,467)		208,316		2,324,212		1,395,099
Debt Service Funds		20,589		1,940		(18,826)		3,703		51,052		33,116
Capital Projects Funds		1,167,817		109,960		(1,053,204)		224,573		2,983,299		1,913,034
Enterprise Funds		1,446,443		138,448		(1,287,891)		297,000		3,579,971		2,379,832
Internal Service Funds		574,058		55,965		(496,748)		133,275		1,512,244		1,015,883
Total Washoe County		7,800,532		737,501		(7,152,322)		1,385,711		18,818,967		13,620,263
Component Funds												
Truckee Meadow Fire		214,191		20,158		(189,287)		45,062		477,569		394,911
Fiduciary Funds												
Reg. Transport. Comm.		1,496,760		142,452		(1,337,277)		301,935		3,861,596		2,426,637
All Other		626,439		59,242		(562,630)		123,051		1,850,934		1,169,815
<b>Total Investment Pool</b>	\$	10,137,922	\$	959,353	\$	(9,241,516)	\$	1,855,759	\$	25,009,066	\$	17,611,626

#### 2 YEAR - QUARTERLY INCOME TREND

	Earned		Realized		Unrealized	Total	Total		
	Interest		Gain / (Loss)		iain / (Loss)	 Income	Investment		
2024-Q1	4,690,460		647,611		(11,822,849)	(6,484,778)	945,6	46,629	
2024-Q2	4,906,709		924,072		18,265,624	24,096,404	969,8	06,640	
2024-Q3	5,436,172		3,044,738		(1,751,900)	6,729,010	983,2	81,971	
2024-Q4	5,736,320		1,260,663		2,275,585	9,272,568	893,1	54,160	
Total	\$ 20,769,661	\$	5,877,084	\$	6,966,460	\$ 33,613,204			
-									
2025-Q1	5,882,204		916,302		16,354,801	23,153,307	980,9	99,398	
2025-Q2	10,137,922		959,353		(9,241,516)	1,855,759	974,5	38,208	
2025-Q3	-		-		-	-		-	
2025-Q4	-		-		-	-		-	
Total	\$ 16,020,126	\$	1,875,655	\$	7,113,285	\$ 25,009,066			