

Ordinary Meeting

Meeting Date: Monday, 27 March, 2023

Location: Council Chambers, City Administrative Building, Bridge Road, Nowra

Attachments (Under Separate Cover)

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13. Reports

CL23.89 Investment Report - February 2023

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14. Notices of Motion / Questions on Notice

CL23.97 Notice of Motion - Proposed "Community Centre and Resilience Hub"
for Kangaroo Valley


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Monthly Investment Report

February 2023

CL23.89 - Attachment 1

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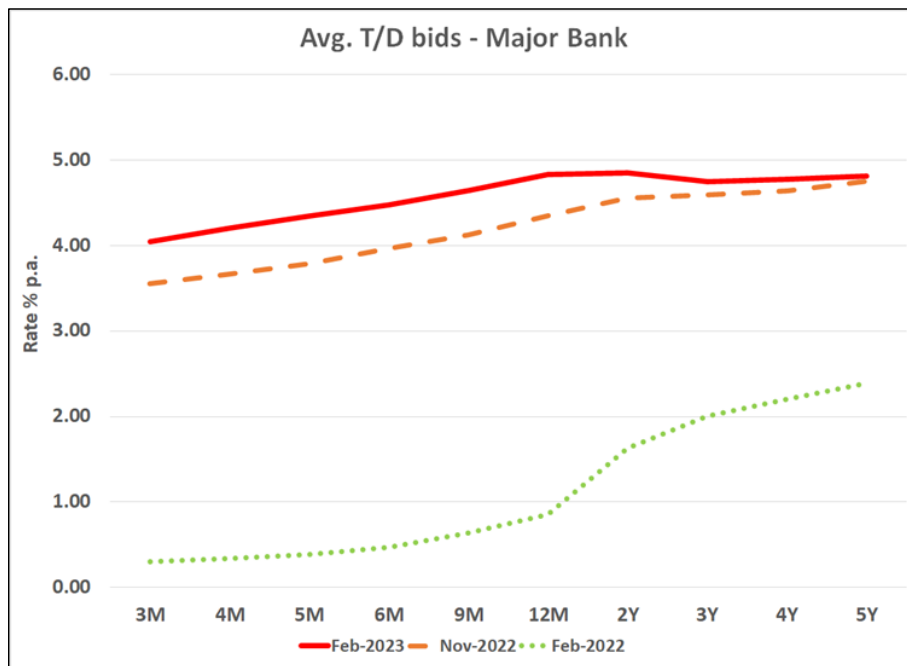


Market Update Summary

Risk markets were generally sold off in February after several stronger-than-expected reports on the US economy (particularly employment) changed the outlook on the peak of the interest rate cycle.

Domestically, the RBA continues to signal that it expects to increase interest rates, with at least two or three more 25bp hikes over the months ahead, likely locking in a March rate hike, and then possibly another in April and/or May. Thereafter, noting the lags in monetary policy, a pause around the end of Q2-Q3 is likely whilst the RBA monitors the economic data. Interestingly, RBA Governor Lowe commented that *“if inflation expectations stay well anchored, the supply-side problems get fixed up, wage growth and wage setting doesn’t move up too fast and we can come back on that narrow path. So that is a plausible scenario: that rates rise and then start coming down next year. But a few things are going to have to go right for that to happen. It’s possible, but there are other scenarios as well”*.

Despite more rate rises on the horizon, given an upward sloping deposit curve, maintaining a slightly longer average duration position on deposits will continue to outperform shorter durations. The deposit market has largely already factored in the current rate hike cycle, reflected by the flattening of the curve over the past few months, particularly at the long end of the curve (+2yrs). Interestingly, some 2-5 year deposit rates continue to be offered slightly below or close to the same level as the 12 month rate from a number of ADIs, as the market factors in the potential for a recession and official rates to subsequently fall in coming years:



Source: Imperium Markets



'New' investments above 4% p.a. is currently available if Council can continue to place the majority of its surplus funds for terms of 12 months to 2 years. With recessionary fears being priced in coming years, investors may take an 'insurance policy' against future rate cuts by investing across 3-5 year fixed deposits and locking in rates above or close to 5% p.a. (small allocation only).

Council's Portfolio & Compliance

Asset Allocation

The majority of the portfolio is directed to fixed and floating rate term deposits, followed by liquid senior FRNs. The remainder of the portfolio is directed to the managed with TCorp, the introduction of fixed bonds with Northern Territory, as well as cash accounts.

Senior FRNs remain relatively attractive as spreads have widened over the past year – new issuances should now be considered again on a case by case scenario. In the interim, fixed deposits for 12 months to 3 years appear quite appealing following the spike in medium-to longer-term yields during the rate hike cycle.

With recessionary fears being priced in coming years, investors can choose to allocate some longer-term surplus funds and undertake an insurance policy against any potential future rate cuts by investing across 3-5 year fixed deposits, locking in and targeting yields close to or above 5% p.a.

