

MARKETWATCH

THIRD QUARTER | 2017

MARKET OVERVIEW

The Federal Reserve held interest rates steady in November, maintaining the Federal Funds target rate between 1 percent and 1.25 percent. The market is expecting 1 additional rate hike this year. The odds for that move have risen to 92% following a stream of better-than-expected economic data, especially with respect to inflation. Modest tightening has occurred as the Fed has begun winding down holdings of government securities on its balance sheet.

The economic data was mixed in 3Q17, with strong job growth and a decrease in continuing claims somewhat overshadowed by a sharp decline in durable goods orders and industrial production. Nevertheless, major U.S. stock indexes recorded solid gains and continued to hit record highs in the third quarter. The Dow Jones Industrial Average was up 4.94%, the S&P 500 rose 3.96%, and the Nasdaq was up 5.2%. Hopes for regulatory and tax reform under the Trump administration persisted, and corporate earnings were strong.

The yield curve has remained flat as longer maturities remained relatively stable, despite increases on the short end. The yield on the benchmark 10-yr bond ended Q3 at 2.20%, up 1 bps in the quarter.

Crude oil futures were volatile during Q3 and ended at \$51.67, up \$5 from the end of Q2. Gold prices rose more than 3% even with a horrible September, despite the dollar falling another 4%.

3.0%

3Q U.S. GDP growth
(vs. 2Q 3.1%)

2.4%

personal consumption
growth (vs. 3.3%)

4.2%

National
Unemployment Rate
Sep 2017

4.1%

San Diego County
Unemployment Rate
Sep 2017

UPCOMING EVENTS



INVESTMENT SYMPOSIUM
February 2018

U.S. ECONOMY

Despite the dampened housing construction due to Hurricanes Harvey and Irma, U.S. GDP growth was 3.0% in Q3, similar to the revised 3.1% growth rate in Q2, driven primarily by a 3.3% increase in consumer spending. This marks the first time growth has topped 3% for two straight quarters since mid 2014. Many other data points were less positive, however. Despite poor trade data, weaker overseas growth and slowdown in oil. The core PCE Index, the Federal Reserve's preferred inflation gauge, also rose just 2.4% in the third quarter, compared to 3.3% in Q2. This slowdown could lead the Fed to scale back its efforts to raise rates. After rising to 4.4% in June from a 16-year low in May of 4.3%, the national unemployment rate ticked down to 4.2% in September Wage growth remained soft.



SAN DIEGO AREA ECONOMIC TRENDS

San Diego County’s unemployment fell to 4.1% in September, and remained at or below those of Los Angeles County (4.8%), Riverside County (5.6%), San Bernardino County (5.0%), the state of California (4.9%), and the nation (4.1%). The rate was still down 0.5% year-over-year even as local nonfarm payrolls grew by 16,100 workers, or 1.1%. The government sector again drove much of the growth, adding 4,000 new jobs. Healthy gains were also recorded in construction (4,000 jobs), educational and health services (3,900), and other services (4,200).

The University of San Diego’s Index of Leading Economic Indicators (LEI) jumped just 0.1% in August, a large slowdown from June and July. Improvements in consumer confidence and the outlook for the national economy once again contributed to the gain, along with strong local stock performance and an increase in building permits. This strength was largely offset by the slight uptick in the unemployment rate and a fall in local stock prices.

The LEI has not declined for ten consecutive months, indicating a stable to positive outlook for the region’s economy.

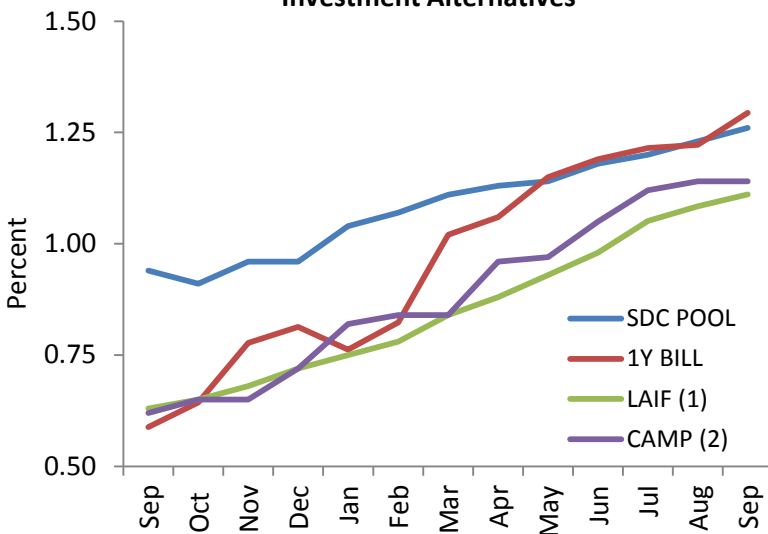
Despite a lack of supply, the County’s median home price fell slightly in September for the third consecutive month to \$535,000. While this represents a 8.1% increase from a year ago, it’s still well below the inflation-adjusted 2005 peak of over \$644,000.

The number of sales in September fell slightly compared to 2016. Further contributing to the shortage, the number of building permits issued was down 45% in the first five months of 2017. This trend continued to reverse in August, with a 0.51% increase in permits issued, a third straight month of gains.

According to Rent Jungle, average rent in the County remained above \$2,000 in September, or nearly \$700 more than the national average.

COUNTY POOL RETURNS

Historical Returns vs Comparable Investment Alternatives



(1) Local Agency Investment Fund
 (2) California Asset Management Program

MONTHLY POOL YIELDS

Month	Yield
Sep-16	0.94
Oct-16	0.91
Nov-16	0.96
Dec-16	0.96
Jan-17	1.04
Feb-17	1.07
Mar-17	1.11
Apr-17	1.13
May-17	1.14
Jun-17	1.18
July-17	1.20
Aug-17	1.23
Sep-17	1.26

Annualized Yields, net of fees



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