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City of Commerce Investment Strategy Update

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Economic Update

2025 Year In Review



Federal Reserve Cuts Rates

Fed lowered the Fed Funds rate three times in 2025 from 4.50% to 3.75%

U.S. Economic Growth

Was better than economists expected

U.S. Treasury yield curve **Re-inverts**
In shorter maturity tenors

U.S. Federal debt tops **\$38 Trillion**

U.S. Unemployment Rate
Climbs from **4.1%** (Dec 2024) to **4.4%** (Dec 2025)

Rates Dropped

The 3-mo Treasury Bill
Yielded **4.31%** in Dec 2024 and ended the year at **3.63%**

The 2-yr Treasury Note
Yielded **4.24%** in Dec 2024 and ended the year at **3.47%**

The 5-yr Treasury Note
Yielded **4.38%** in Dec 2024 and ended the year at **3.73%**

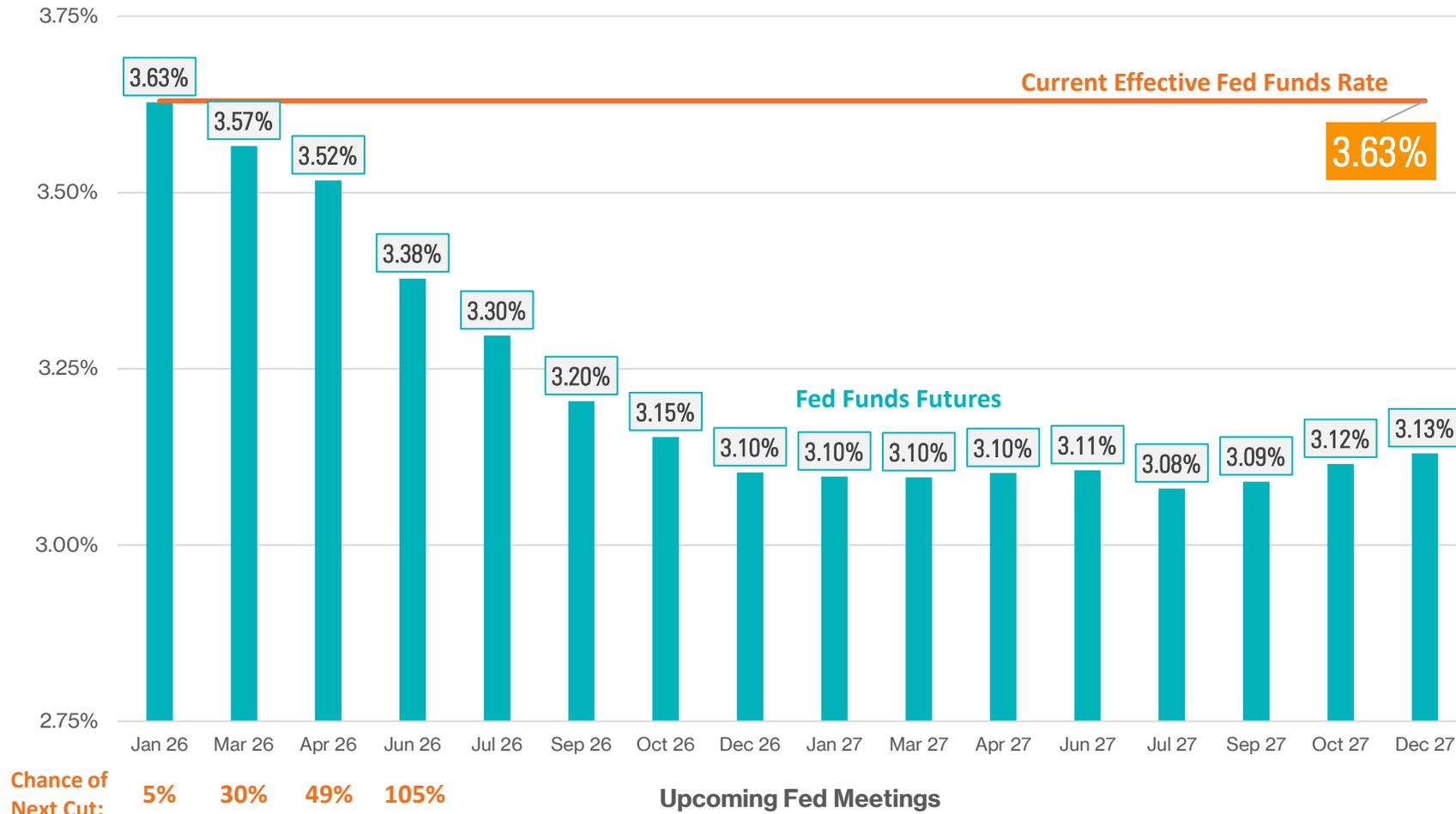
Tariffs, Government Shutdown, and Immigration were major economic stories of 2025

YOY CPI drops from 2.9% (Dec 2024) to **2.7%** (Nov 2025)

S&P 500 closes near an all-time high, up **16.4%** for the year
AI stocks were Big Drivers

Fed Funds

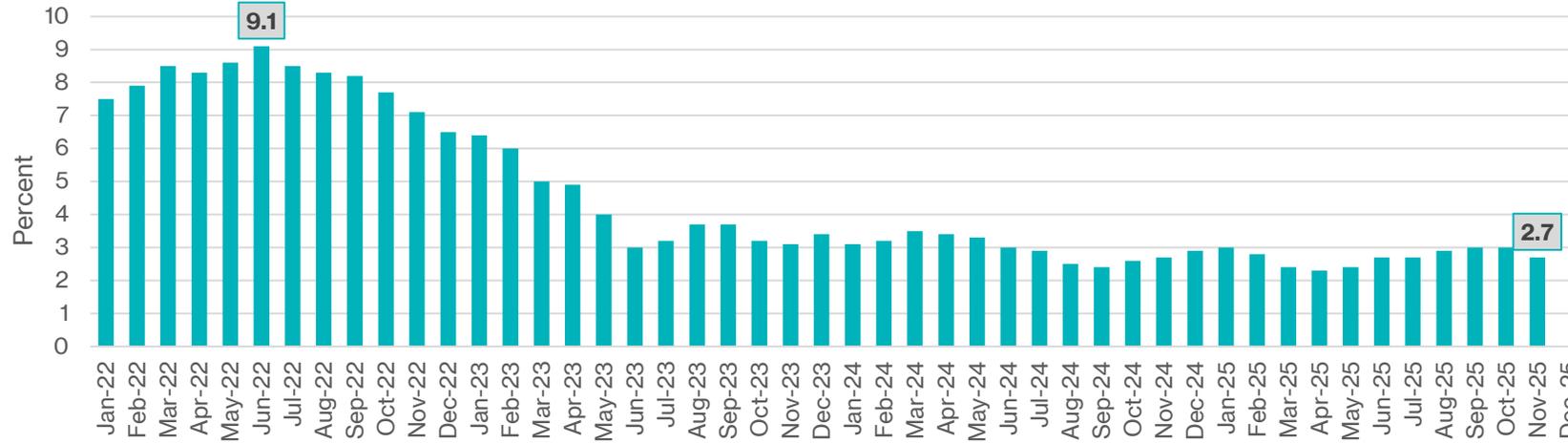
2026-27 Fed Funds Rate Per Futures Market by Fed Meeting Months



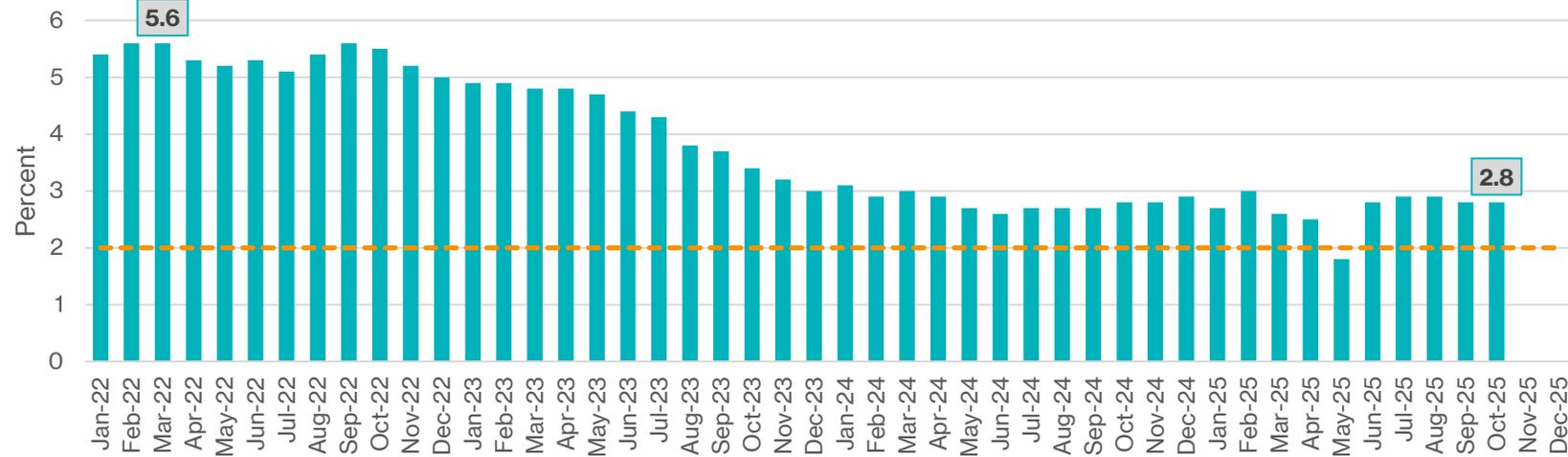
- The Federal Reserve lowered the Fed Funds rate at the December 10th meeting by .25%.
- They stated that a slower labor market was the primary reason.
- The futures market is pricing in the next .25% cut at the June 2026 meeting.

Inflation

CPI YOY



PCE Core YOY

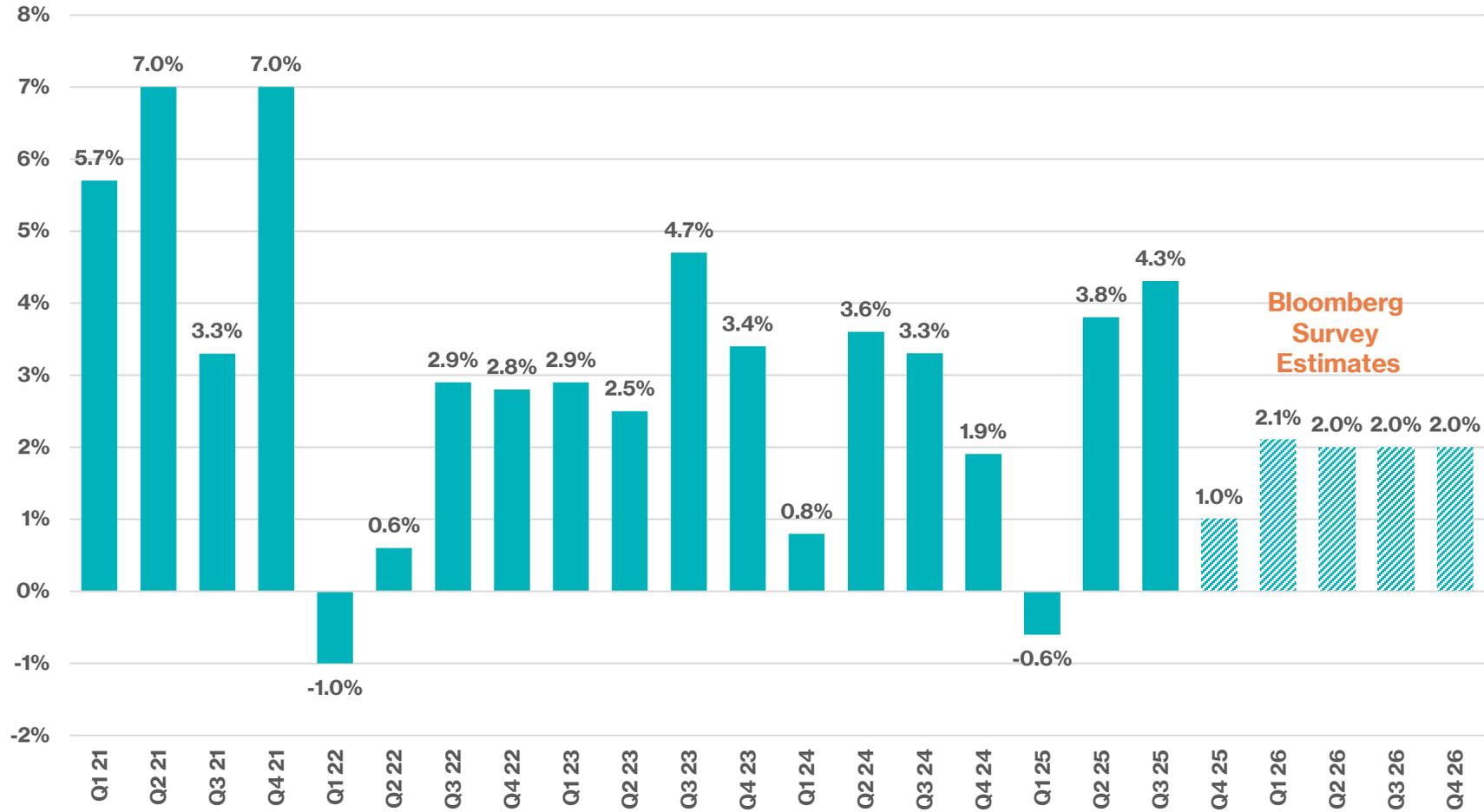


Fed's Target Rate

- Inflation declined considerably from the pandemic highs of 2022 (CPI YoY 9.1%).
- However, inflation remains above the Federal Reserve's target 2% (Personal Consumption Expenditures Core YoY rate – lower graph).
- Tariff inflation is still a concern, but not as much as last year.

Growth

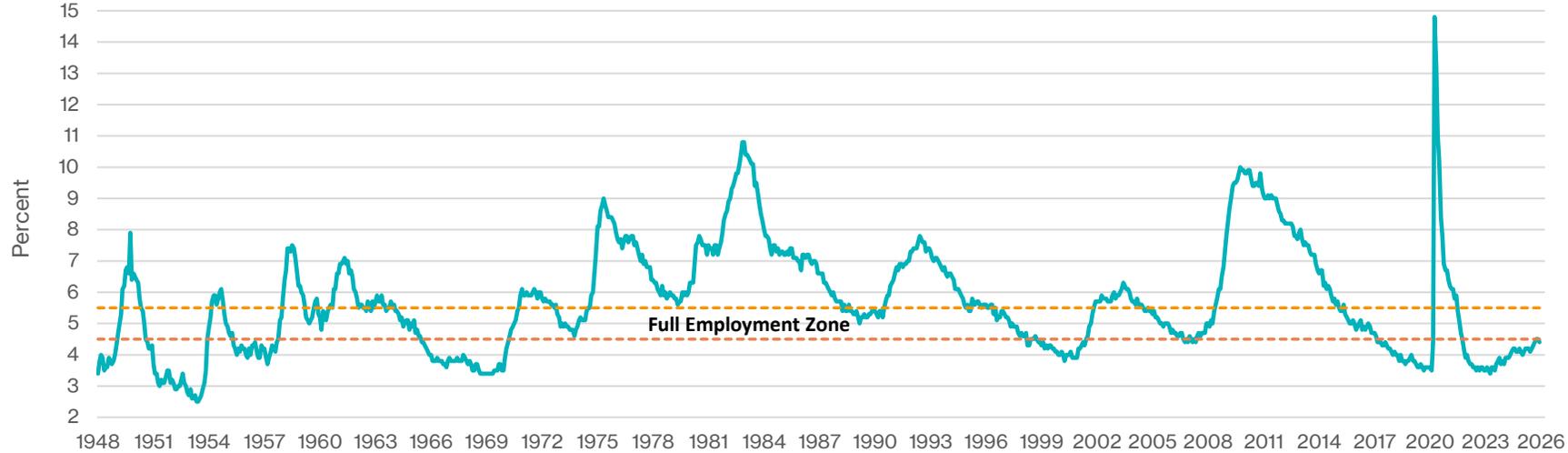
Real GDP QoQ



- Economic growth as measured by Gross Domestic Product (GDP) showed a greater-than-expected rate in the third quarter of 2025, posting 4.3% growth.
- With equity indexes, real estate, and other assets at or near all-time highs, upper income households continue to provide strength to the overall consumer spending.

Employment

U.S. Unemployment Rate



- Many economists consider the range of full employment between 4.5% and 5.5%.
- The unemployment rate has climbed from the cycle low of 3.4% (Apr 2023) to 4.4% as of December 2025.
- The Fed stated the slowing labor market as the primary reason they lowered the Fed Funds rate the last part of 2025.

U.S. Unemployment Rate: Consecutive Months At or Below 4.5%



Yields

Yields: U.S. 2 Yr T-Note vs. Fed Funds Mid-Rate



- Intermediate-term interest rates peaked in October of 2023, with the 2-year Treasury hitting a cycle high of 5.22%.
- Even though interest rates have declined with lower job growth, they are still materially higher than the average the past 20 years.
- The 2-year Treasury has averaged 2% the past 20 years.
- With the Fed expected lower short-term rates, Meeder believes it's still an opportune time to lock in interest income stability with purchases of intermediate-term securities.



Portfolio Review

Current Portfolio

City of Commerce portfolio as of 12/31/2025

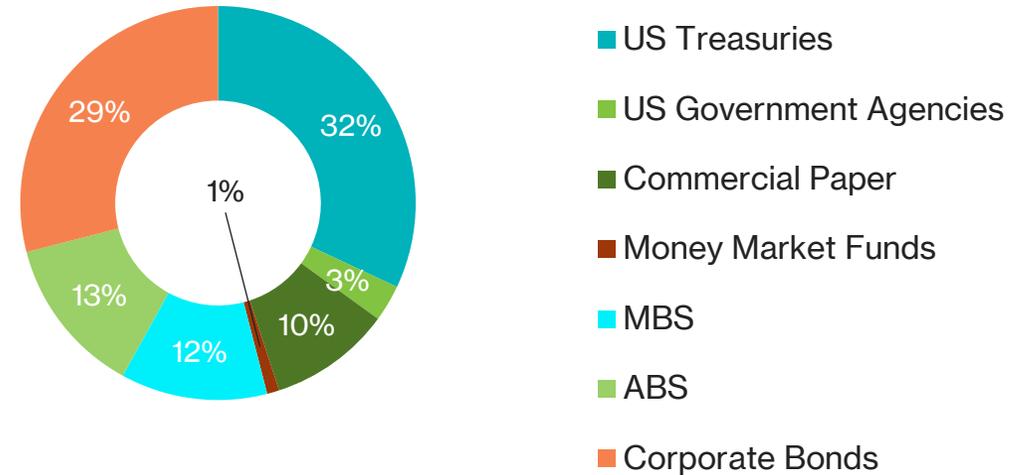
Your Portfolio

Cash	\$79,091,241
Securities	\$60,249,016
Total Portfolio	\$139,340,256

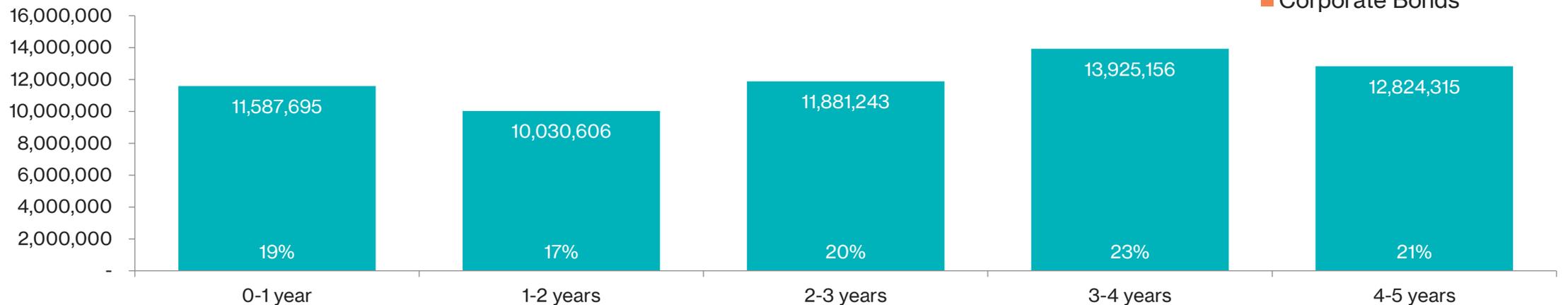
Your Securities

Weighted Average Maturity	2.62 years
Weighted Average Yield	3.86%
Estimated Annual Income	\$2,325,612

Your Asset Allocation



Your Maturity Distribution



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