TheINVESTOR January 2018

TheNEWS

Your New Year's Checklist: Four Ways to Update Your VIP Account for the New Year!

The beginning of a new year offers a great opportunity to ensure that your VIP MYACCESS account information is correct and up-to-date. Please take a few moments of your time to review your VIP MYACCESS account and ensure the following information is correct. Here is a check list of important items to review.

1. **Ensure that all contact information is accurate.**

The new year often brings in new staff members and elected officials. Please verify that the correct Authorized Signers are listed and that old signers have been removed.

2. **Verify that the correct and current bank information has been provided.**

All bank information should be up-to-date, including routing (ABA) numbers, bank account numbers, and bank contacts. Does a bank account need to be removed? If so, please complete a Bank Amendment Form and return to Client Services. As an added layer of security to your VIP account, dual signatures are now required on all bank amendments. If you have not done so already, please complete the new Dual Signatory Bank Amendment Form for our records. Please contact Client Services for a copy of the form.

3. **Confirm that all email addresses are current.**

We need accurate email addresses to communicate with you; it is how you receive important VIP updates!

4. **Subaccounts should be reviewed and up-to-date.**

Ensure that you do not have any subaccounts where projects have been completed or expired. An organized list of active subaccounts will help with efficiency and organization.

As always, the VIP MYACCESS Online Portal strives to provide the highest level of security for not only processing transactions but also retrieving important account information like monthly statements and confirmations. We strongly encourage you utilize VIP MYACCESS for all your account activities including accessing monthly statements. To request VIP MYACCESS credentials, please contact VIP Client Services at (855) 249-8588 or clientservices@virginiainvestmentpool.org.

Happy New Year,

VIP Staff

January 2018

VIP
Virginia Investment Pool
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TheECONOMY

Will Tax Reform and Full Employment Lead to Inflation in 2018?

In a continuation of recent labor market themes, U.S. nonfarm payrolls expanded in December although falling short of expectations. The U.S. economy added 148K jobs, well-below consensus of 190K in December, and gains in the prior two months were revised lower by a net 9K. While below forecast, the job gains bring the 2017 total to about two million jobs which is flat to 2016. The pace of job creation has moderated as the economy approaches full employment. The unemployment rate held steady at 4.1%, and the labor force participation rate was unchanged at 62.7%. Wage growth missed expectations with average hourly earnings rising 2.5% versus year-ago levels, after a 2.4% gain in November was downwardly revised. Time will tell if the new tax legislation signed in December will result in larger wage gains.

The November CPI report suggests that core inflation may be stabilizing. Core CPI slowed to a 1.7% annual rate in November from 1.8%. The Fed's preferred inflation gauge, the core PCE, increased 0.6% to a 1.5% annual rate through October compared to 1.4% the prior month. The Fed continues to believe that inflation will stabilize around their 2.0% target over the medium term and supports the likelihood of three or more rate hikes in 2018 in addition to further withdrawal of quantitative easing. The flattening of the U.S. Treasury yield curve remains a persistent theme as shorter-term rates rise on expectations of further Fed rate hikes and longer-term bonds benefit from global demand for yield and duration. At 0.52% (down from 0.56% last month), the spread between 2- and 10-year Treasury yields is the narrowest in over a decade.

U.S. real GDP growth was revised to an annualized pace of 3.2% from the previously estimated 3.3% in the third quarter. Growth was the fastest in two years and suggests the economy entered the fourth quarter on stronger footing with a possible modest lift from tax reform. Consumer spending remains the primary driver of U.S. growth, but significant business investment was also responsible for continued growth. The GDPNow currently forecasts fourth quarter growth at a 2.7% (versus 2.9% last month) annualized rate.

Treasury Yields

MATURITY	1/5/18	12/5/17	CHANGE
3 Month	1.375%	1.289%	0.086%
6 Month	1.576%	1.476%	0.100%
1 Year	1.793%	1.656%	0.136%
2 Year	1.960%	1.818%	0.142%
3 Year	2.060%	1.928%	0.131%
5 Year	2.289%	2.143%	0.146%
10 Year	2.476%	2.351%	0.125%
30 Year	2.811%	2.732%	0.079%

Source: Bloomberg

Agency Yields

MATURITY	1/5/18	12/5/17	CHANGE
3 Month	1.368%	1.323%	0.045%
6 Month	1.485%	1.407%	0.078%
1 Year	1.643%	1.563%	0.080%
2 Year	2.022%	1.896%	0.126%
3 Year	2.144%	2.018%	0.126%
5 Year	2.348%	2.214%	0.134%

Source: Bloomberg

Commercial Paper Yields (A-1/P-1)

MATURITY	1/5/18	12/5/17	CHANGE
1 Month	1.520%	1.330%	0.190%
3 Month	1.670%	1.490%	0.180%
6 Month	1.840%	1.640%	0.200%
9 Month	1.970%	1.790%	0.180%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q3 '17	3.20%
US Unemployment	Dec '17	4.10%
ISM Manufacturing	Dec '17	59.70
PPI YoY	Nov '17	4.30%
CPI YoY	Nov '17	2.20%
Fed Funds Target	Jan 08 '18	1.25% - 1.50%

Source: Bloomberg