



## ***VIP Webinar:*** **Year-End Review and 2025 Outlook**

**Moderator:** George Moore, Investment Operations Analyst

**Speakers:** Kevin Stoudt, CFA, Director of Investments  
Steve Mulroy, Managing Director

December 12, 2024

# Agenda

- Economic and Market Update
- Current Fixed Income Environment
- VIP Investment Funds Review and Strategy
- Considerations for Investors
- Questions

This presentation is not meant to be investment advice. We are presenting current and historical information. For investment advice specific to your situation, please consult Public Trust Advisors, VIP's registered investment advisor.

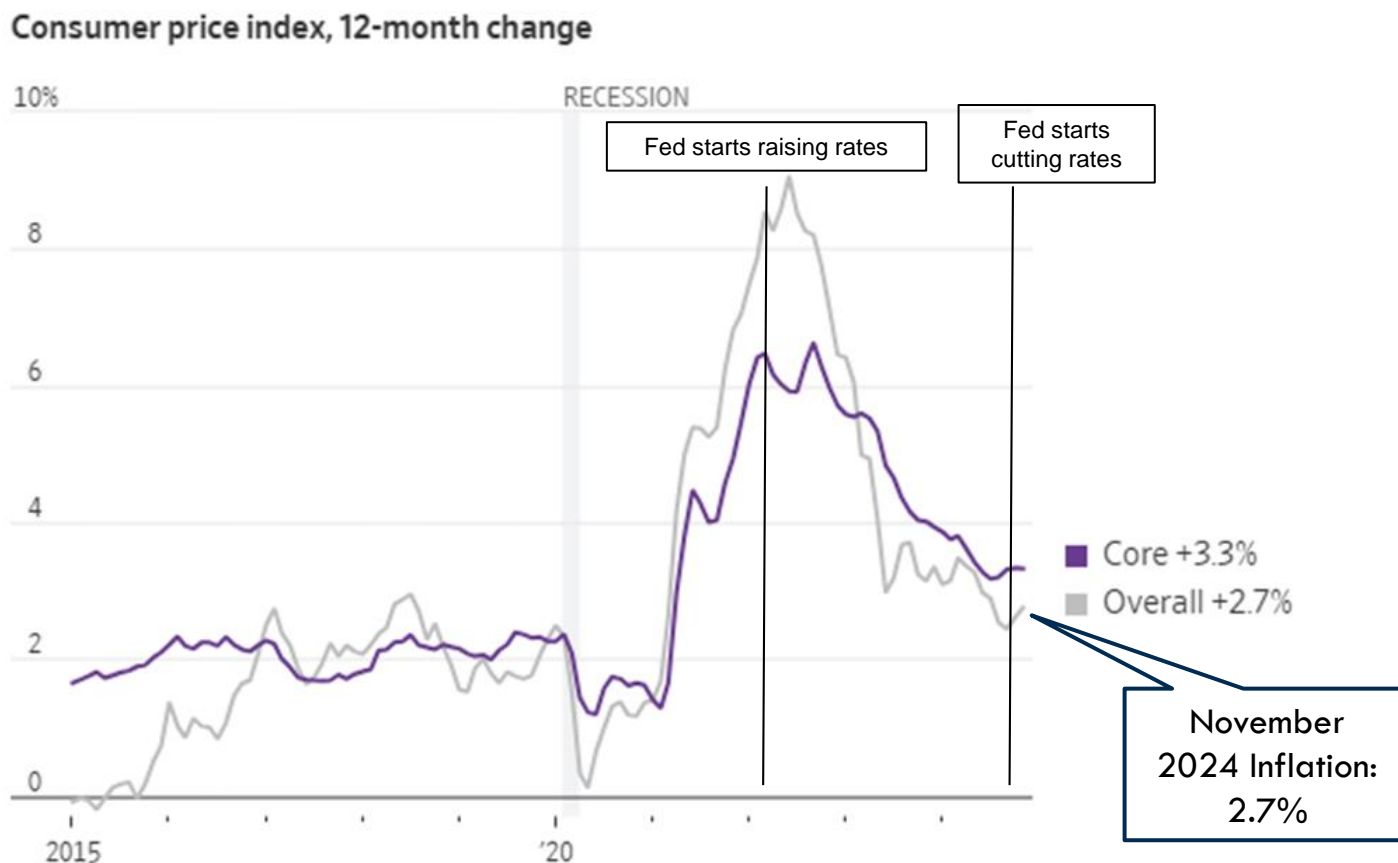
## **Economic and Market Update**

# Economic/Market Summary

- Federal Reserve began cutting rates in September – the first cuts since 2020. Target rate is currently between 4.50% - 4.75%.
- High and declining yields allow fixed income investors to earn additional income while also benefitting from price increases (yields and prices are inversely correlated).
- Inflation is persistently sticky and remains above Fed target of 2%
- Economic growth and employment remain strong
- Yield curve is no longer inverted (barely)

# Economic/Market Summary

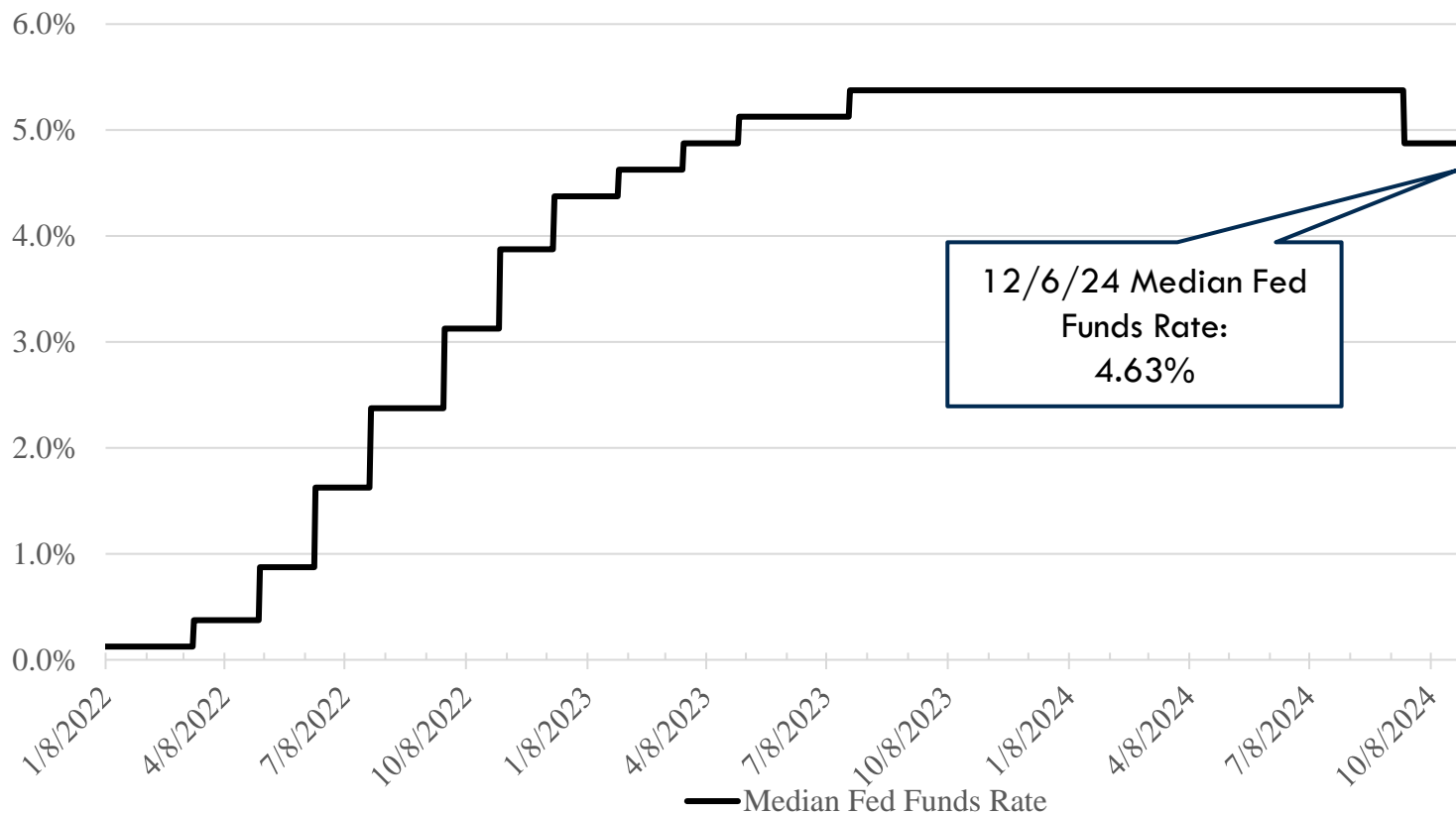
- Inflation has moderated and is tracking closer to the Fed's 2% target...



Note: Core excludes food and energy prices.  
Source: Labor Department

## Economic/Market Summary

- ...Prompting the Fed to start cutting rates in September 2024 following aggressive monetary tightening and a one-year pause.

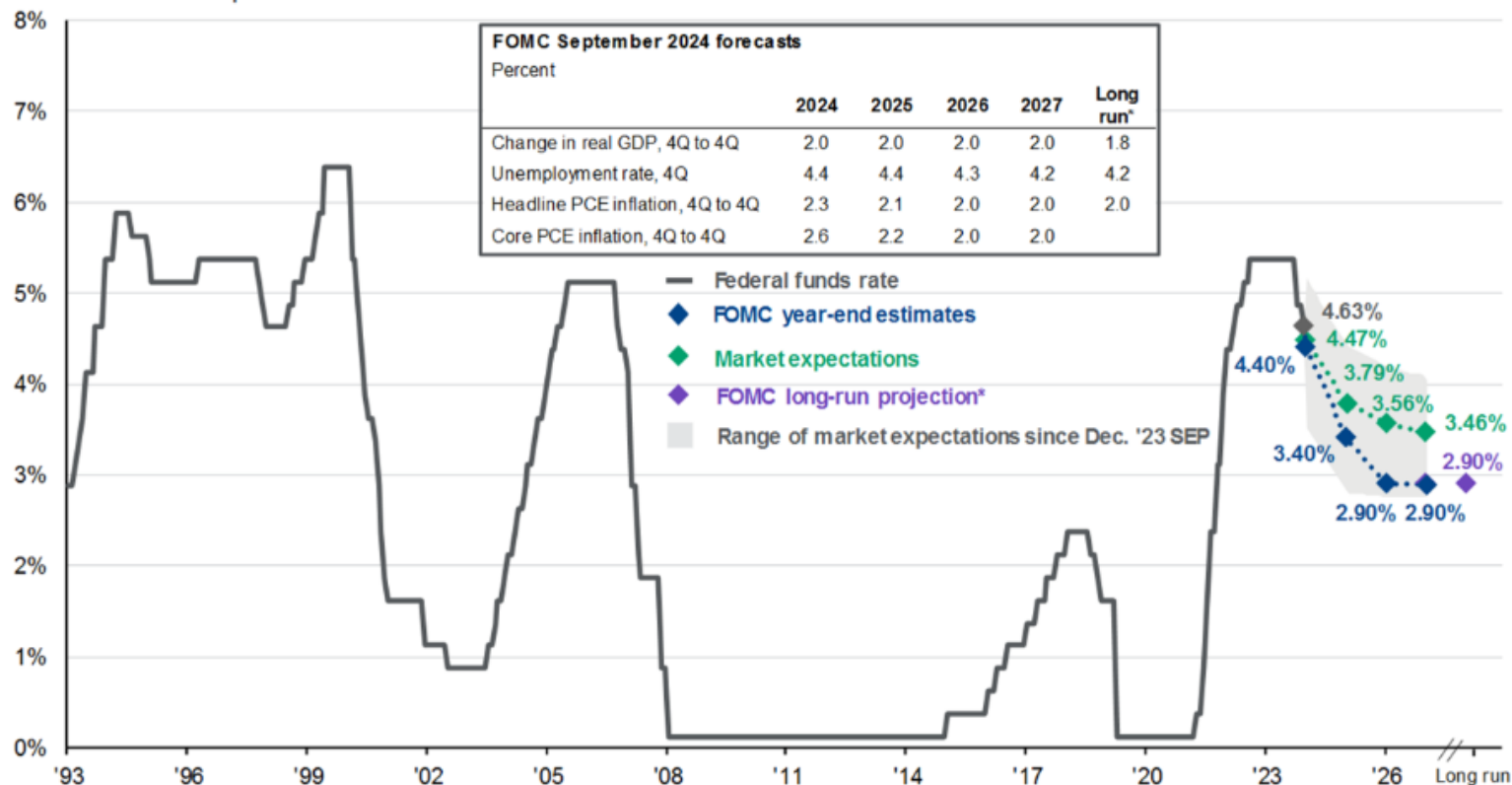


# Economic/Market Summary

- Expectations are that rates will continue to decline.

## Federal funds rate expectations

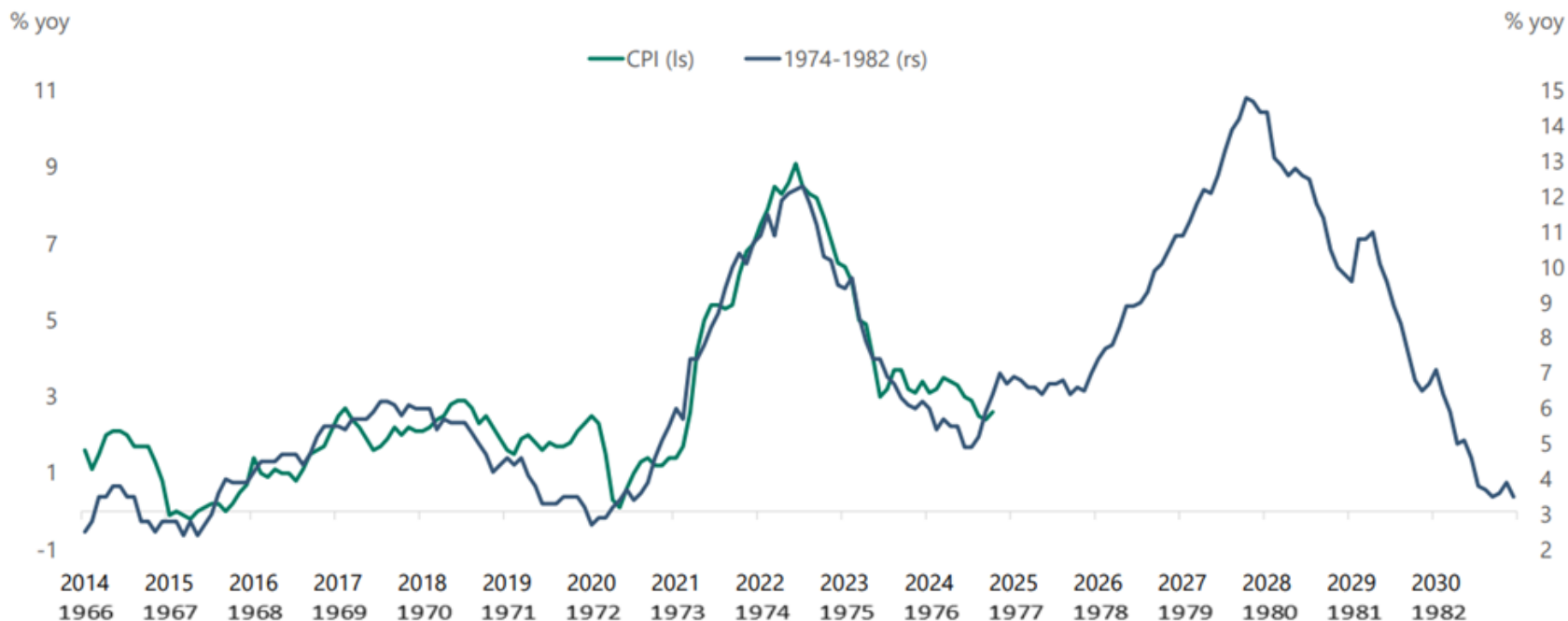
FOMC and market expectations for the federal funds rate



Source: JPMorgan

# Economic/Market Summary

- Is inflation coming back? Eerily similar inflation trends today vs. 1970's.

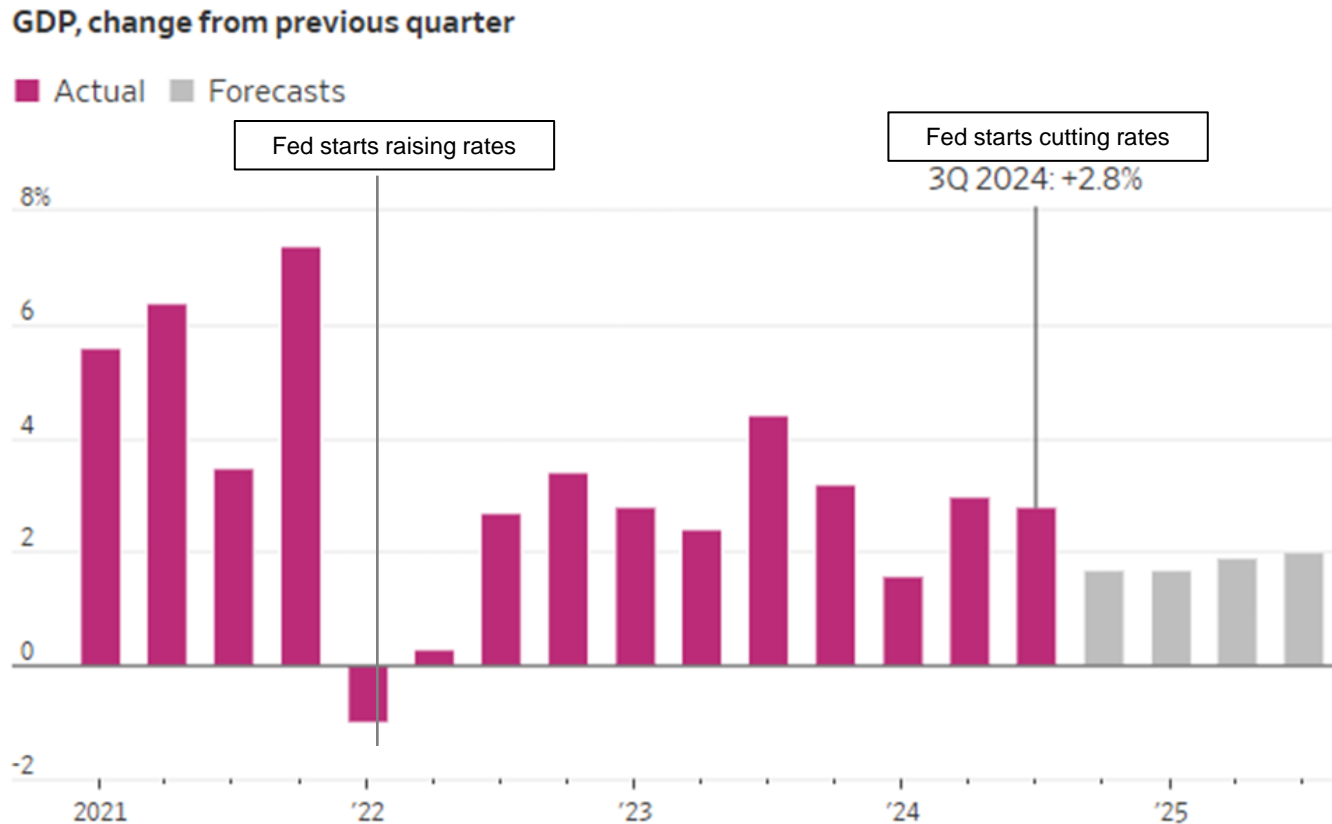


Source: BLS, Apollo Chief Economist.



# Economic/Market Summary

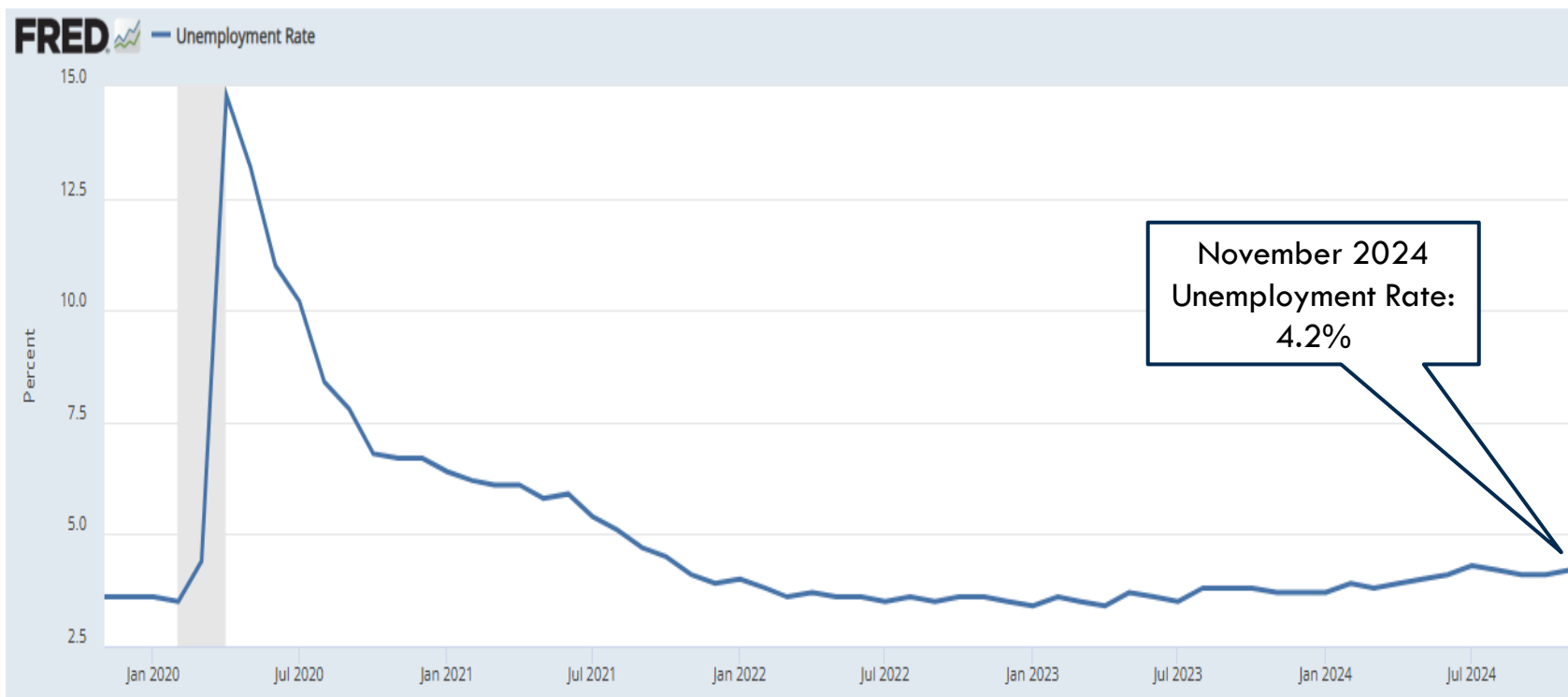
- GDP growth has remained positive since 2<sup>nd</sup> half of 2022
- Despite today's higher rate environment GDP growth remains strong



Notes: Seasonally- and inflation-adjusted annual rates; forecast is an average of all survey responses.  
Sources: Commerce Department (actual); WSJ survey of economists (forecasts)

## Economic/Market Summary

- While still low by historical standards, the unemployment rate has risen over the previous 18 months.



Source: U.S. Bureau of Labor Statistics

# Economic/Market Summary

- Wage growth remains strong and has shown recent signs of acceleration.



Source: BLS, Haver Analytics, Apollo Chief Economist

## Economic/Market Summary

- Soft landing achieved? Fed has tamed inflation without a drastic increase in unemployment or a full-blown recession.



\* Quarterly at seasonally adjusted annual rates

Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics

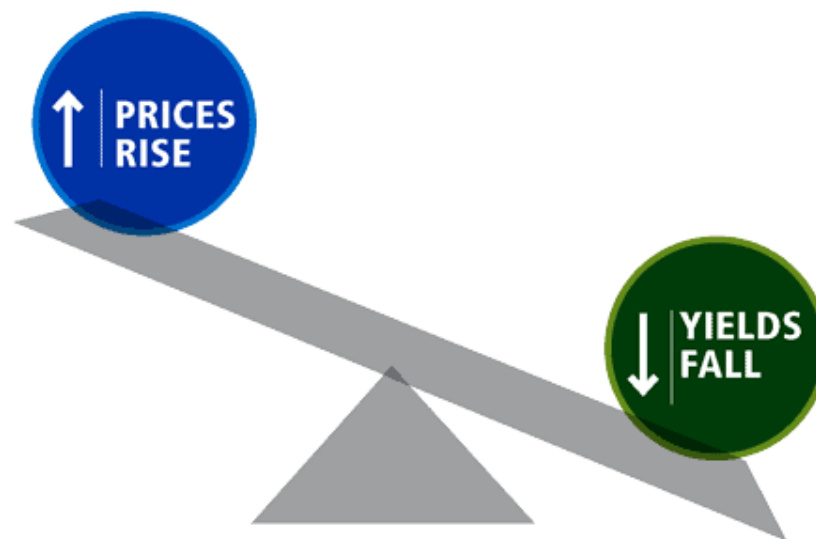
## **Current Fixed Income Environment**

## Inverse relationship between Bond Prices & Interest Rates

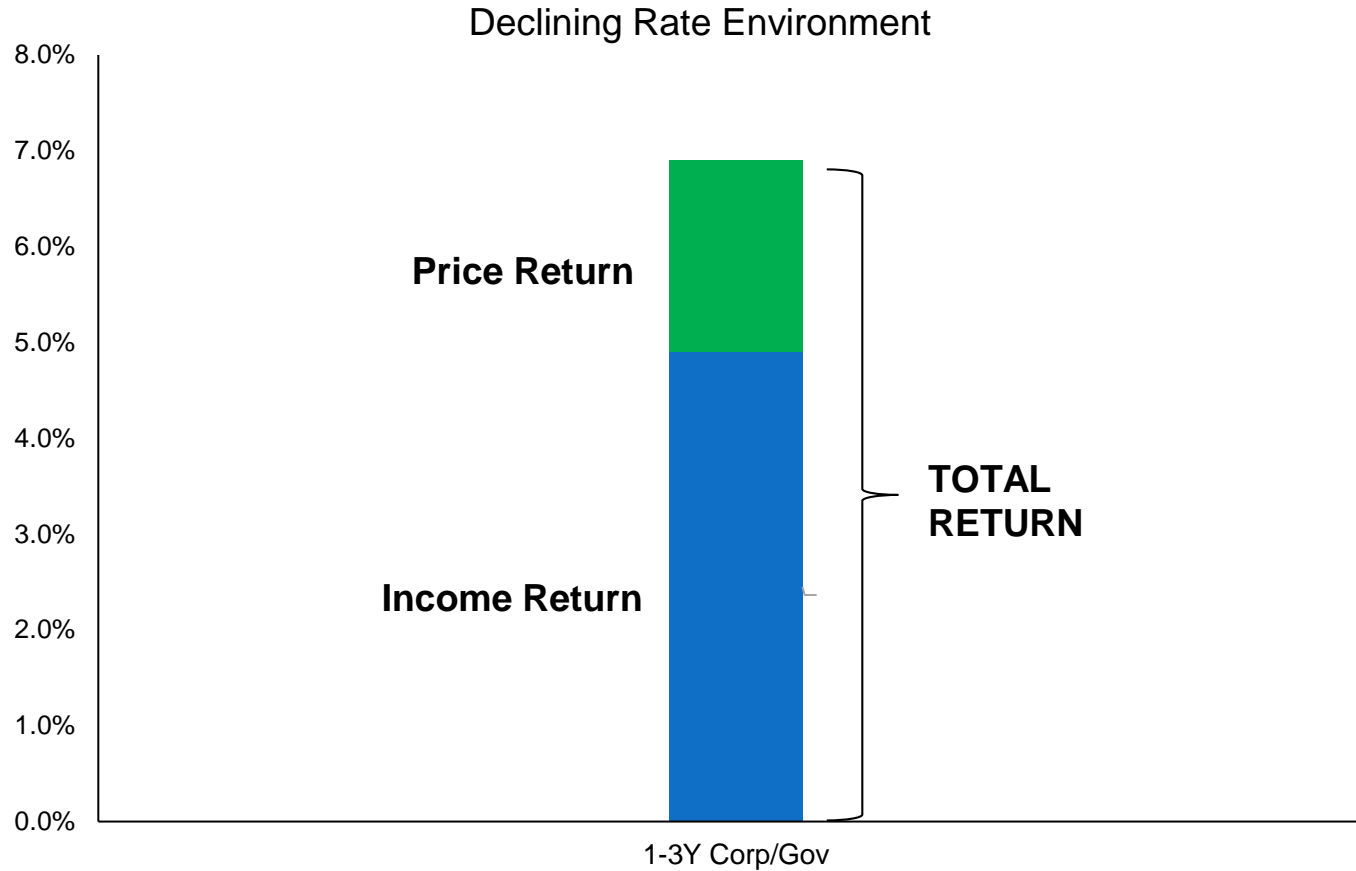
*When interest rates FALL...*

Market Value of securities *increases*

Interest income *declines*



# Falling Interest Rates



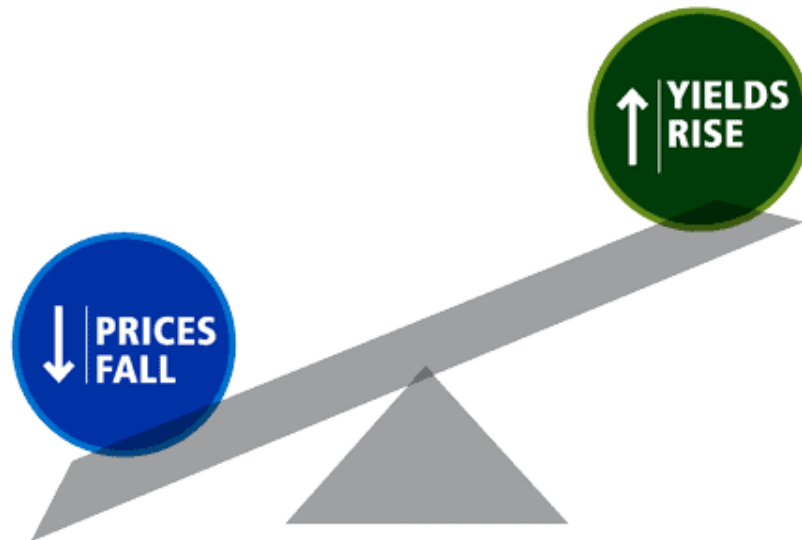
Past performance is not necessarily indicative of future returns.

## Inverse relationship between Bond Prices & Interest Rates

*When interest rates RISE...*

Market Value of securities *decreases*

Interest income *increases*



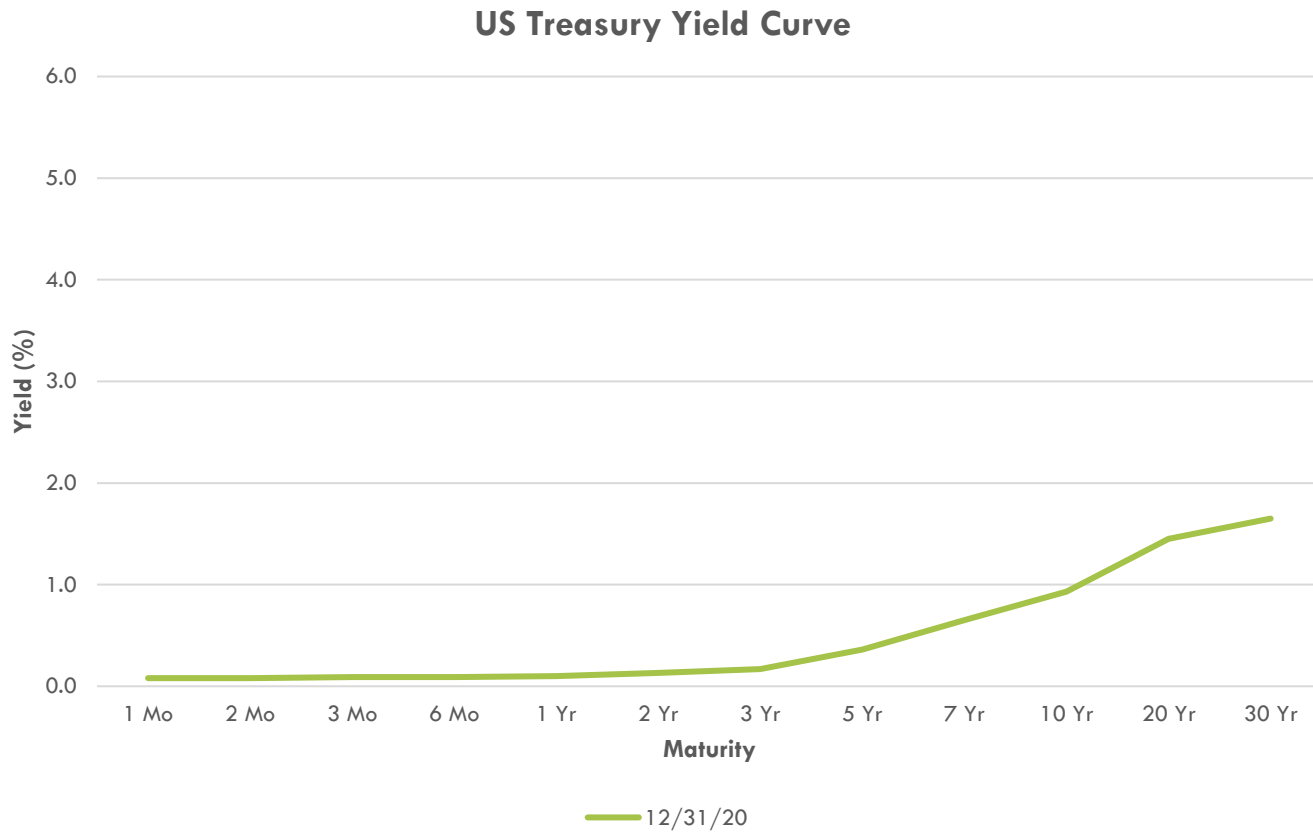


# Rising Interest Rates

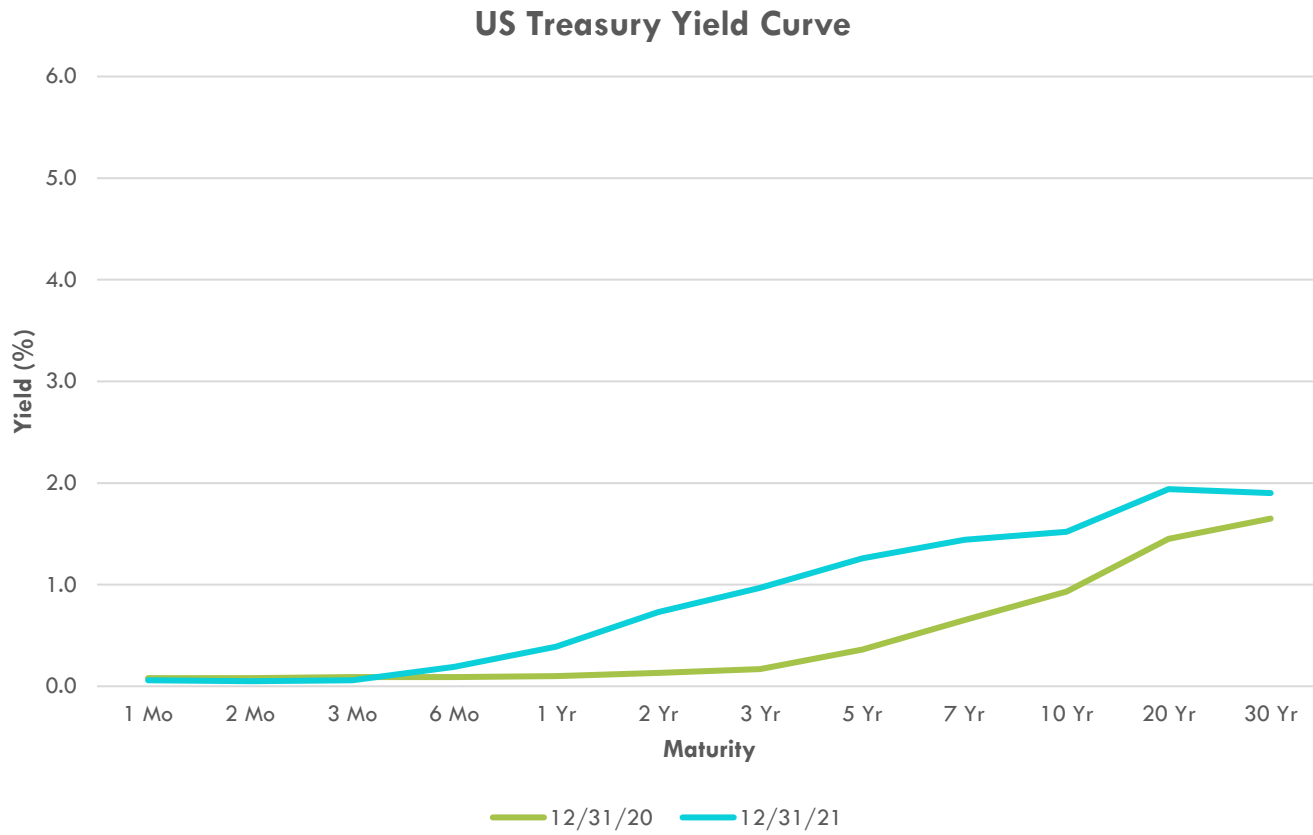


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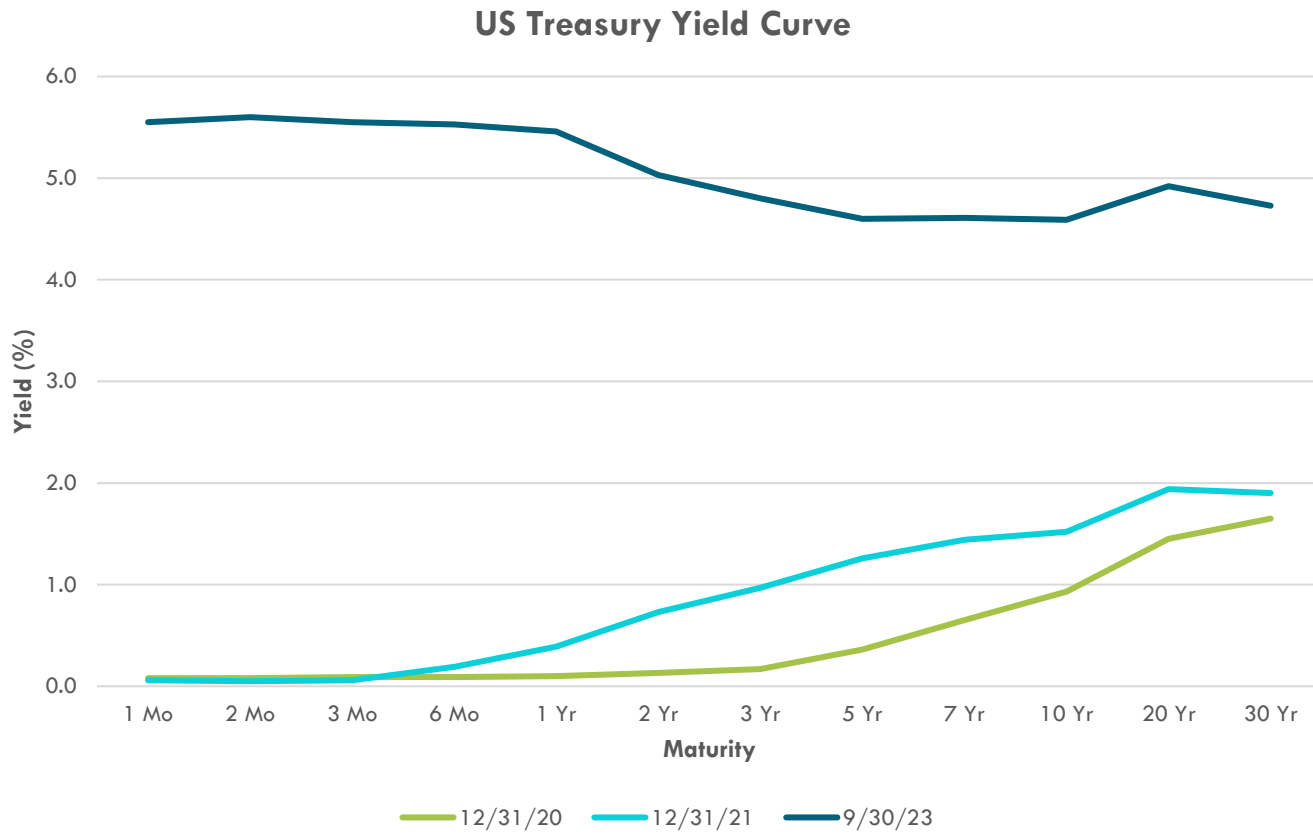
# 2021 – Q3 2023 saw a Rising Interest Rate Environment...



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# ...Negatively Impacting 1-3 Year Corp/Gov Total Returns

## 1-3 Year AAA-AA Corp/Gov Index – Total Return

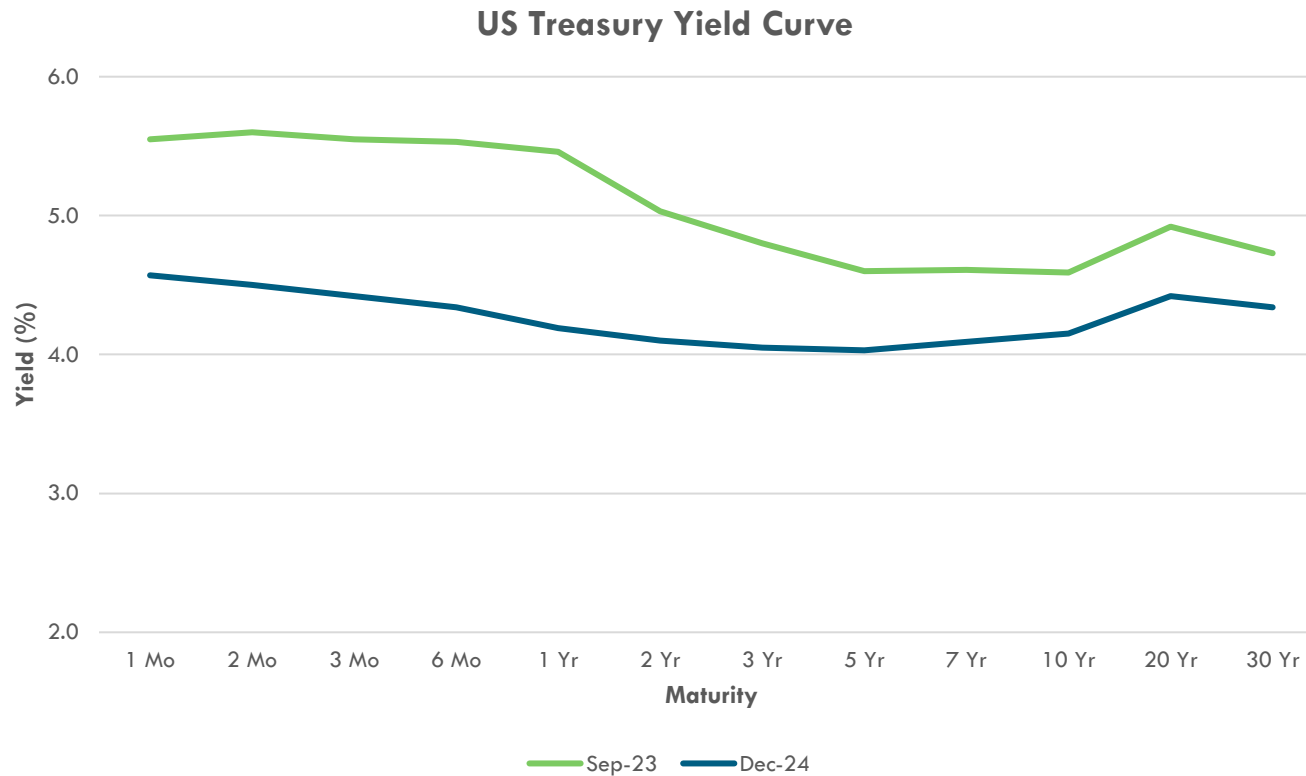
	Q1	Q2	Q3	Q4	Annual
2004	1.05	-1.14	1.07	0.06	1.03
2005	-0.26	1.20	0.09	0.67	1.72
2006	0.47	0.65	2.01	0.99	4.18
2007	1.42	0.73	2.50	2.26	7.08
2008	2.85	-0.70	1.12	2.96	6.33
2009	0.20	0.46	0.96	0.15	1.77
2010	0.77	1.07	0.73	-0.12	2.47
2011	0.10	0.85	0.40	0.15	1.51
2012	0.12	0.21	0.33	0.10	0.76
2013	0.14	-0.13	0.32	0.09	0.42
2014	0.14	-0.13	0.32	0.09	0.67
2015	0.16	0.29	0.03	0.18	0.59
2016	0.53	0.14	0.33	-0.41	0.93
2017	0.91	0.54	-0.08	-0.44	0.55
2018	0.30	0.22	0.27	-0.23	1.64
2019	-0.13	0.24	0.24	1.28	3.64
2020	2.62	0.29	0.12	0.07	3.12
2021	-0.04	-0.02	0.06	-0.53	-0.53
2022	-2.34	-0.52	-1.57	0.75	-3.66

**2021**  
First negative year  
in index's history.  
(Inception: 1997)

**2022**  
Second  
consecutive  
negative year

Source: ICE BofA Indices. Past performance is not necessarily indicative of future results.

## Q3 2023 – Q4 2024 saw a Declining Interest Rate Environment...



## ...Leading to Positive 1-3 Year Corp/Gov Total Returns

### 1-3 Year AAA-AA Corp/Gov Index – Total Return

	Q1	Q2	Q3	Q4	Annual
2004	1.05	-1.14	1.07	0.06	1.03
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2022	-2.34	-0.52	-1.57	0.75	-3.66
2023	1.56	-0.55	0.74	2.52	4.31

**2023**  
Best year since  
2008

Source: ICE BofA Indices. Past performance is not necessarily indicative of future results.

# Positive 1-3 Year Corp/Gov Total Returns Continue

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2024	0.32	0.95	2.87		

**YTD 2024**  
Higher Yields +  
Stable/Declining Rates =  
Positive Total Return

Source: ICE BofA Indices. Past performance is not necessarily indicative of future results.



# Positive 1-3 Year Corp/Gov Total Returns Continue

## 1-3 Year AAA-AA Corp/Gov Index – Total Return

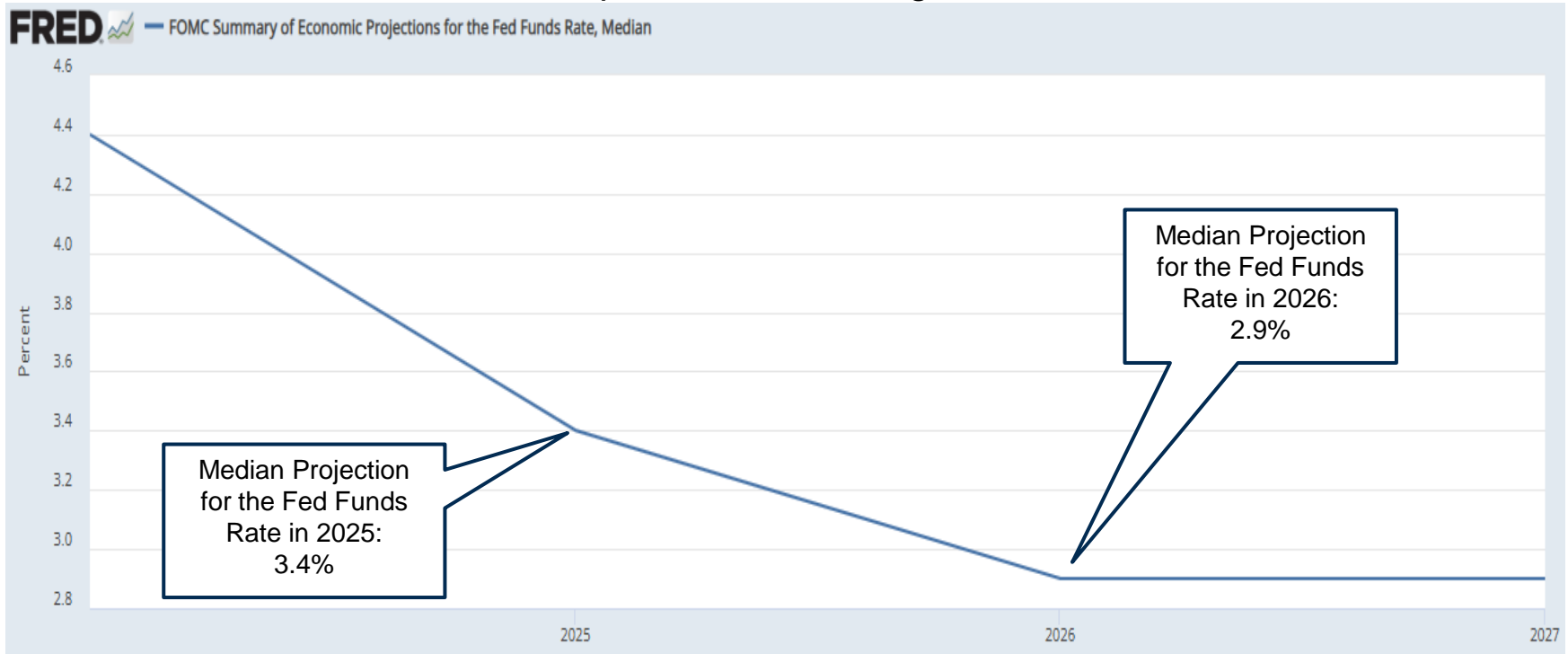
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**Q3 2024**  
Highest quarterly  
total return since  
Q4 2008

Source: ICE BofA Indices. Past performance is not necessarily indicative of future results.

## Future Rate Expectations Point Lower

- Federal Reserve's FOMC target overnight rate (Fed Funds rate)
  - Current target rate range: 4.50% - 4.75%
  - FOMC Members anticipate rates declining to 2.9% in 2026:

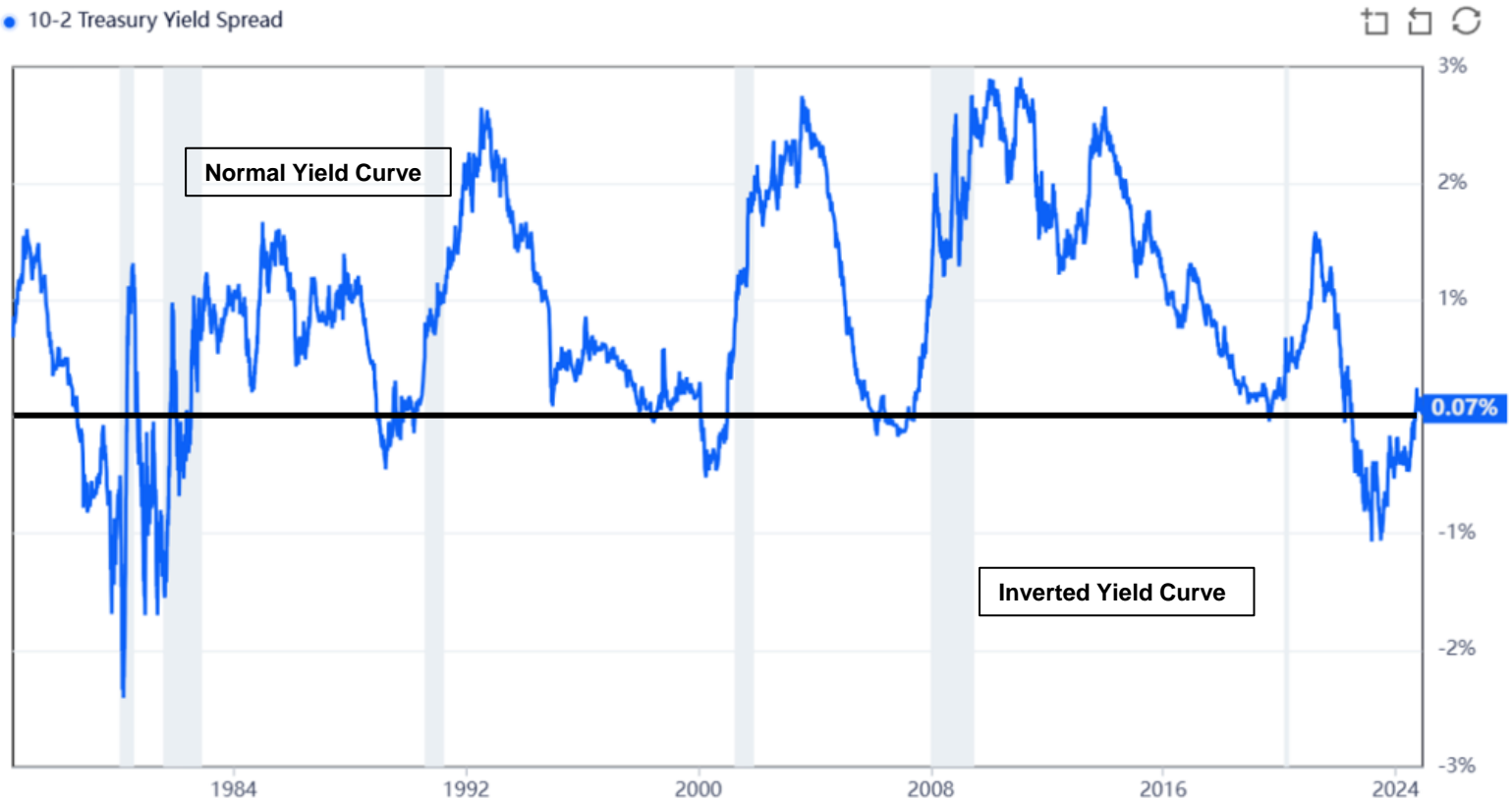


Sources: FOMC; St. Louis Fed

# Yield Curve & Recessions

10-2 Treasury Yield Spread: 0.07 (As of 2024-12-09)

10-2 Treasury Yield Spread



## **VIP Investment Funds**

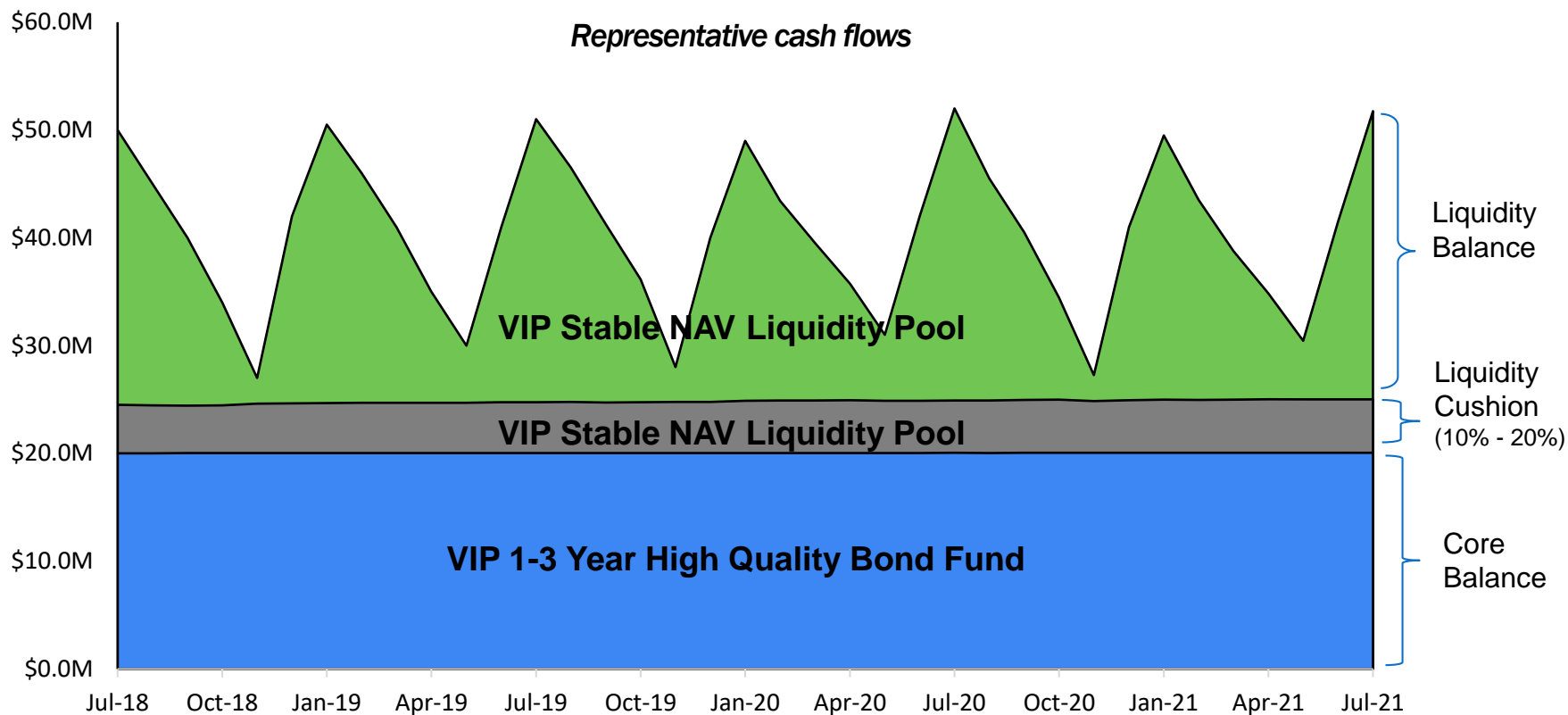
VIP Stable NAV Liquidity Fund

VIP 1-3 Year High Quality Bond Fund

## VIP Offers Two Investment Portfolios

Portfolio Characteristics	Stable NAV Liquidity Pool	1-3 Year High Quality Bond Fund
S&P Rating	AAAm	AA+f/S1
Current Yield (11/30/24)	4.76%	4.21%
Total Assets (11/30/24)	\$3.14B	\$341.8M
Mark-to-Market	Daily	Semi-Monthly
Liquidity	Daily	Semi-Monthly
Benchmark (ICE BofA Index)	3-Month Treasury Bill Index	1-3 Year AAA-AA US Corp/Gov Index

## Two complementary portfolios for managing funds

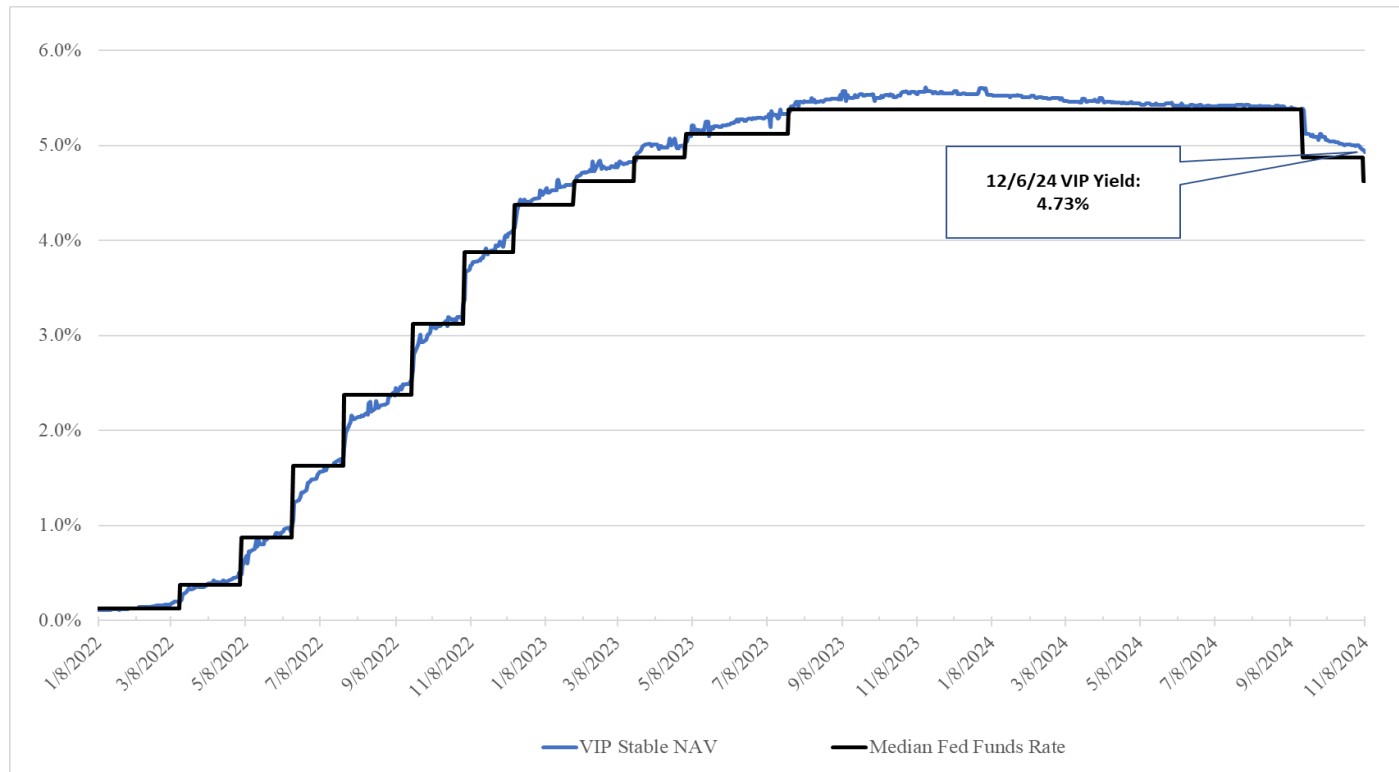


This chart is for informational purposes only. It is not meant to provide advice for your locality's particular situation. For assistance with analyzing your situation, please consult with Public Trust Advisors, VIP's registered investment manager.

# VIP Stable NAV Liquidity Fund

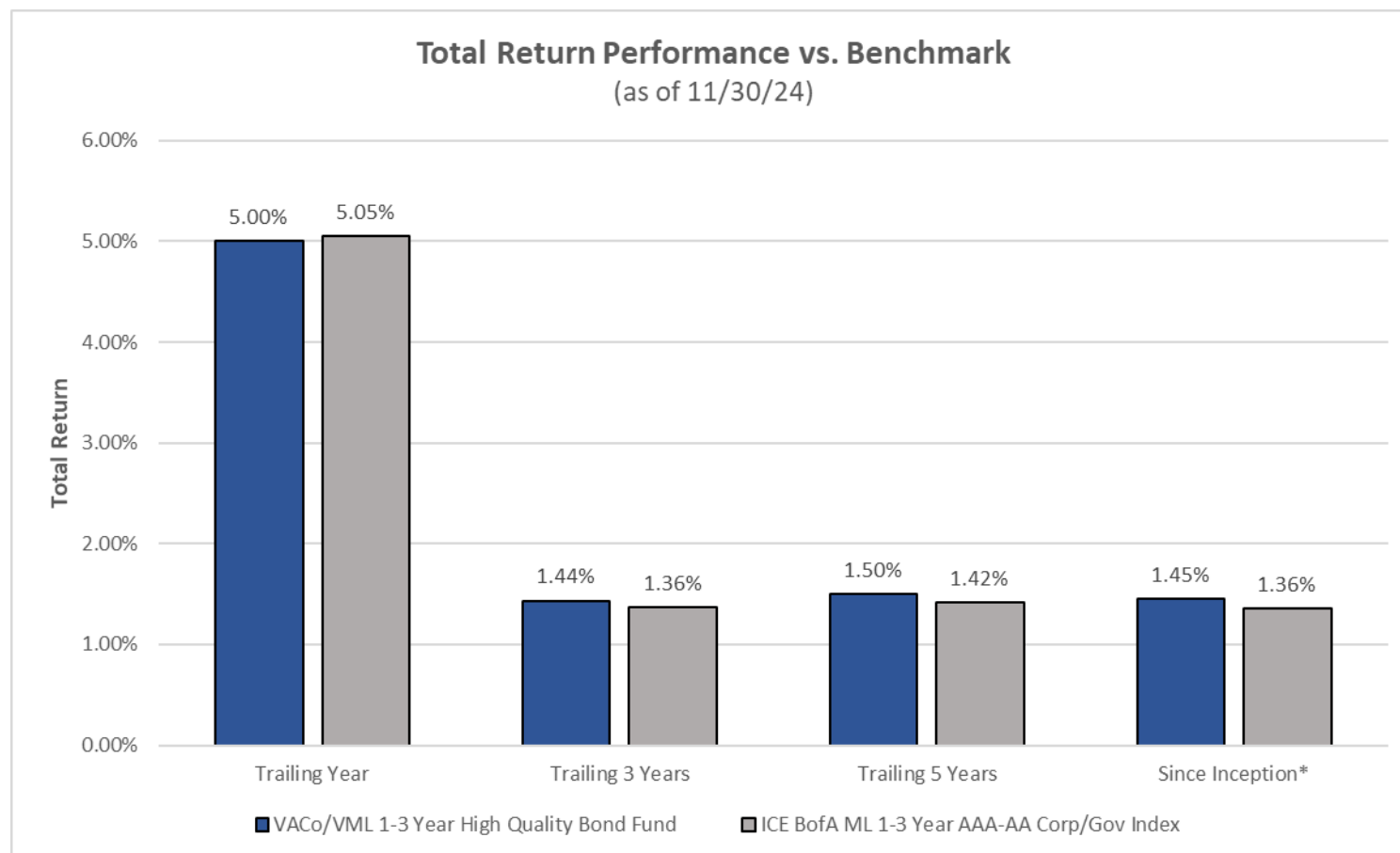
- The Liquidity Fund's Yield Tends to Follow the Prevailing Fed Funds Rate

**VIP Stable NAV Liquidity Pool**  
**Daily Net Yield vs. Fed Funds Rate**  
**1/1/2022 to 12/6/2024**



*Past performance is not necessarily indicative of future results.*

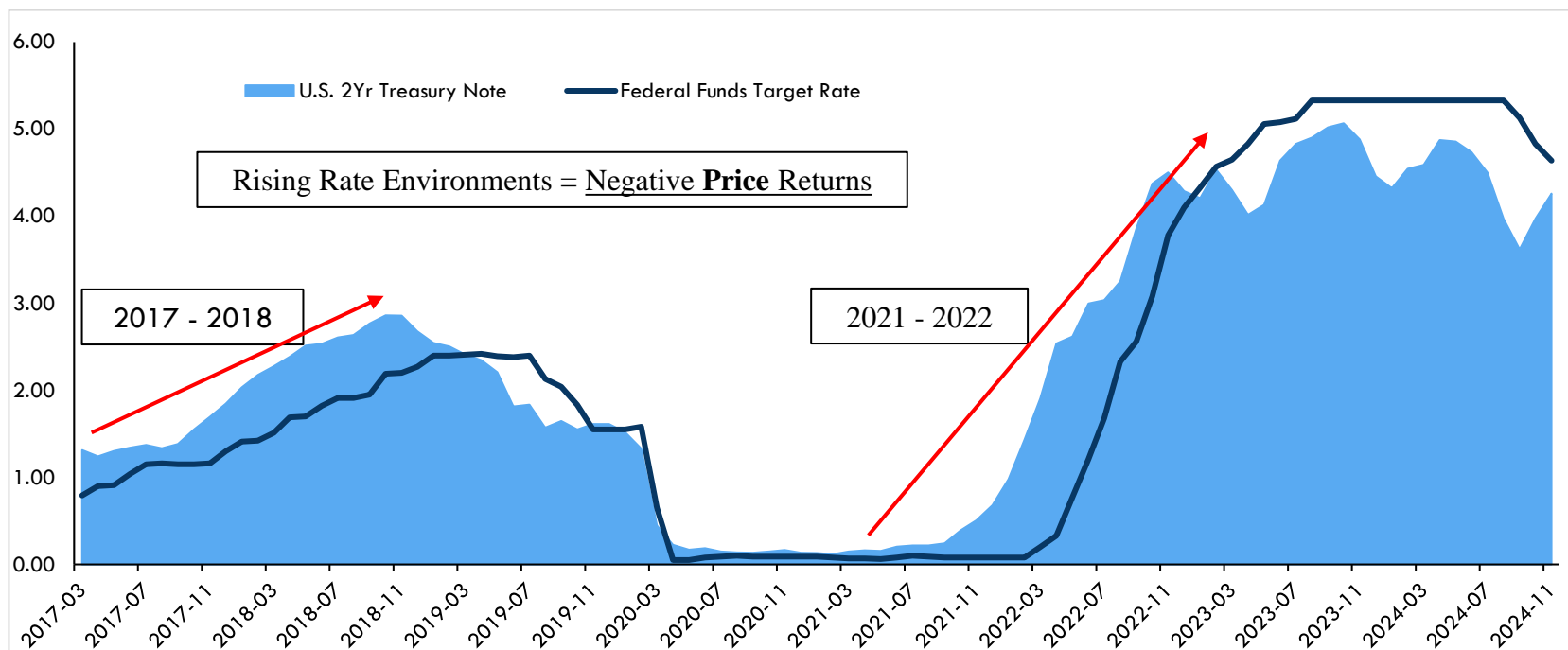
## 1-3 Year Index Performance vs. Benchmark



Source: ICE Data Indices. Public Trust Advisors. Past performance is not necessarily indicative of future returns.



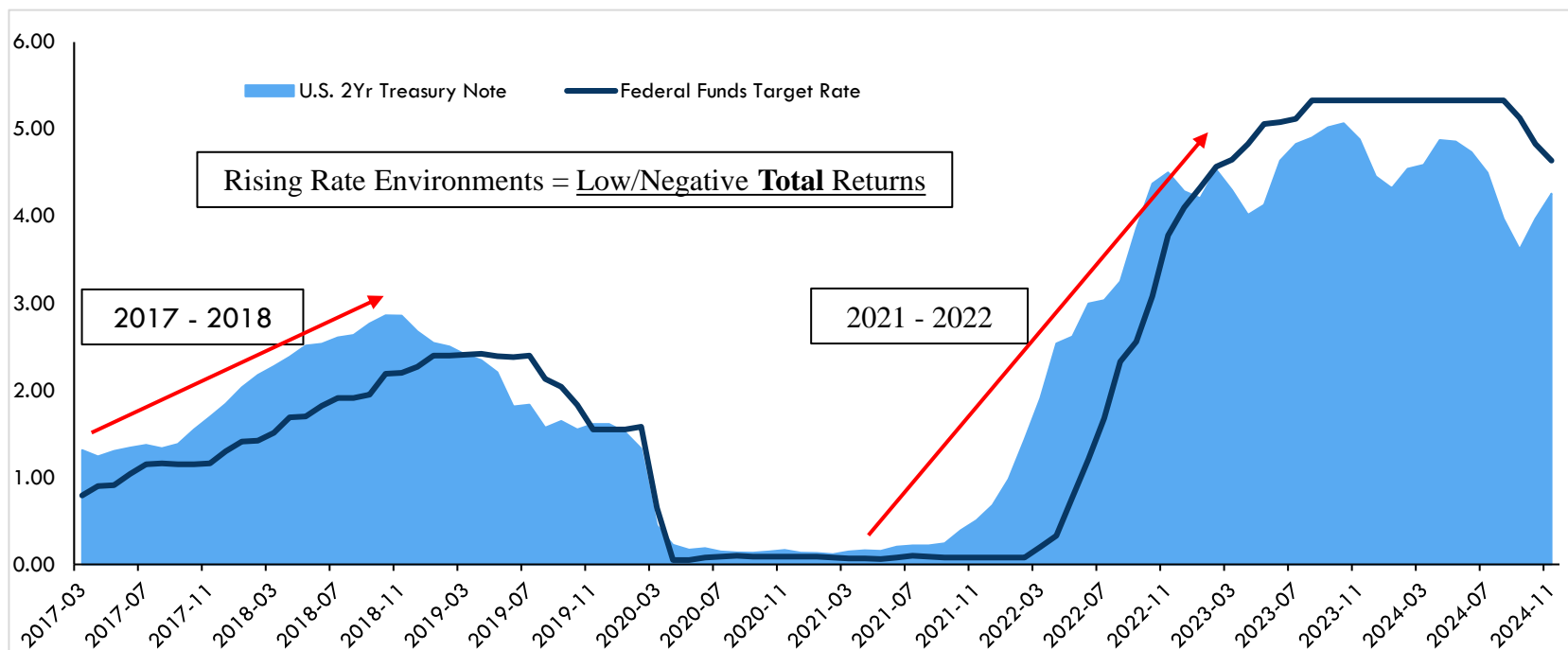
## 1-3 Year Index Performance In Rising Rate Environments



Calendar Year Total Return	2017	2018	2019	2020	2021	2022	2023	Nov 30-YTD
ICE BofA 1-3 Year AAA-AA US Corp/Gov Index (Income Return)	1.78%	2.08%	2.27%	1.89%	1.38%	1.49%	2.27%	2.49%
ICE BofA 1-3 Year AAA-AA US Corp/Gov Index (Price Return)	-1.23%	-0.45%	1.36%	1.23%	-1.91%	-5.15%	2.04%	1.39%
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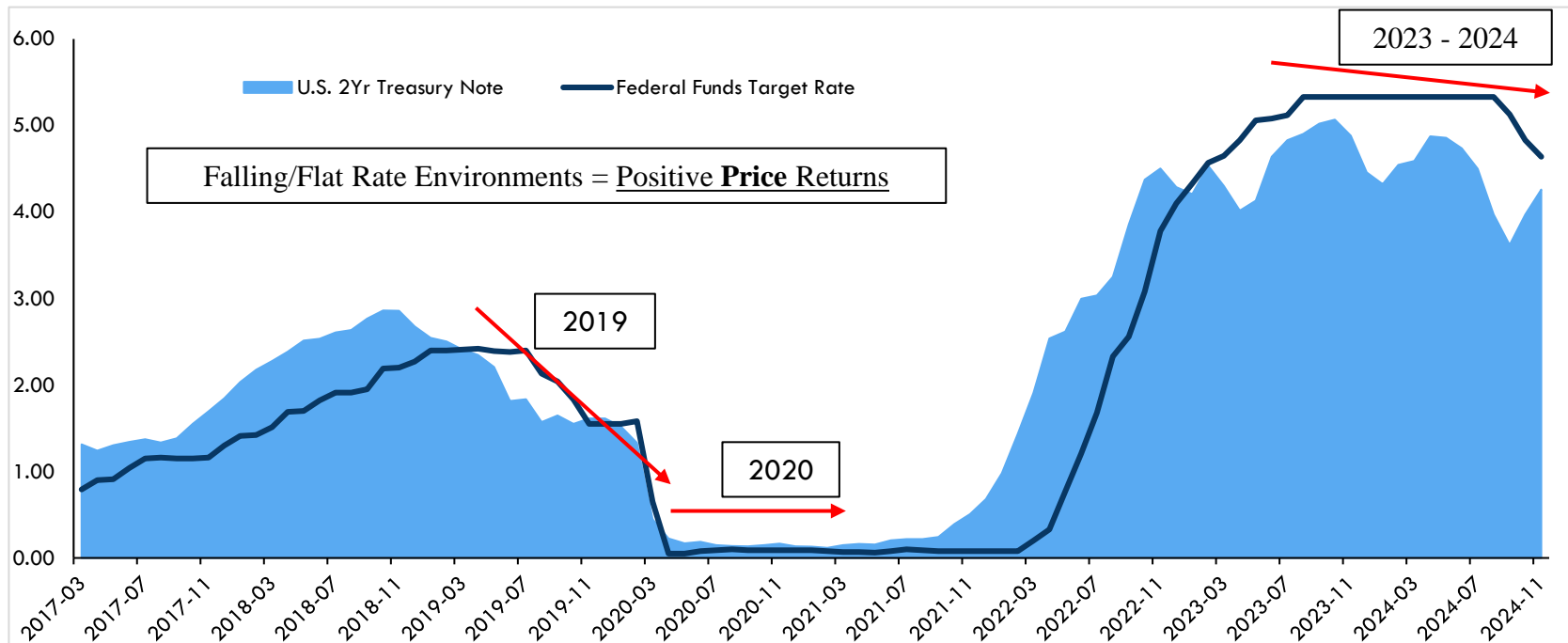
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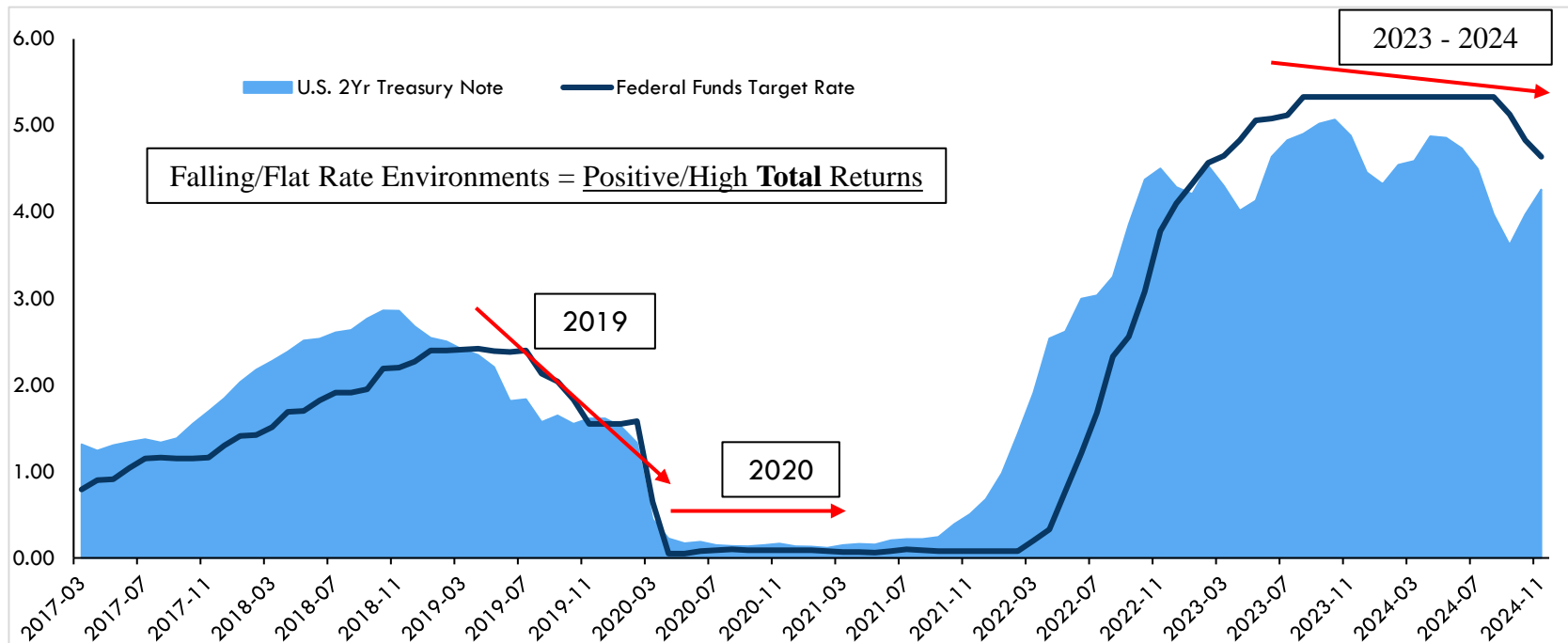
# 1-3 Year Index Performance In Falling/Flat Rate Environments



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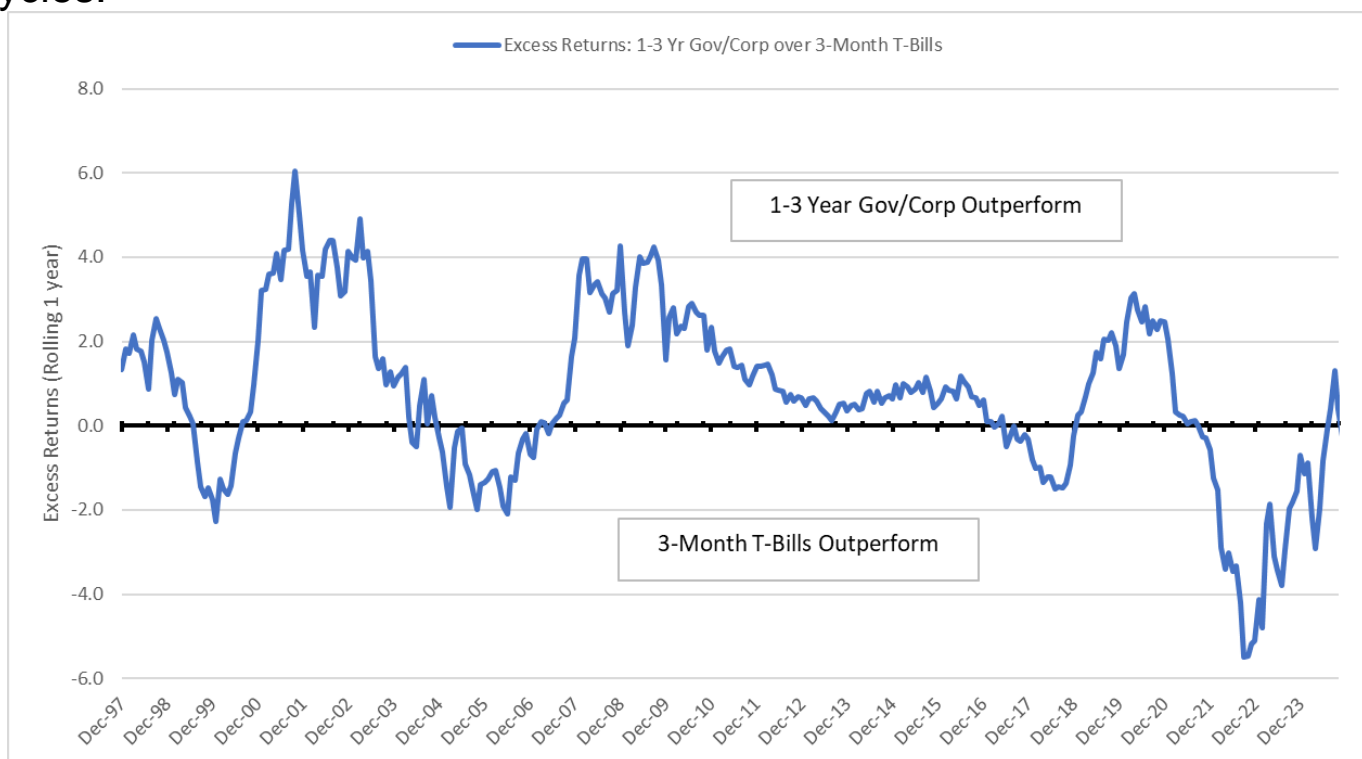


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# Total Return Comparison

- 1-3 Year Bond Returns tend to outperform short-term T-Bills throughout market cycles.



## Rolling 1-year Returns (Dec. 1997 - Nov. 2024)

Periods of 1-3 Year Outperformance	70.1%
Average Excess Return	76 bps

## Considerations for Investors

# Best practices for investing in a fixed income portfolio

1. Remember that fixed income portfolios are for longer-term investors:
  - Short-term volatility is to be expected
  - Investors in 1-3 year securities have historically been rewarded with higher returns as compared to investors in shorter-term securities.
2. When interest rates are falling, as they are now:
  - If funds are needed, consider repositioning your investments.
  - You may even realize a gain when selling in a falling rate environment.
  - However, stick with your asset allocation plan, if appropriate.
3. When interest rates are rising:
  - Avoid selling fixed income investments which may cause you to realize an actual loss.
  - Enjoy the increasing earnings that will be achieved as securities in the portfolio mature and are reinvested in securities with higher interest rates.

# Top Five Reasons to Like Bonds Today

- 1 Inflation has cooled significantly from recent highs.
- 2 Income drives total return and income levels are attractive.
- 3 Income helps cushion short-term price volatility.
- 4 The yield curve is returning to “normal.”
- 5 The Fed Funds rate is coming down, boosting bond prices.



# Thank you!

**VIP Investor Center:**  
[virginiainvestmentpool.org](http://virginiainvestmentpool.org)  
804-648-0635

VIP Program Administrator:  
VML/VACo Finance

VIP Investment Manager:  
Public Trust Advisors