

# Detroit Water and Sewerage Department

September 3, 2025

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# Current Economic Environment



# Current Market Themes



- ▶ U.S. economy is resilient but showing signs of cooling
  - ▶ Headline employment data belies underlying weakening
  - ▶ Inflation remained rangebound but does not yet reflect the full impact of tariffs
  - ▶ Fiscal policy uncertainty and volatile tariff rollouts weigh on consumer sentiment



- ▶ Fed remains on hold but may cut rates later this year
  - ▶ The Fed's June "dot plot" implies 50 bps of cuts in the back half of 2025 but members are split between 0 and 2 cuts this year
  - ▶ Fed Chair Powell stated the effect, size, and duration of tariffs are all highly uncertain making staying on hold the appropriate thing to do as they wait to learn more

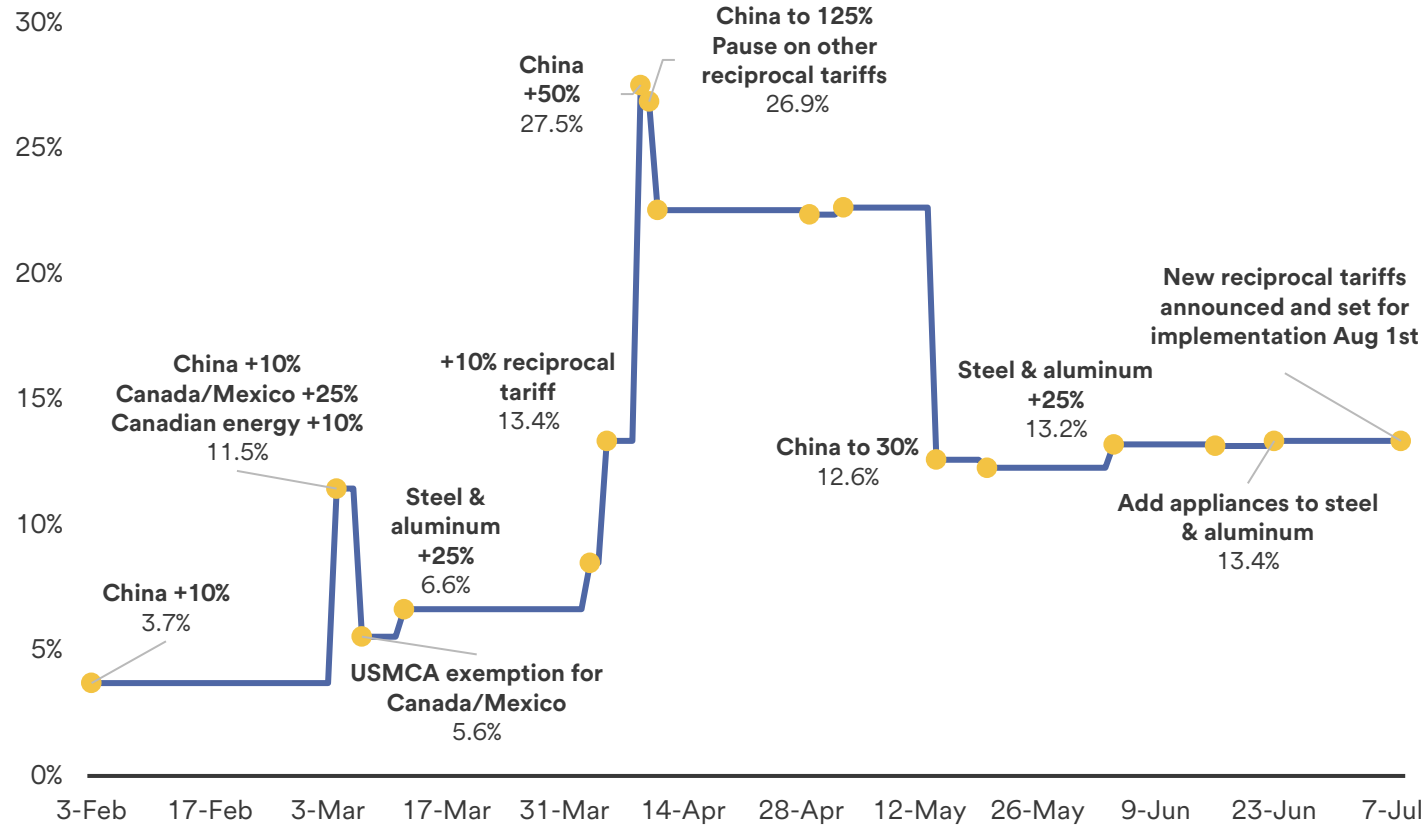


- ▶ Treasury yields whipsawed by tariff announcements in Q2
  - ▶ Concerns over the budget bill, debt ceiling, and monetary policy added to volatility
  - ▶ The yield curve continued to steepen between 2 years and 10 years
  - ▶ Credit spreads widened sharply following tariff fears but tightened to levels near historic tights by quarter end

# Uncertainty Remains Exceptionally High

## Effective Tariff Rate

Select Activity from February 3, 2025 to July 8, 2025



## Fiscal Policy Adds to Uncertainty



Budget/Spending



Tax Reform



Funding Freezes



Debt Ceiling

Source: Bloomberg Finance L.P. as of July 8, 2025. Yellow dots represent activity impacting effective tariff rate.

# Economic Momentum Slows Amid Uncertainty

*Fed Chair Powell : “Despite elevated uncertainty, the economy is in a solid position. The unemployment rate remains low, and the labor market is at or near maximum employment. Inflation has come down a great deal but has been running somewhat above our 2 percent longer-run objective.”*

	2023												2024												2025				
CPI YoY	6.4	6.0	5.0	4.9	4.0	3.0	3.2	3.7	3.7	3.2	3.1	3.4	3.1	3.2	3.5	3.4	3.3	3.0	2.9	2.5	2.4	2.6	2.7	2.9	3.0	2.8	2.4	2.3	2.4
Unemployment Rate	3.5	3.6	3.5	3.4	3.6	3.6	3.5	3.7	3.8	3.9	3.7	3.8	3.7	3.9	3.9	3.9	4.0	4.1	4.2	4.2	4.1	4.1	4.2	4.1	4.0	4.1	4.2	4.2	4.2
U.S. Real GDP QoQ	2.8		2.4		4.4		3.2		1.6		3.0		3.1		2.4		-0.5		2.1% Est.*										
Consumption QoQ	4.9		1.0		2.5		3.5		1.9		2.8		3.7		4.0		0.5		1.9% Est.*										



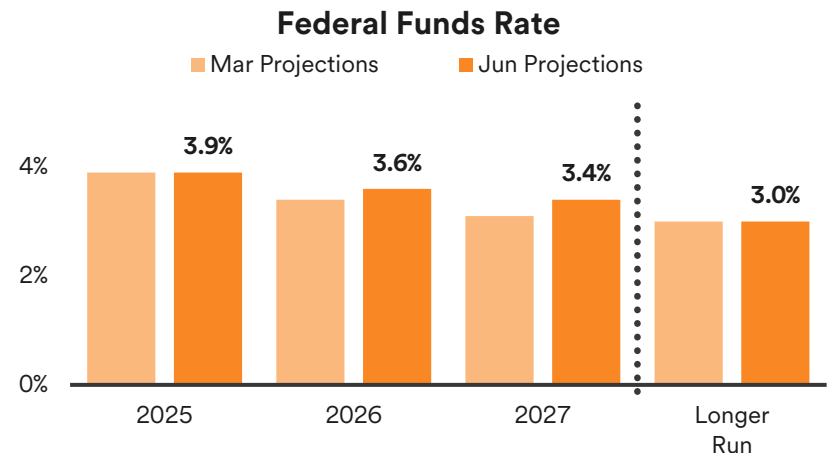
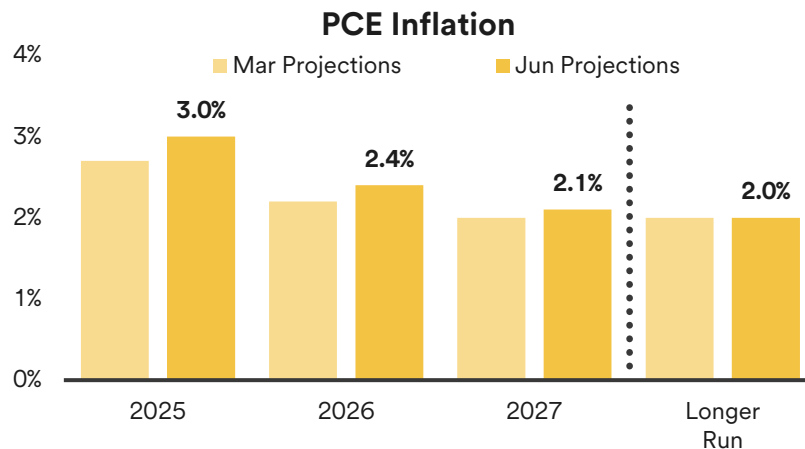
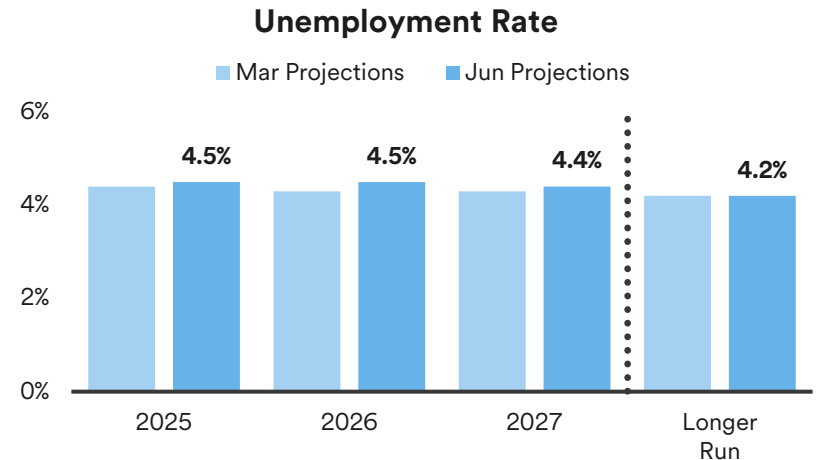
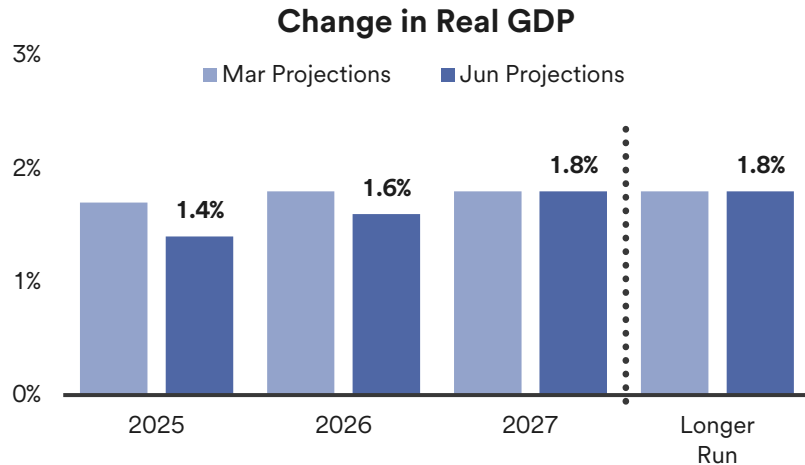
Source: FOMC Chair Jerome Powell Press Conference, June 18, 2025. Bloomberg Finance L.P., Bureau of Labor Statistics and Bureau of Economic Analysis.

The shading represents the deciles of each data point using 30 years of historical data.

\*Median forecasts sourced from Bloomberg Finance L.P. as of July 9, 2025.

# Fed's Updated Summary of Economic Projections

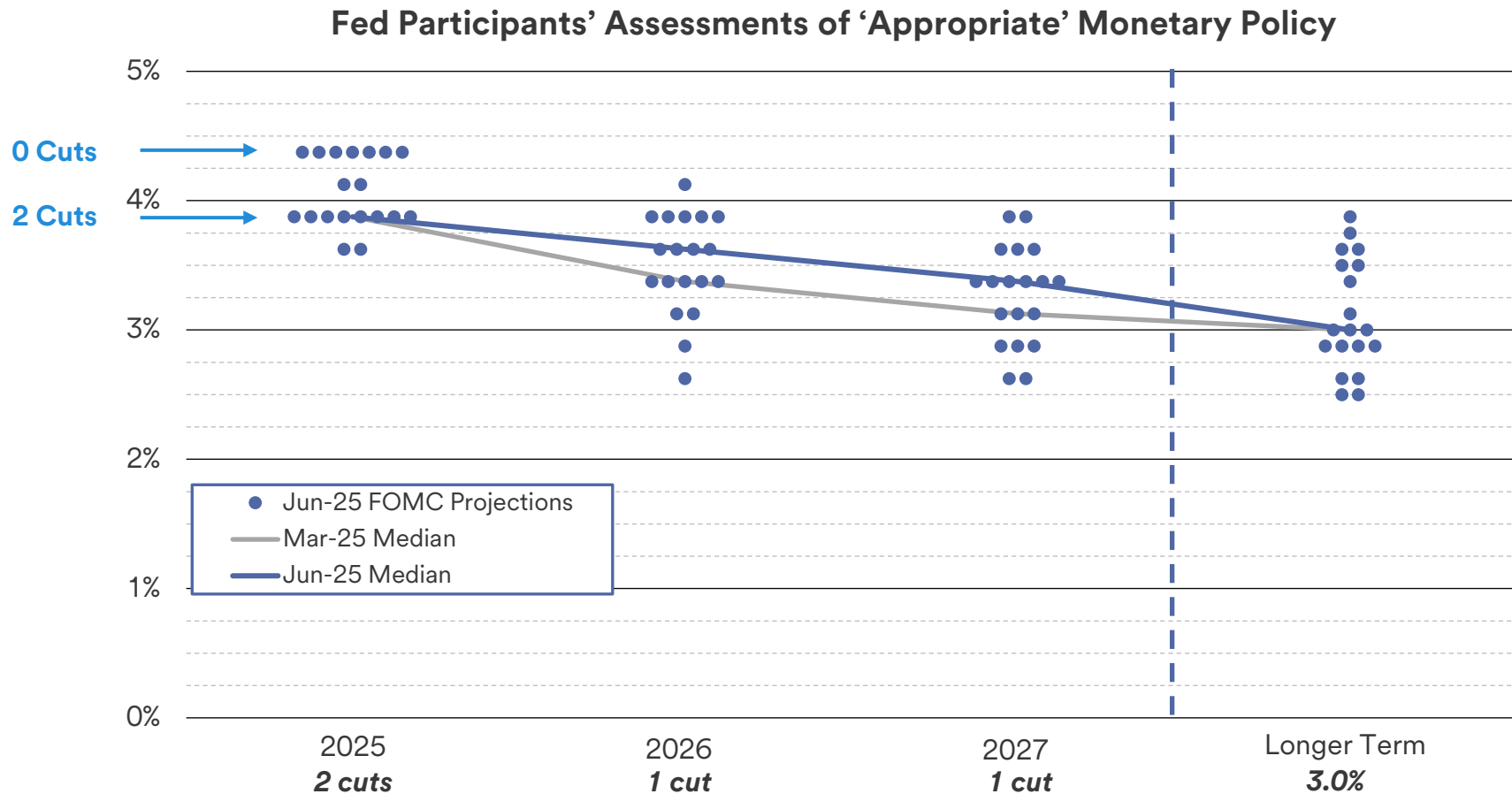
*Fed Chair Powell : “[T]hink of it as the least unlikely path in a situation like this where uncertainty is very high.”*



Source: Federal Reserve, latest median economic projections as of June 2025.

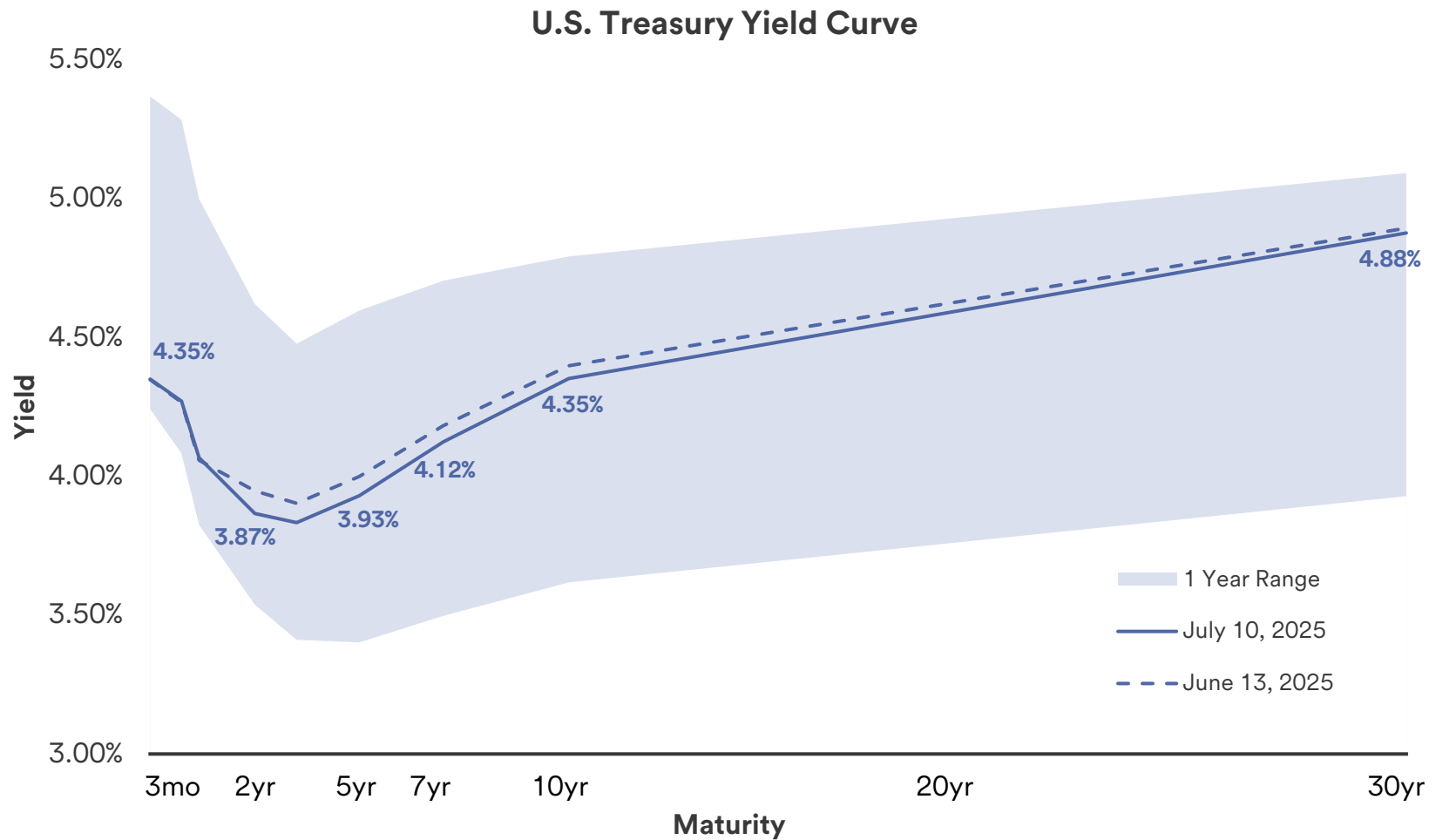
# Fed's Latest "Dot Plot" Shows Divergent Views

*Fed Chair Powell : "[W]ith uncertainty as elevated as it is, no one holds these rate paths with a lot of conviction."*



Source: Federal Reserve; Bloomberg Finance L.P. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end. As of June 2025.

# U.S. Treasury Yield Curve



Source: Bloomberg Finance L.P., as of July 10, 2025.

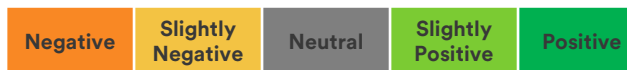


# Fixed-Income Sector Outlook – 3Q 2025

Sector	Our Investment Preferences
COMMERCIAL PAPER / CD	
TREASURIES	
T-Bill	
T-Note	
FEDERAL AGENCIES	
Bullets	
Callables	
SUPRANATIONALS	
CORPORATES	
Financials	
Industrials	
SECURITIZED	
Asset-Backed	
Agency Mortgage-Backed	
Agency CMBS	
MUNICIPALS	

● Current outlook

○ Outlook one quarter ago



# Factors to Consider for 6-12 Months

## Monetary Policy (Global):



- The Fed held rates steady in Q2 amid healthy labor markets and tariff-driven inflation concerns.
- The “dot plot” still signals 50 bps in cuts for 2025 but views have diverged as seven members are calling for no cuts in 2025.
- Other major central banks (except Japan) continued cutting rates as global inflation cools, though tariffs pose inflation risks and cloud the outlook.

## Economic Growth (Global):



- U.S. growth turned negative in early 2025, driven by a historically high trade deficit and weaker consumer spending. Strong inventory build and fixed investment helped offset this weakness.
- The drag to GDP from net exports is expected to reverse, but declining consumer confidence may dampen spending and investment.
- Escalating trade and geopolitical tensions create the potential for slower global growth.

## Inflation (U.S.):



- Inflation has moved closer to the Fed’s 2% target, but tariff-driven price pressures may emerge as businesses deplete pre-tariff inventories.
- Fed Chair Powell said that he does expect tariffs to impact inflation but that the size, duration, and time of tariff effects are highly uncertain.

## Financial Conditions (U.S.):



- Financial conditions swung sharply during the quarter as the tariff rollout caused equities to sell off, credit spreads to widen, and heightened Treasury volatility.
- The announcement of tariff pauses sparked a risk-on trade resulting in equities near record highs and credit spreads tightening beyond long-run averages.
- The evolving fiscal landscape and persistent uncertainty may lead to tightening financial conditions over the next 6-12 months.

## Consumer Spending (U.S.):



- Consumer sentiment remains subdued due to expectations of higher prices, weaker labor markets, and tepid growth. Sentiment has improved slightly since April amid tariff negotiation progress but remains low.
- A sharp labor market downturn remains the biggest threat to consumer spending.
- Tariff-driven inflation increases present additional risks such as slower real wage growth and reduced spending.

## Labor Markets (U.S.):



- The labor market remains healthy, though early signs of cooling are emerging, particularly in rising jobless claims.
- Monthly job gains have slowed but still match labor force growth. Slower population growth may lower the job creation rate needed to maintain stable unemployment.
- With hiring and quits rates low, any acceleration in layoffs may result in job seekers remaining unemployed for longer.

● Current outlook ○ Outlook one quarter ago

Stance Unfavorable  
to Risk Assets

Negative

Slightly  
Negative

Neutral

Slightly  
Positive

Positive

Stance Favorable to  
Risk Assets

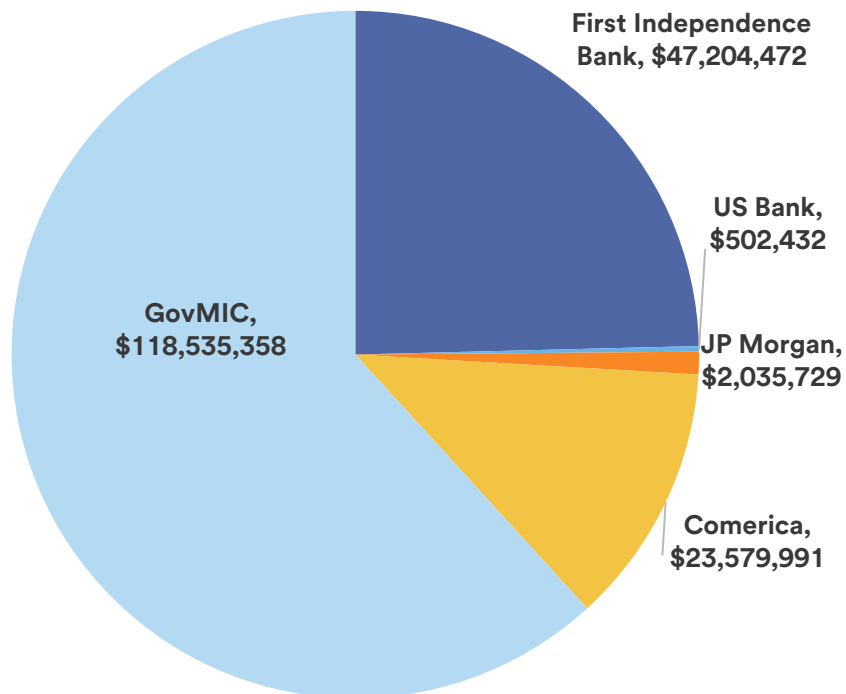
Statements and opinions expressed about the next 6-12 months were developed based on our independent research with information obtained from Bloomberg Finance L.P. and FactSet. The views expressed within this material constitute the perspective and judgment of PFM Asset Management at the time of distribution (6/30/2025) and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management cannot guarantee its accuracy, completeness, or suitability.

# **Fiscal 2025 Portfolio Review**



# Portfolio Summary

## Investment Allocation – June 30, 2025

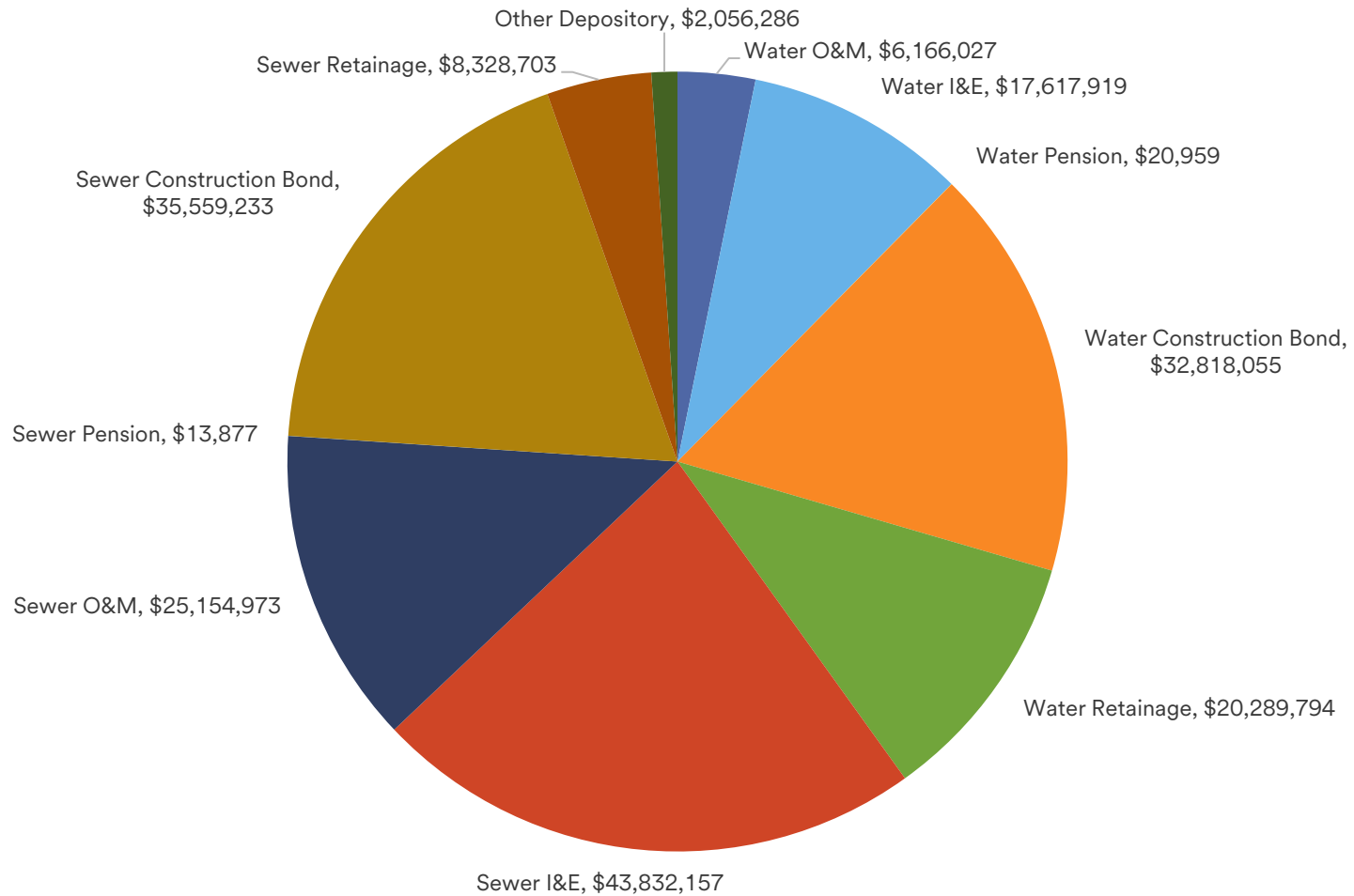


## Investment Overview

- ▶ At June 30, 2025, the majority of the Department's funds were held in overnight bank deposits or a Local Government Investment Pool (LGIP)
- ▶ Current investment yields of up to 5.09%
- ▶ Credit ratings and balances are listed below:

Institution	Balances as of June 30, 2025	Bank S&P Rating
US Bank	\$502,432	A+/A1
JP Morgan	\$2,035,729	A+/A1
First Independence	\$47,204,472	NR
Comerica	\$23,579,991	BBB+/A2
GovMIC	\$118,535,358	AAAm
Total	\$191,857,982	

# Fund Allocation at June 30, 2025



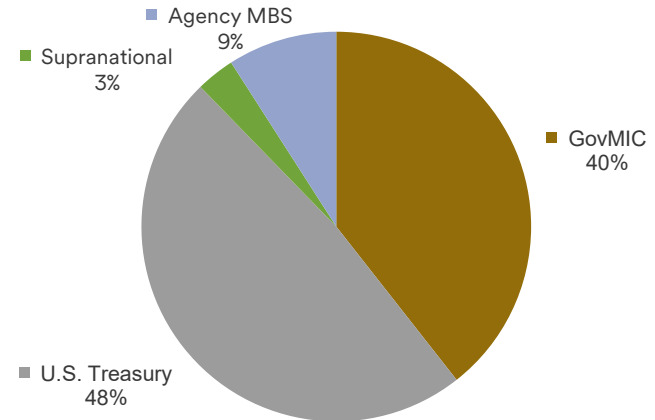
Source: Fund Allocation & Monthly Interest Earnings provided by DWSD as of June 30, 2025, by NiKole Howard-Whitsett.

# Sewer I&E Investment Summary

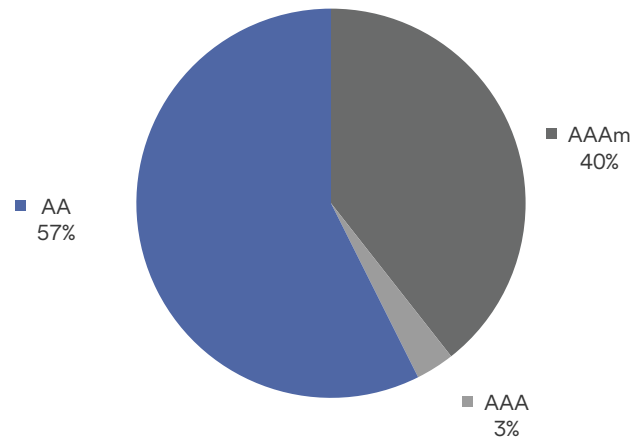
## Portfolio Statistics

Market Value & Accrued Interest	\$43,285,995
Average Duration	0.61 years
Average Yield at Cost	4.66%
Average Yield at Market	4.13%

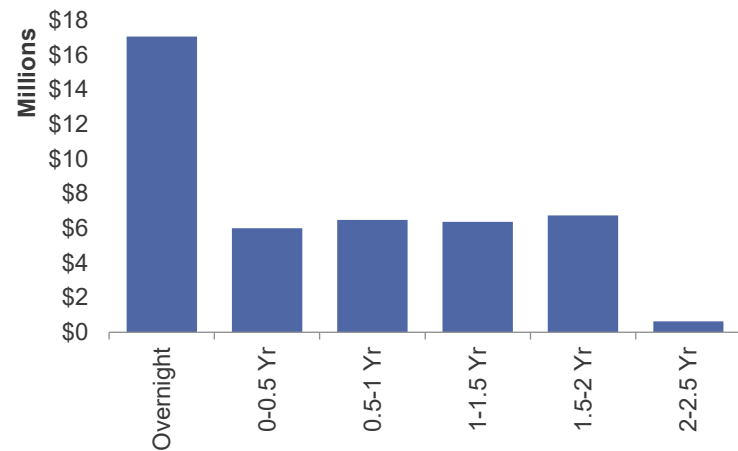
## Sector Allocation



## Credit Quality



## Duration Distribution



All data as of June 30, 2025.  
S&P rating, or Moody's equivalent if not rated by S&P.

# Portfolio Update



# Implementation Progress

## ✓ Investment Program Review

- Reviewed investment portfolio strategies and practices

## ✓ Cash Flow Analysis

- Determined an appropriate allocation to a short-term liquidity portfolio to meet ongoing liquidity needs
- Identified the core balance that is available for longer term investments to capture higher expected returns

## ✓ Investment Policy

- Reviewed for policy in Compliance with Public Act 20 and Government Finance Officer's Association Best Practices

## ✓ Portfolio Segmentation

- Determined amounts to be invested in each portfolio strategy

## ✓ Strategy Approval and Implementation

## ✓ Continual Review of Strategy





# Current Investment Considerations

- **Cash Flow Analysis**
  - Potential funding freezes
  - Budget uncertainties
  - Changing liquidity needs
  - Interest rate expectations and Fed policy
- **Portfolio Segmentation**
  - Arbitrage implications



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