

Economic Update:

First Half of 2022 and STAR Ohio



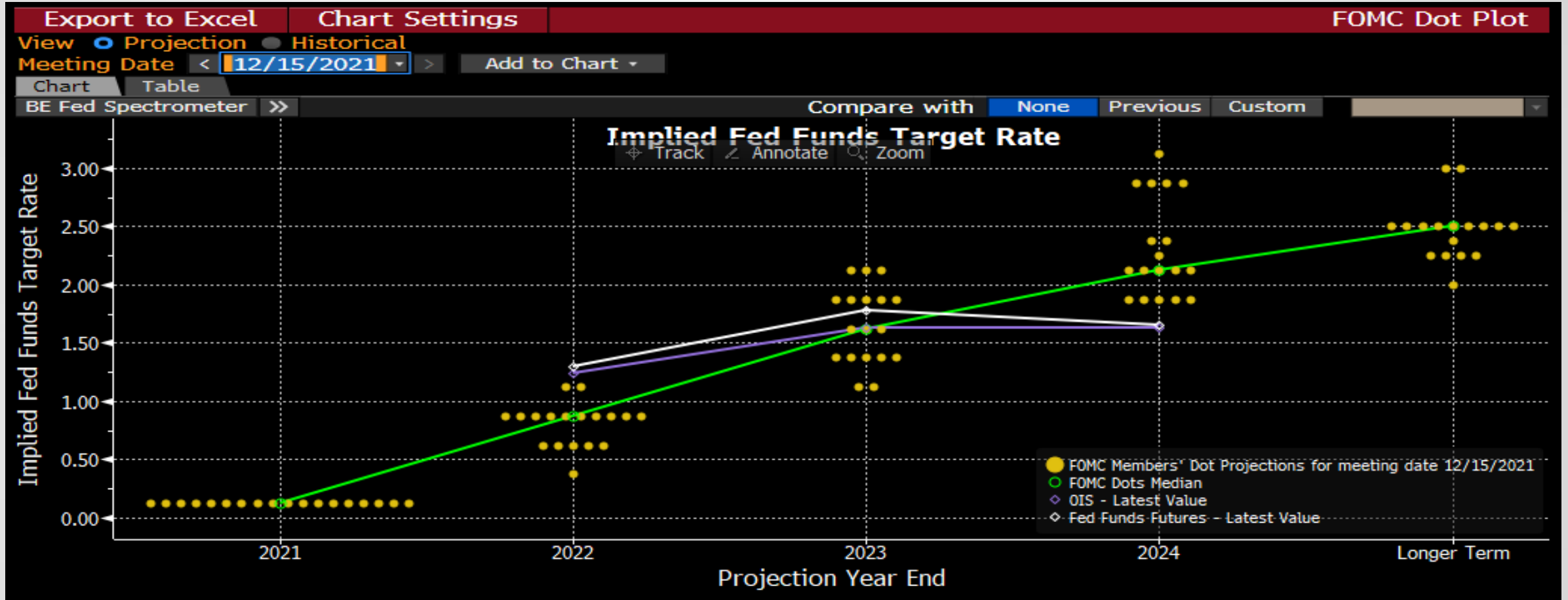
ROBERT SPRAGUE

OHIO TREASURER

2022....All About the Fed and Inflation

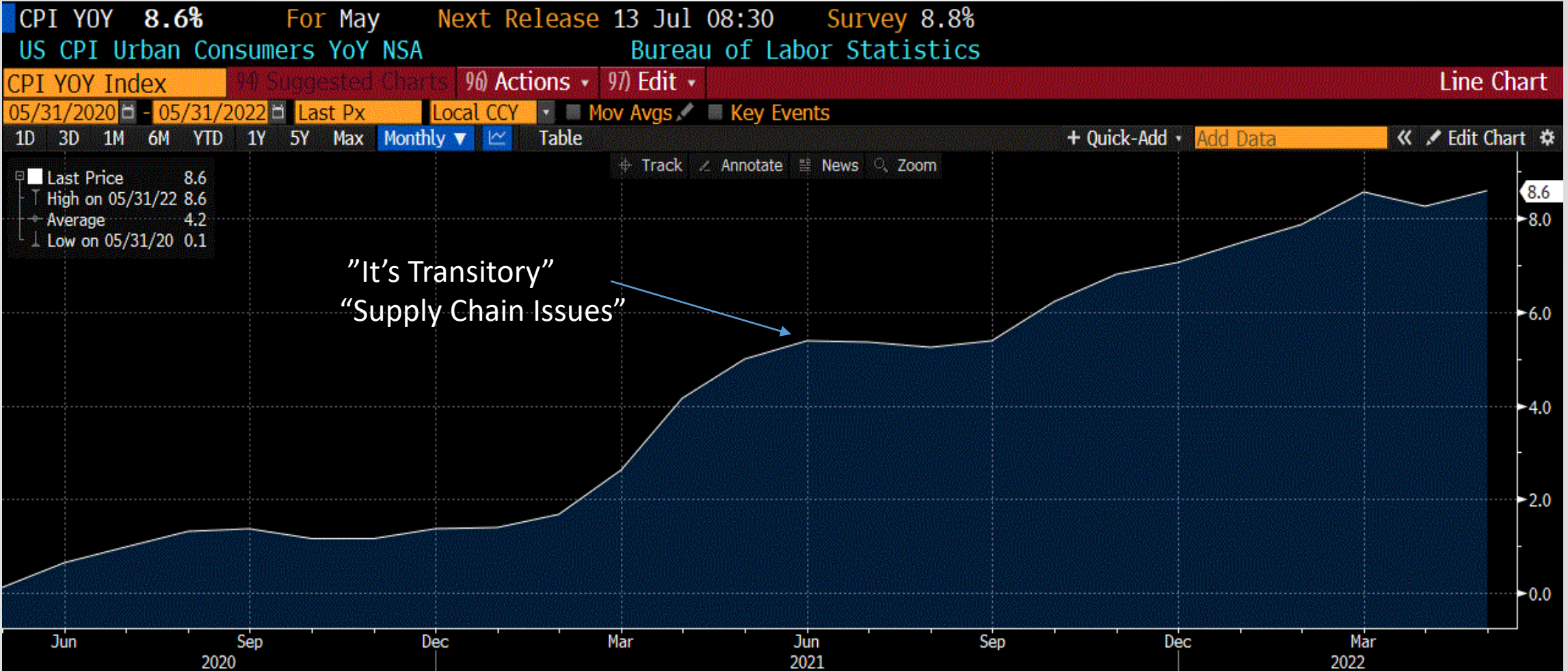


The Fed and the DOT Plot – As of December 2021 Meeting



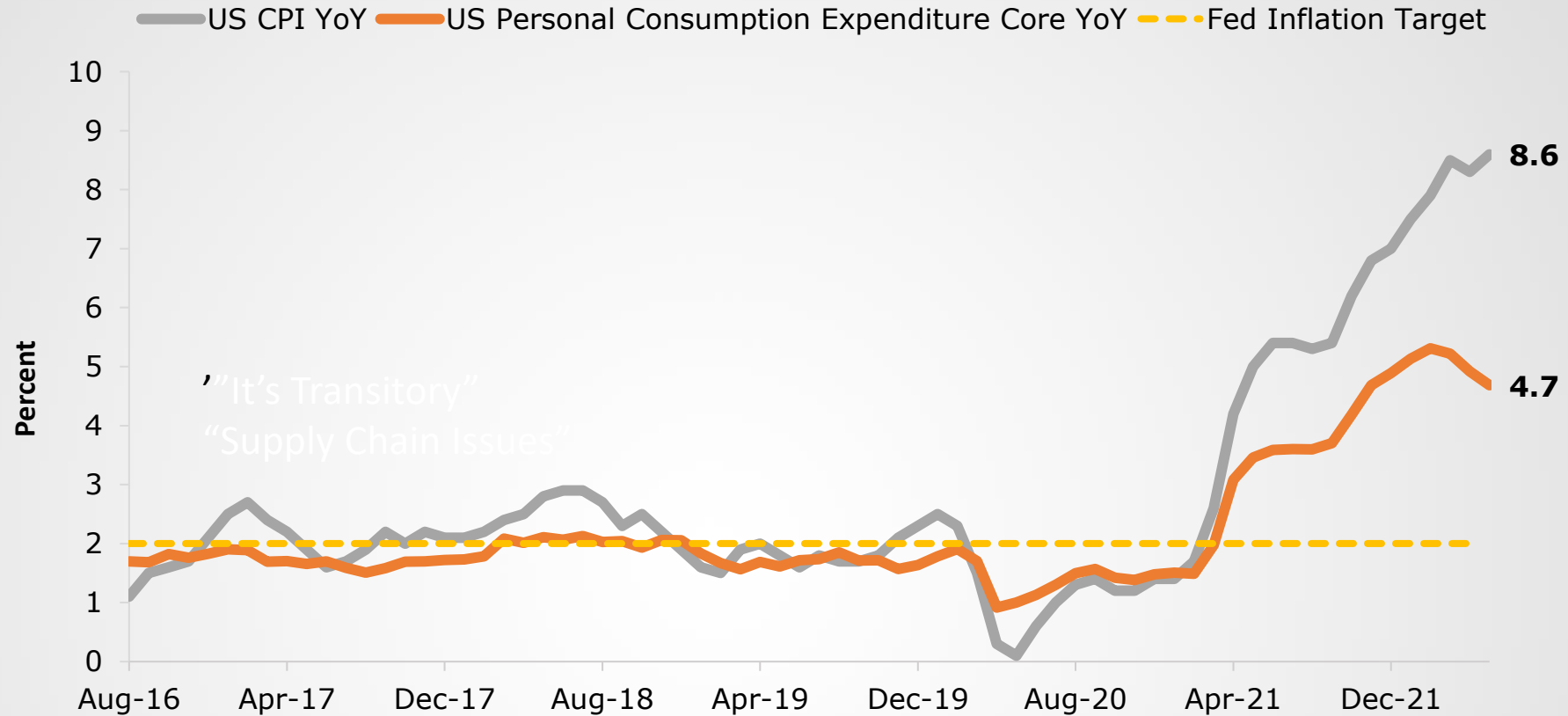
Source: Bloomberg





Source: Bloomberg



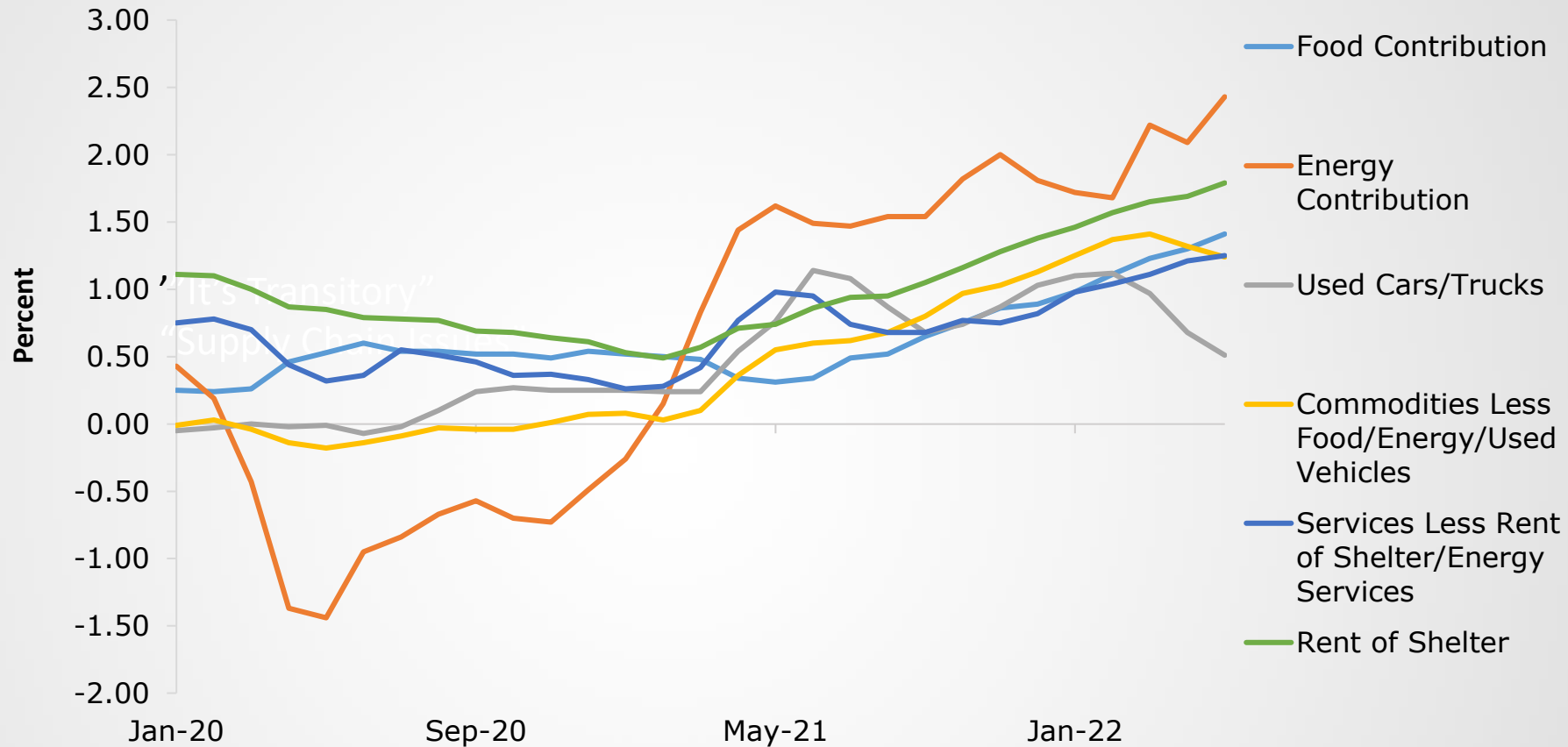


- CPI is a measure of prices paid by consumers for a basket of goods/services and only accounts for urban households. PCE, the Fed's preferred measure of inflation, tracks overall price changes for goods and services for all U.S. households and nonprofits. Inflation above the Fed's 2% target is believed to be conducive to tighter monetary policy.

Source: Bloomberg



Monthly Net Contributions to Headline Inflation



- In the above chart, the monthly CPI headline inflation number is broken out by each category's net contribution.



Source: Bloomberg

Fed Chairman Powell...The Fed Thought Inflation is Here



The Consumer Knows Inflation is Here



And Oh My Gosh!...It's Not Transitory

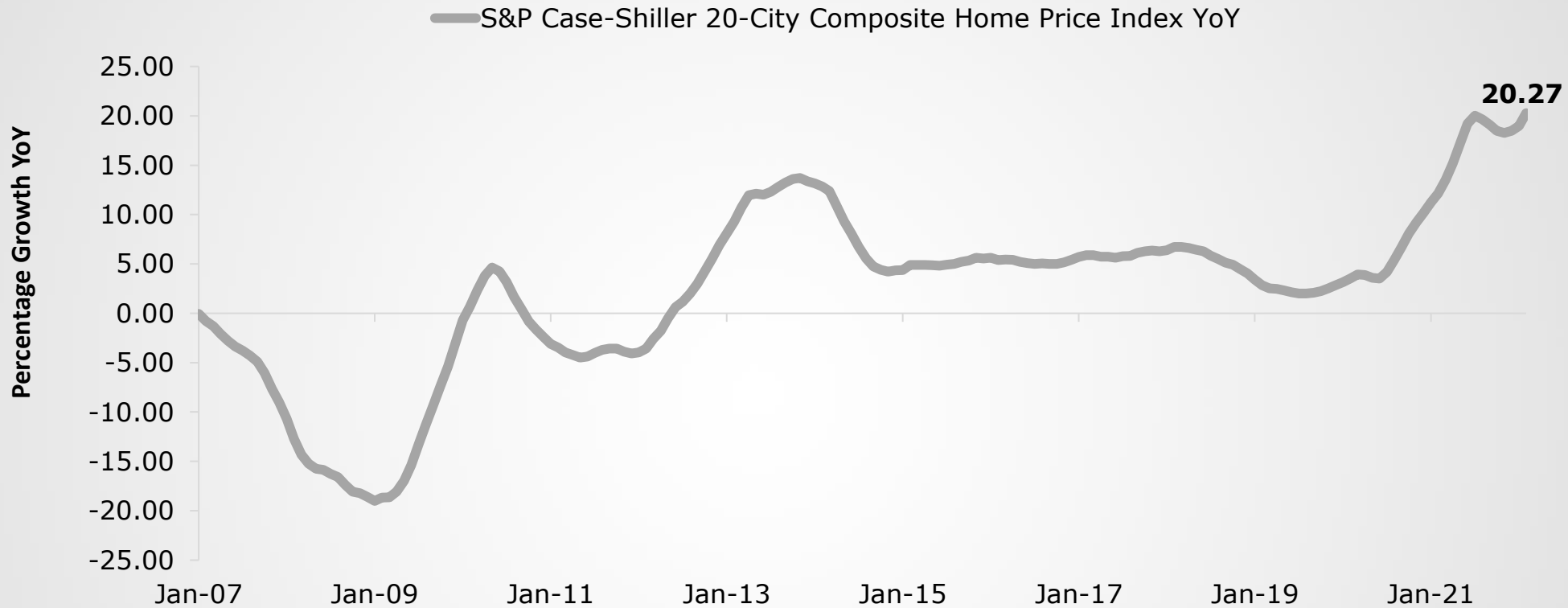


Inflation Factors

- ✓ Supply Chain Issues
- ✓ Supply versus Pent Up Demand
- ✓ Russia/Ukraine Conflict
- ✓ Job Growth
- ✓ Employment Participation Rate
- ✓ Wage Pressures
- ✓ Fiscal Stimulus



Housing Market

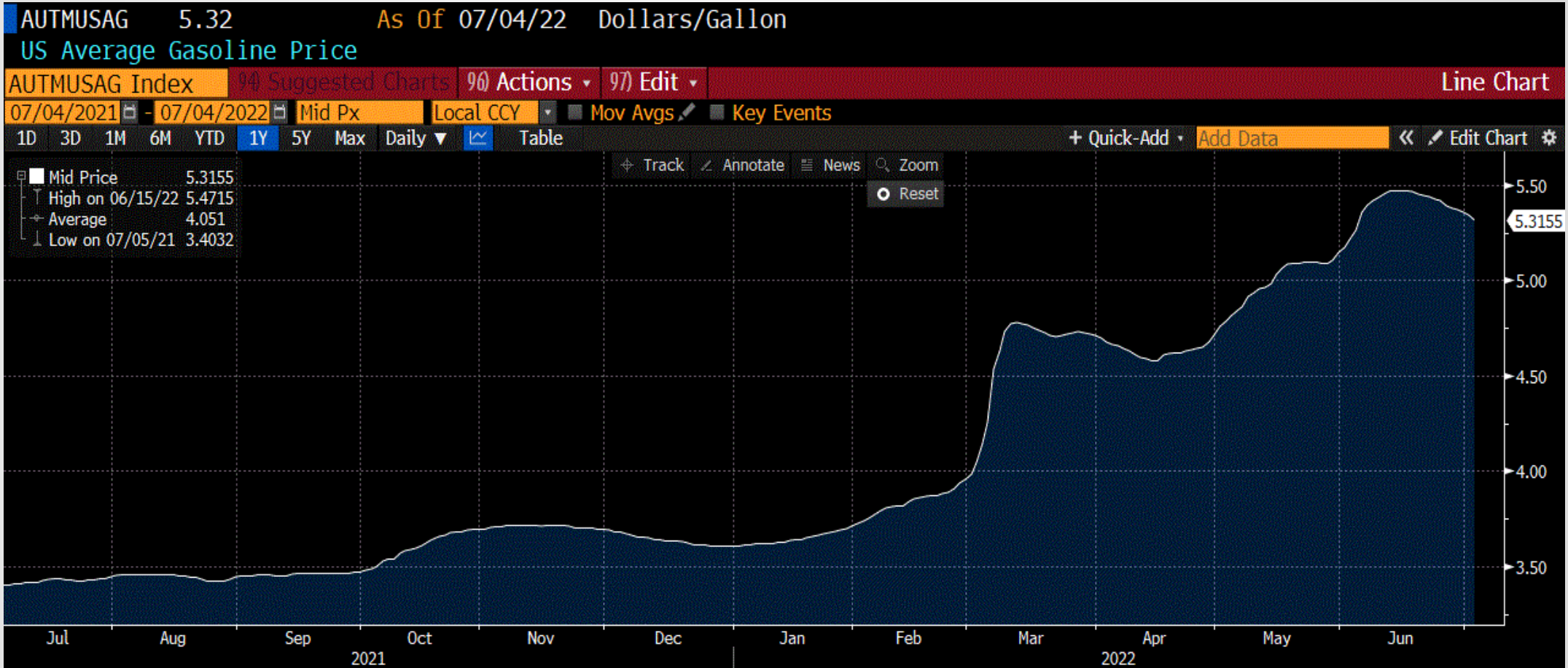


- The S&P/Case-Shiller U.S. National Home Price Index tracks the value of single-family housing within the United States. The index is a composite of single-family home price indices for the nine U.S. Census Divisions. The gray line represents the price increase (or decrease) year over year.

Source: Bloomberg



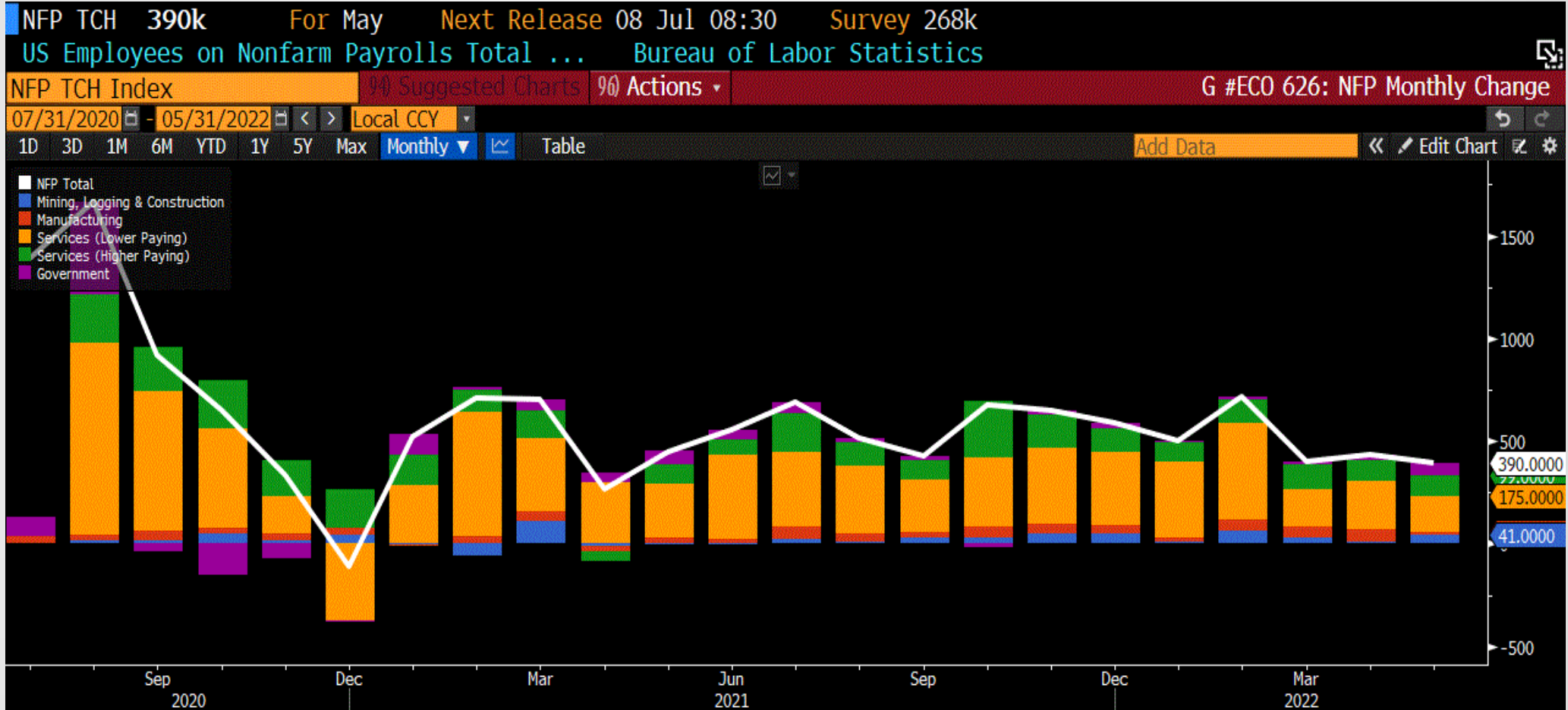
Pain at the Pump



Source: Bloomberg



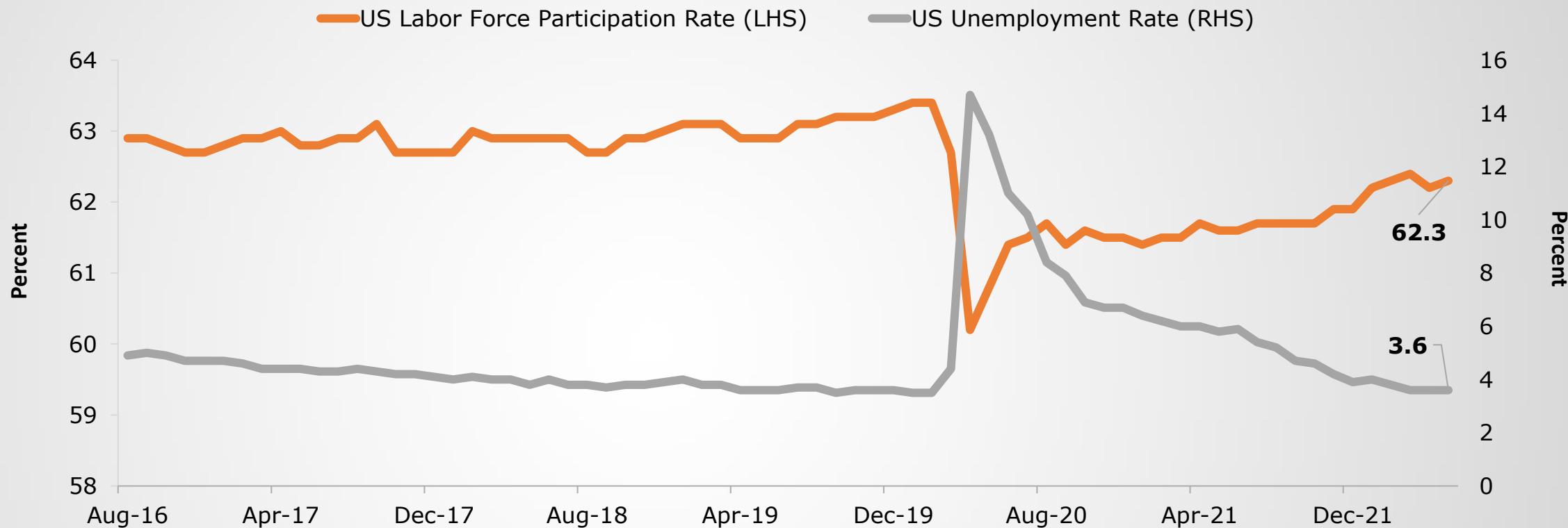
The Employment Picture



Source: Bloomberg



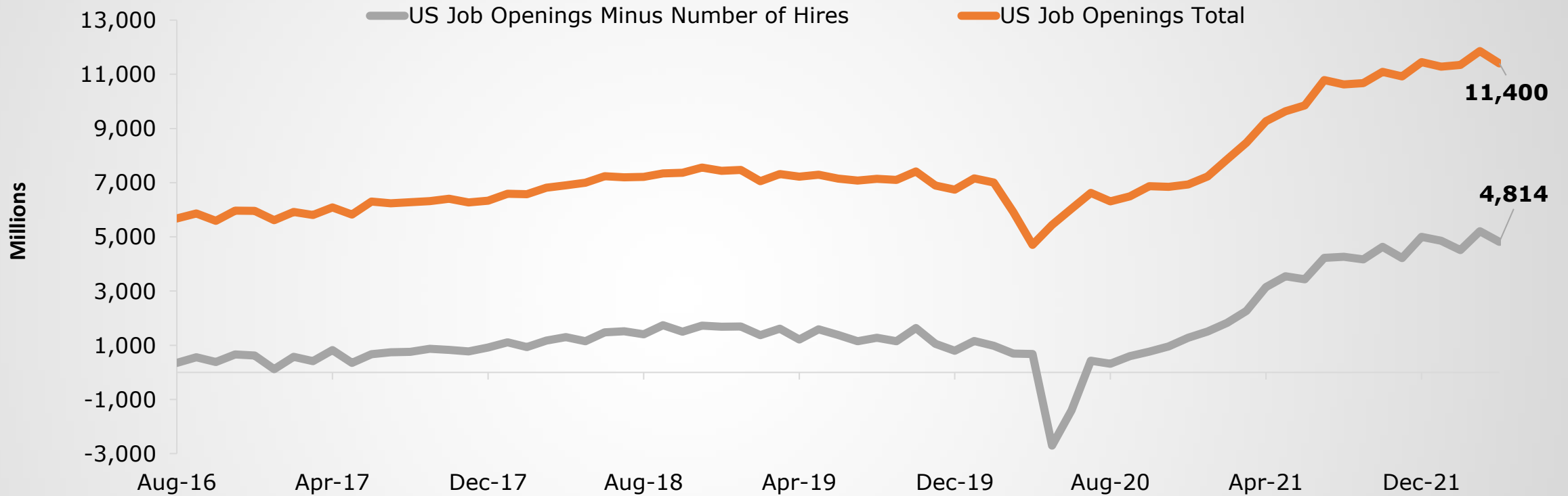
Unemployment



- The unemployment rate tracks the number of unemployed persons as a percentage of the labor force (total number of employed plus unemployed). The labor force participation rate is an estimate of the economy's active workforce. Full employment along with stable prices is one of the Fed's dual mandates with respect to monetary policy.



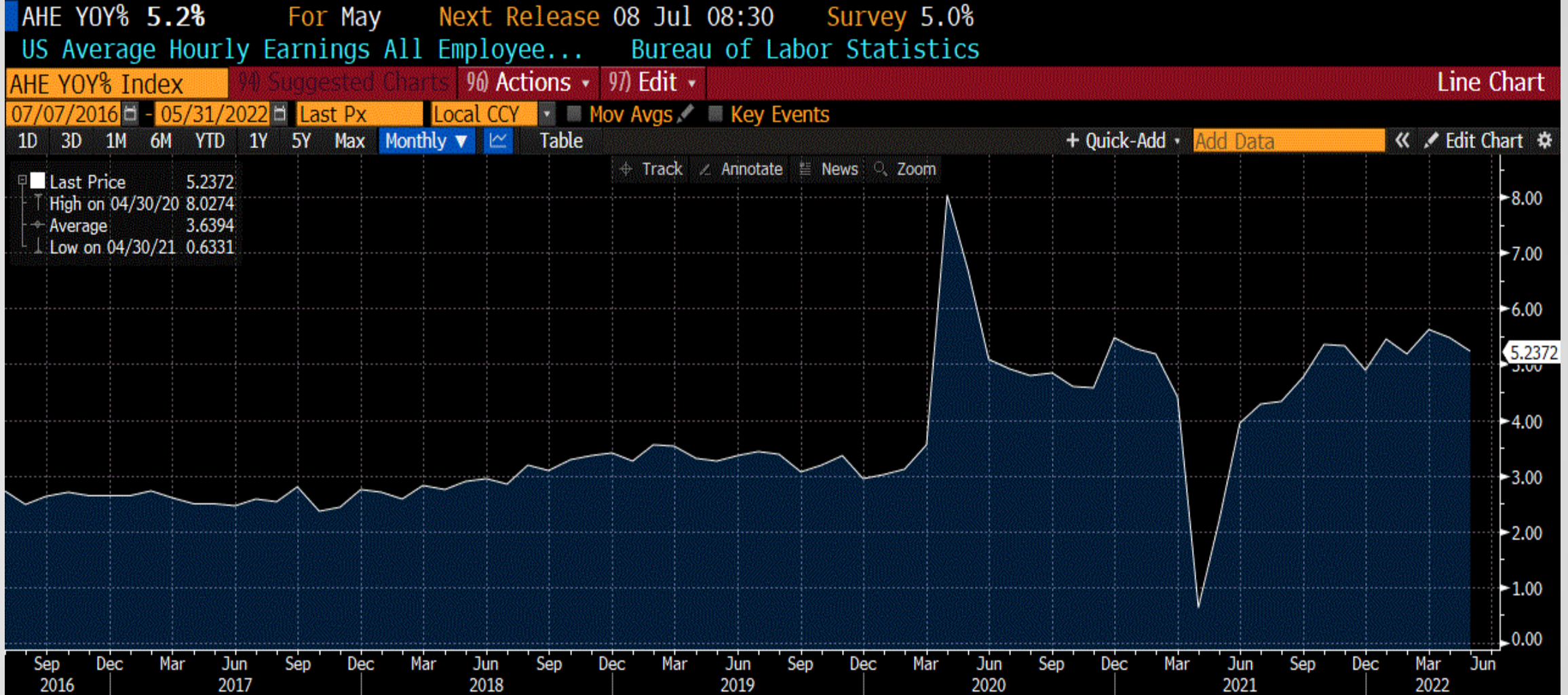
U.S Job Openings



- The orange line tracks the number of specific job openings in the economy. Vacancies generally include either newly created or unoccupied positions. The gray line illustrates the gap between job openings and individuals willing to fill those positions.

Source: Bloomberg



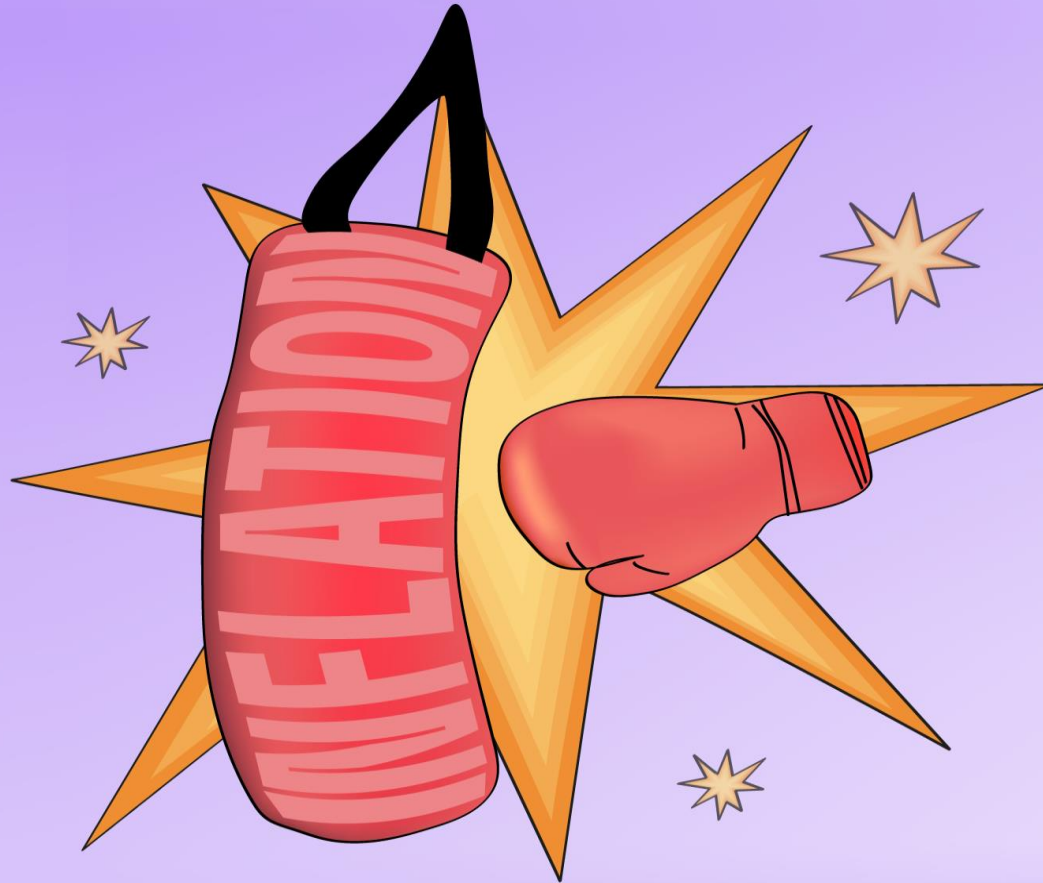


Source: Bloomberg

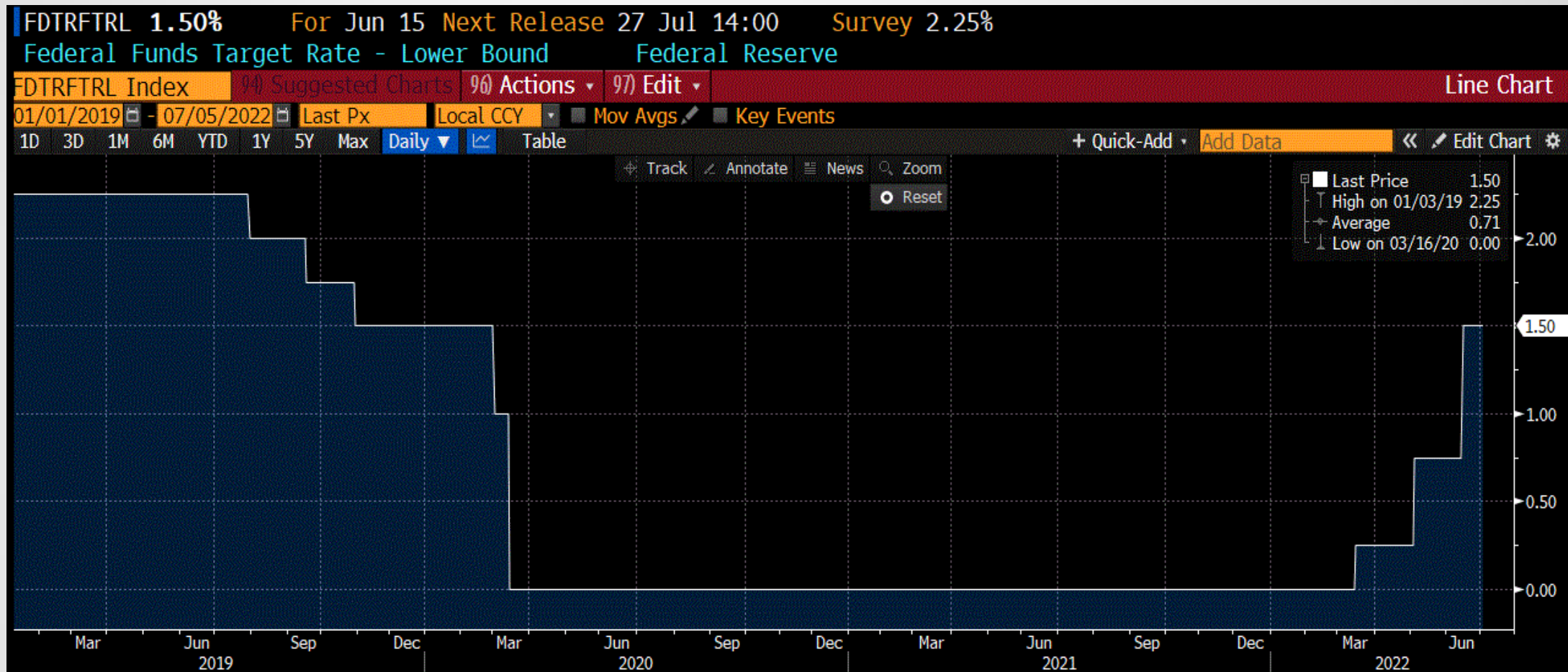




The Fed at Work



Fed Funds Target – Lower Bound



Source: Bloomberg



The Fed DOT Plot – As of March 2022 Meeting



Source: Bloomberg



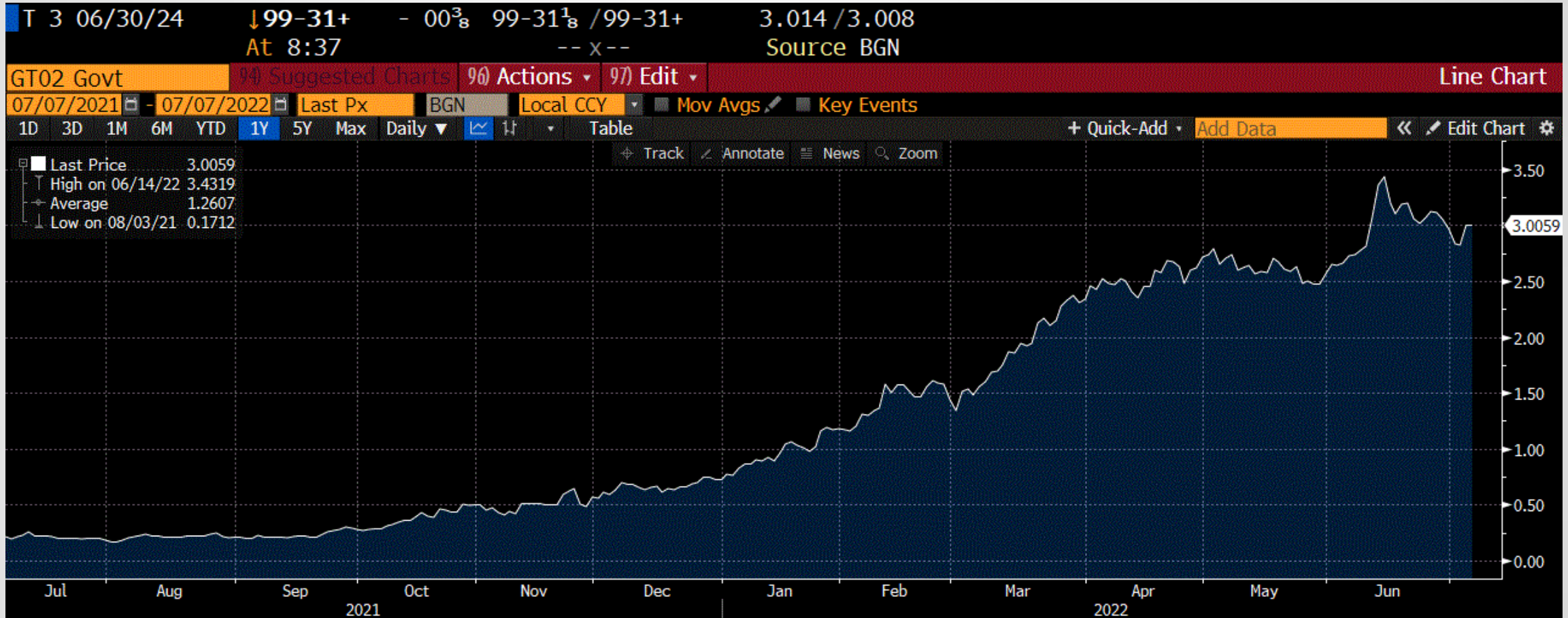
The Fed DOT Plot – As of June 2022 Meeting



Source: Bloomberg



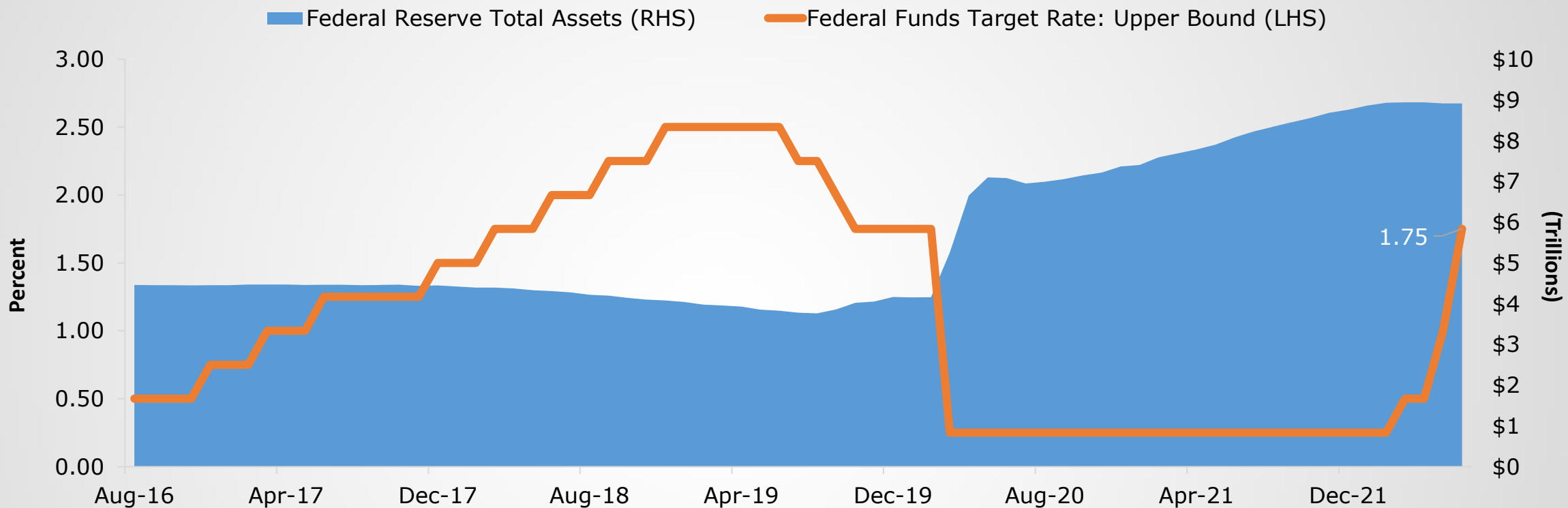
The Two-Year Treasury



Source: Bloomberg



Federal Reserve Balance Sheet and Fed Funds Target Rate



- The Federal Funds Target Rate is the short-term interest rate targeted by the Fed as part of its monetary policy. The target Fed Funds level was replaced by a “target range” in December 2008. The orange line represents the upper bound of the range while the shaded blue area illustrates the change in total assets held on the Fed’s balance sheet over time.

Source: Bloomberg



Fed Tapering

- The gradual slowing of the pace of the Federal Reserve's large-scale asset purchases
- Does not refer to an outright reduction of the Fed's balance sheet, only to a reduction in the pace of its expansion
- Motivation is to slowly remove the monetary stimulus
- From a press release titled "Plans for Reducing the Size of the Federal Reserve's Balance Sheet", all FOMC participants agreed to the following plans for reducing the Federal Reserve's securities holdings:
 - Beginning on June 1, principal payments from securities held in the System Open Market Account (SOMA) will be reinvested to the extent that they exceed monthly caps.
 - For Treasury securities, the cap will initially be set at \$30 billion per month and after three months will increase to \$60 billion per month. The decline in holdings of Treasury securities under this monthly cap will include Treasury coupon securities and, to the extent that coupon maturities are less than the monthly cap, Treasury bills.
 - For agency debt and agency mortgage-backed securities, the cap will initially be set at \$17.5 billion per month and after three months will increase to \$35 billion per month.

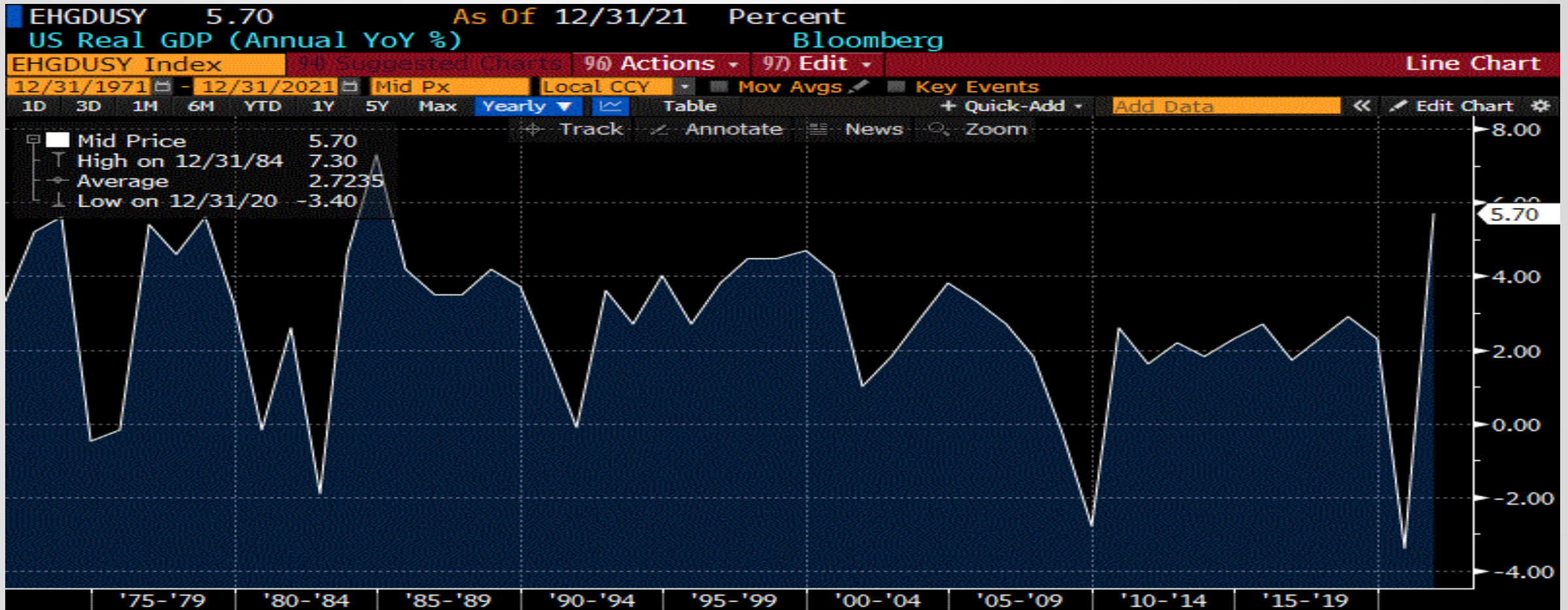


Quantitative Tightening aka QT

- Reduces the supply of reserves in the financial system
- Fed lets the bonds its purchased reach maturity and run off its balance sheet
- Private market has more treasuries and/or mortgage-backed securities to take down if Fed leaves the playing field



U.S. Real GDP (Year over Year)



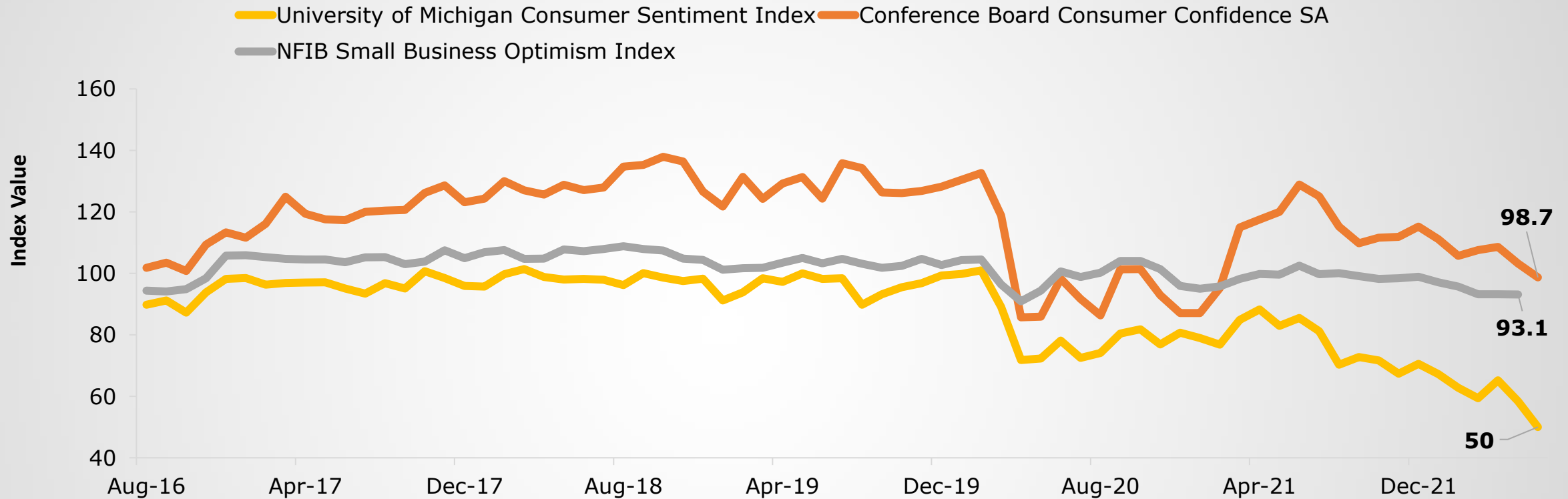
X-axis: Years

Y-axis: Annual YoY%

Source: Bloomberg



Consumer and Business Sentiment

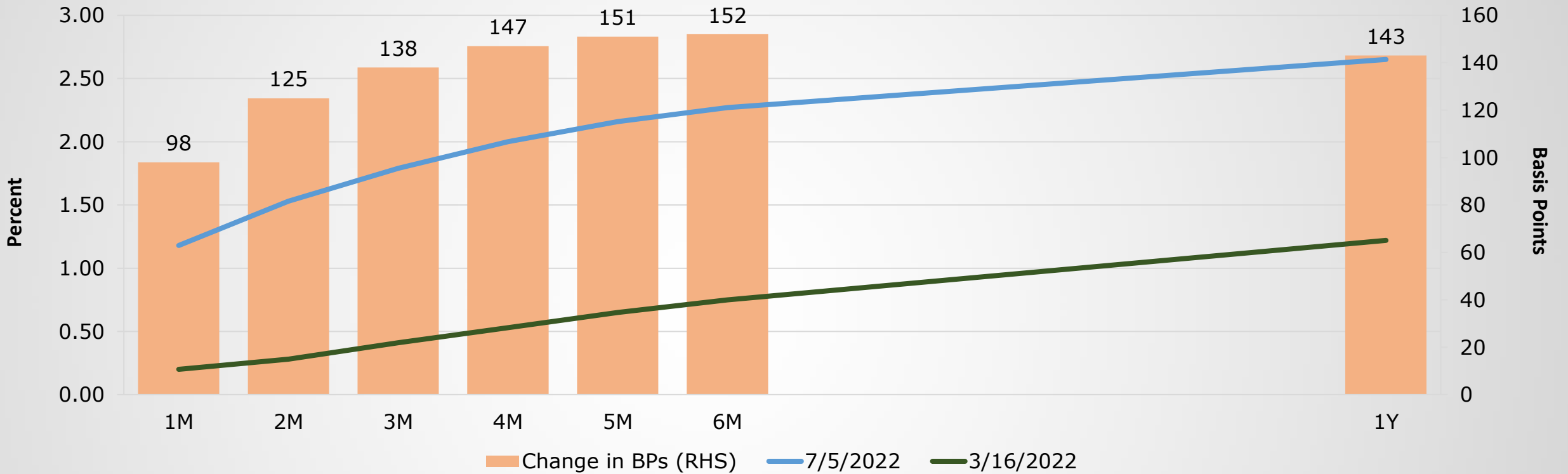


- The sentiment indexes listed above collect data on small business/consumer expectations to determine the changes in their willingness to buy and predict their subsequent discretionary expenditures. Periods of economic distress are signaled by declines in business and consumer sentiment.



Source: Bloomberg

U.S. Treasury Bill Curve

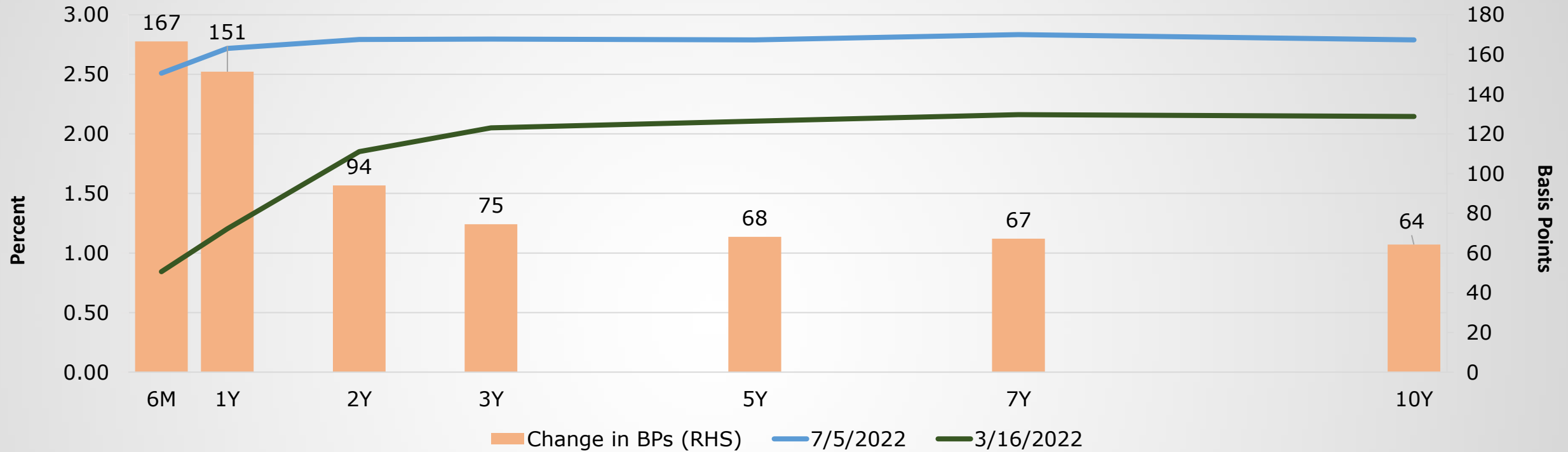


- The green line represents the U.S. Treasury bill curve at the historical date in the above chart legend. The blue line represents the current U.S. Treasury bill curve on the date in the above chart legend. The light orange bars represents the change in yield between the current and historical curves as measured in basis points.



Source: Bloomberg

U.S. Treasury Yields

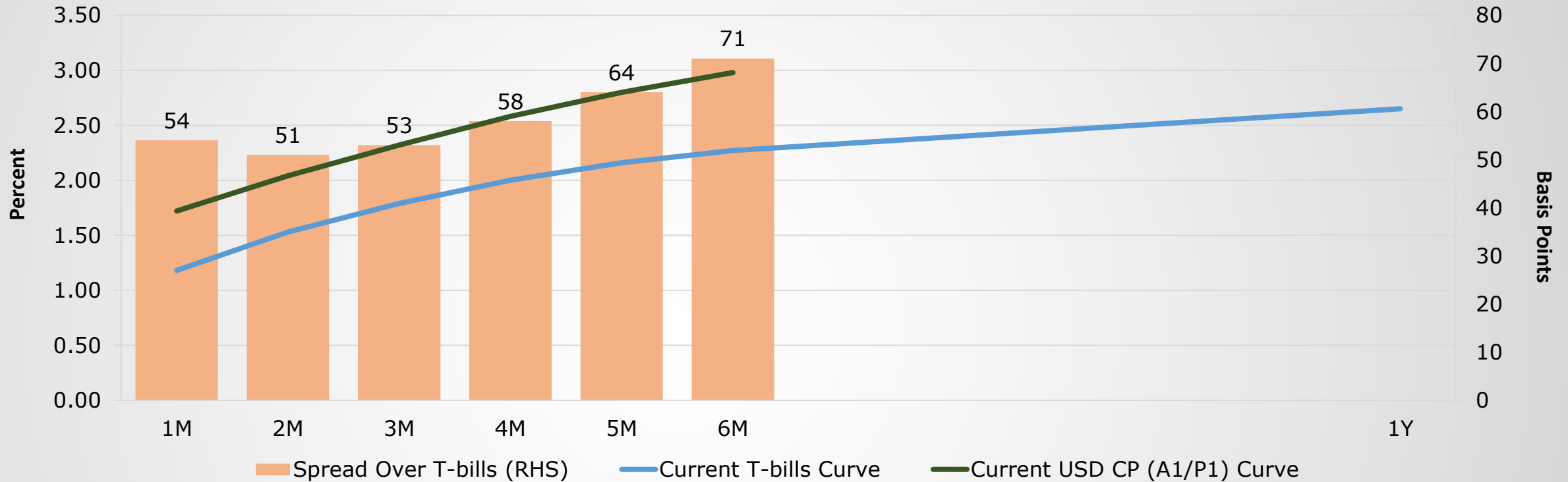


- The green line represents the U.S. Treasury Actives curve at the historical date in the above chart legend. The blue line represents the current U.S. Treasury Actives curve on the date in the above chart legend. The light orange bars represent the change in yield between the current and historical curves as measured in basis points.



Source: Bloomberg

U.S. Money Market Curves

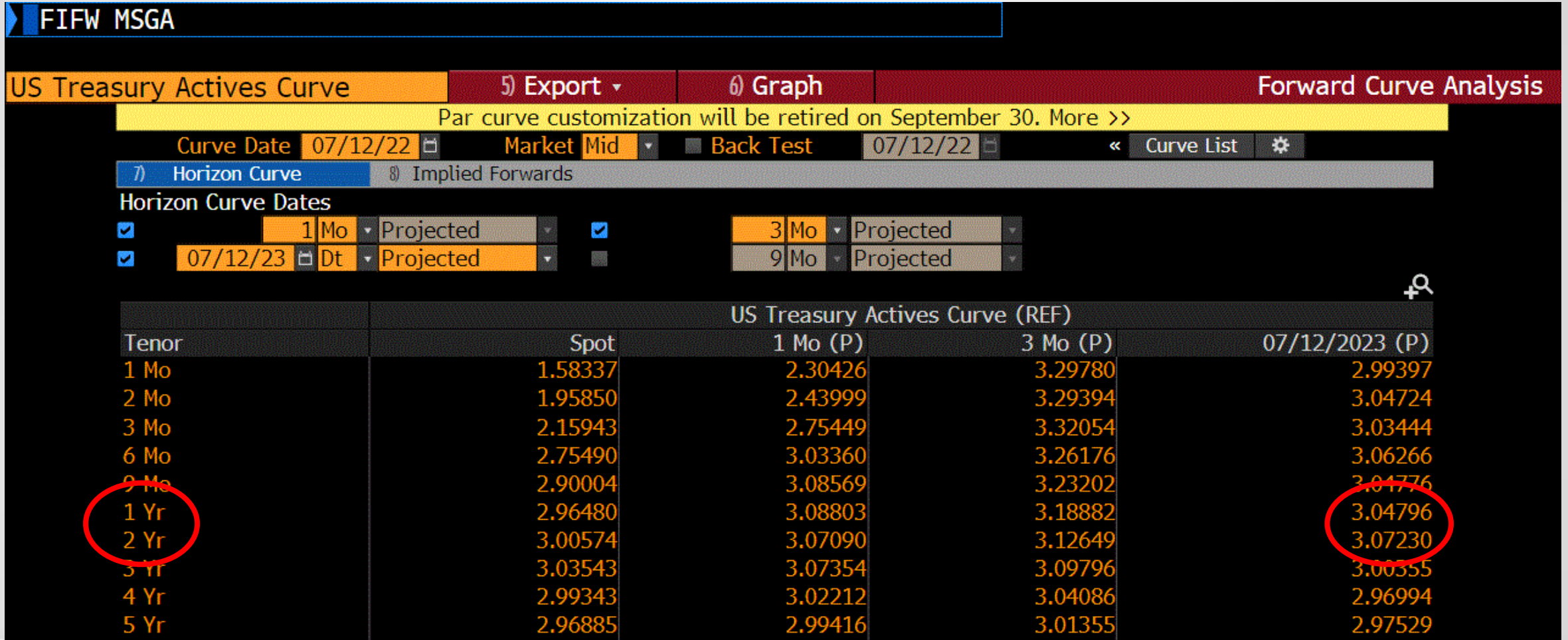


- The green line represents the current U.S. dollar A-1 CP curve on the date in the above chart title. The blue line represents the current U.S. Treasury bill curve on the date in the above chart title. The light orange bars represents the difference in yield between the A-1 CP and T-bill curves as measured in basis points.



Source: Bloomberg

What the Curve is Telling Us



Source: Bloomberg



Two-Year Treasury versus Fed Funds



Source: Bloomberg



Program Update



STAR Ohio: Investment Objectives

- Preservation of Principal
- Maintenance of Liquidity
 - Maximize Return



STAR Ohio

- Yield is based on portfolio of underlying securities
- Yield of securities is largely based on economic factors and expectations for interest rates, as well as credit risk
- As securities mature, the rate at which they can be reinvested depends on economic conditions at that time

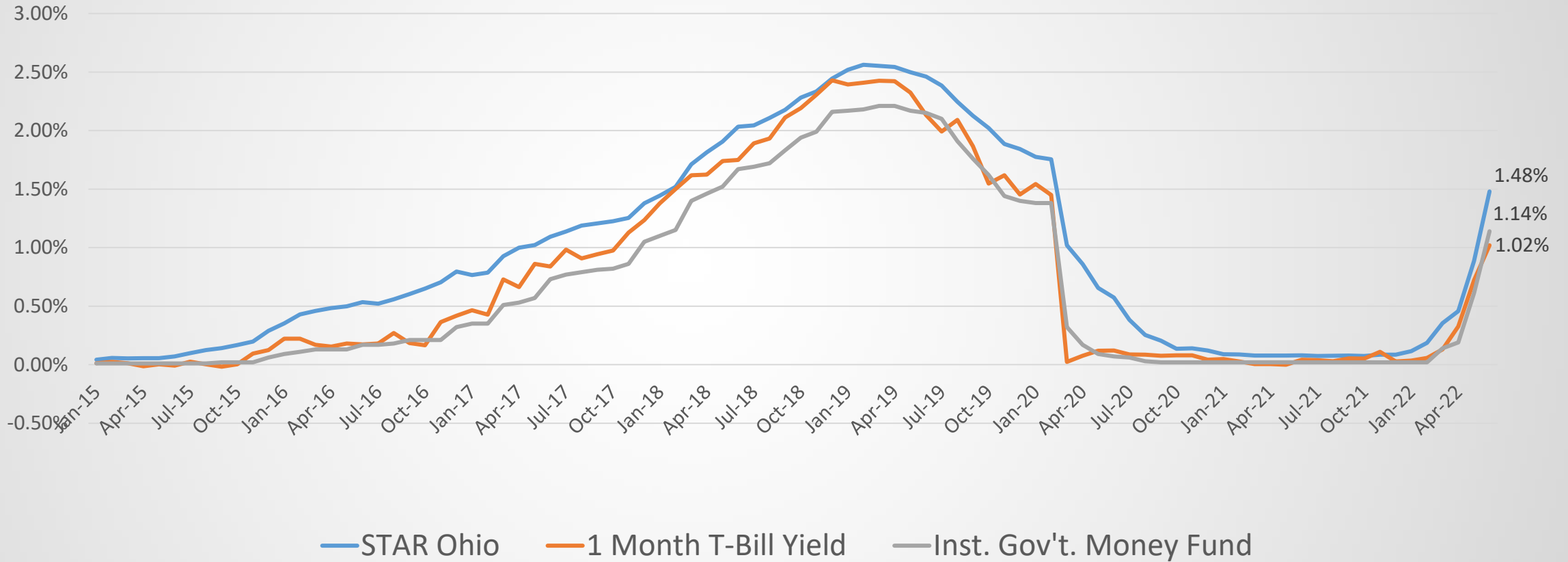
Program Reminders

- STAR Ohio is a AAAm-rated investment pool managed by the State Treasurer of Ohio
- Please provide 24-hour notice of withdrawals/deposits of \$100 million or more
- Close Time: 2 PM



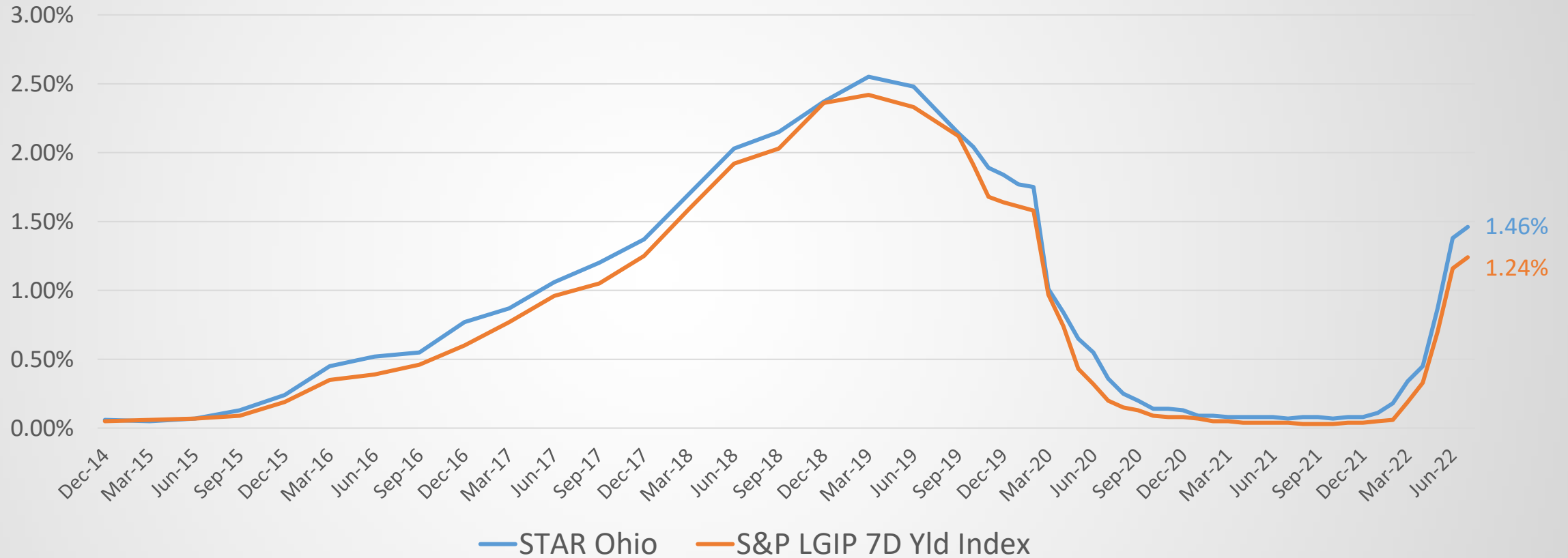
Yield Comparison

STAR Ohio vs. Treasury vs Avg Inst Gov't Money Fund as of 06/30/22



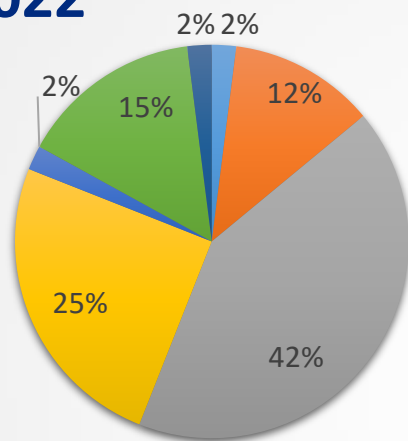
Yield Comparison

STAR Ohio vs. S&P Average LGIP 7D Yield Index as of 06/30/2022

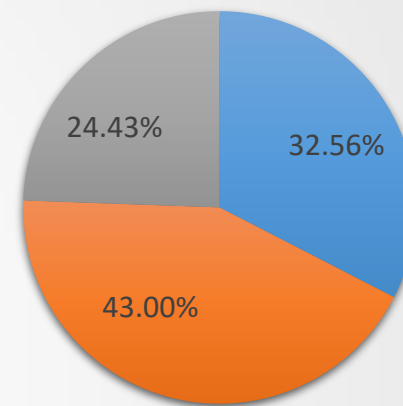


Asset Allocation

As of 07/11/2022



- Treasury Bills & Agency Notes
- Domestic Commercial Paper
- Corporate & Municipal Notes
- Bank Deposit (Collateralized)
- Repurchase Agreement
- Negotiable CDs
- Money Market Funds

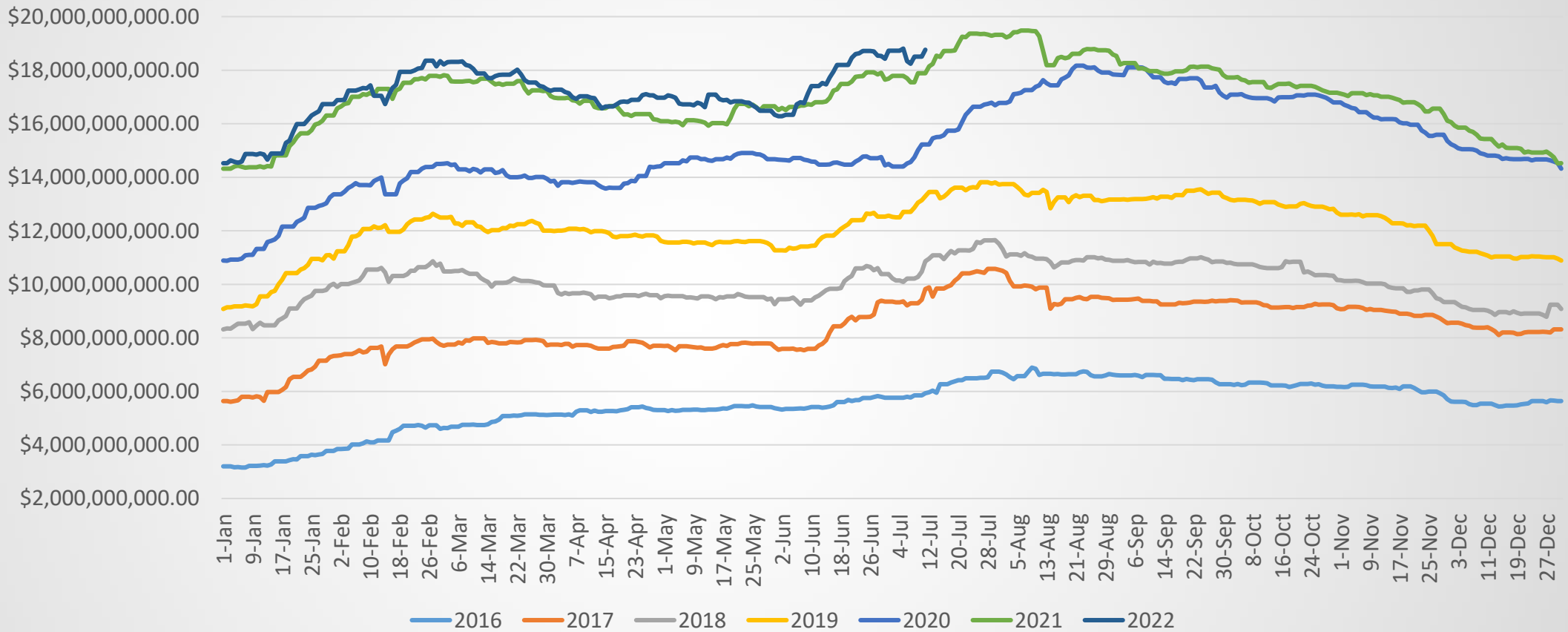


- Daily
- Fixed
- Floating



STAR Participation

Historic Flows



THANK YOU!

Contact information:

Jonathan Azoff

Chief of Finance & Senior Counsel

Ohio Treasurer of State

Phone: (614) 466-6903

Email: jonathan.azoff@tos.ohio.gov

Laura Glenn

Senior Director, Investment Advisory

Public Trust Advisors

Phone: (404) 822-8287

Email: laura.glenn@publictrustadvisors.com



ROBERT SPRAGUE
OHIO TREASURER

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Public Trust Advisors

717 17th Street, Suite 1850
Denver, Colorado 80202