



Agenda Report

March 23, 2026

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
**SUBJECT: QUARTERLY INVESTMENT REPORT – QUARTER ENDING
DECEMBER 31, 2025**

RECOMMENDATION:

This report is for information. There is no staff recommendation for this item. The City Council may; however, take action relating to this item as it deems appropriate following consideration and discussion of the matter.

BACKGROUND:

Government Code Section 53646 (2)(b)(1) states that in the case of a local agency, the Treasurer or Chief Fiscal Officer (CFO) may render a quarterly report to the legislative body of the local agency containing detailed information on: 1) all securities, investments, and moneys of the local agency; 2) a statement of compliance of the portfolio with the statement of investment policy; and 3) a statement of the local agency's ability to meet its pool's expenditure requirements for the next six-months. By making these reports optional, this bill does not impose a state-mandated local program, however, encourages local agencies to continue to report. The bill also states that the Treasurer or CFO may report whatever additional information or data may be required by the legislative body of the local agency.

The quarterly report shall include the following:

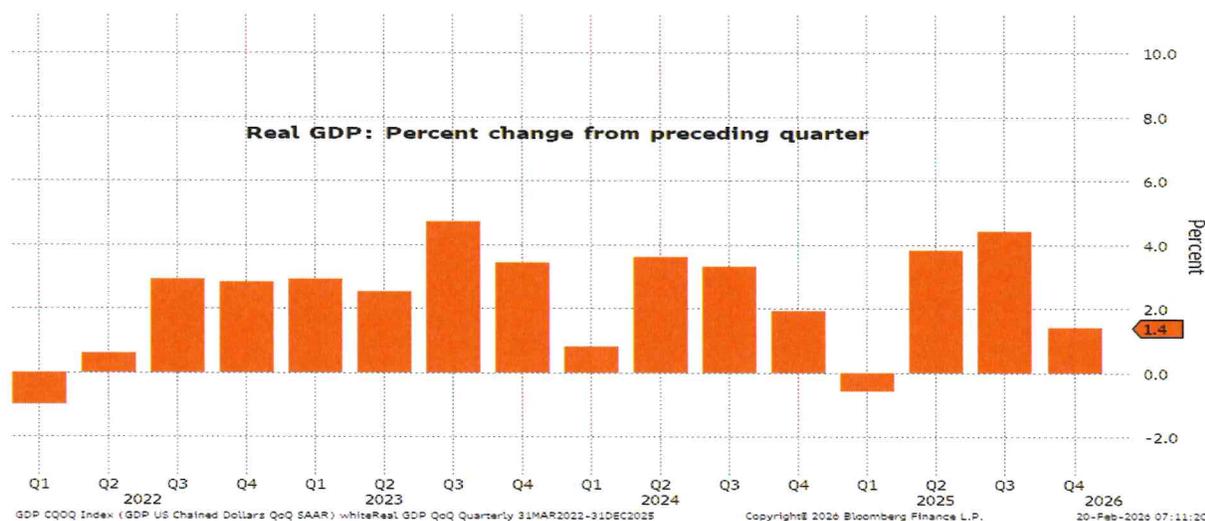
1. The type of investment, name of the issuer, date of maturity, par, and dollar amount invested in each security, investment, and money within the treasury;
2. The weighted average maturity of the investments within the treasury;
3. Any funds, investments, or programs, including loans, that are under the management of contracted parties;
4. The market value as of the date of the report and the source of this valuation for any security within the treasury; and

5. A description of the compliance with the *Statement of Investment Policy*.

Economic Summary

The U.S. economy showed a mixed but resilient picture in the fourth quarter (Q4) of 2025 and for the full year. Growth slowed to 1.4 percent annualized in the final quarter from a strong 4.4 percent in the third, bringing full-year real Gross Domestic Product (GDP) expansion to 2.2 percent, down from 2.8 percent in 2024. Consumer spending on services, particularly health care and international travel, along with investment in research, equipment, and inventories, supported the activity, while declines in government spending and exports weighed on the pace. The labor market remained stable despite moderating job gains and a slight unemployment rise to 4.4 percent by December. Inflation continued to ease, with headline consumer prices at 2.7 percent annually through December and core measures slowing noticeably. Lower mortgage rates lifted the housing market, boosting home sales and improving affordability, while equities posted solid gains and fixed income benefited from Federal Reserve rate cuts. Overall, the economy navigated a period of moderation with balanced conditions across key sectors.

Growth (GDP):



Based on the median forecast of 78 economists, the U.S. GDP is estimated to grow at 2.3% in the first quarter of 2026 and average 2.5% for calendar year 2026.

The ongoing conflict involving Iran has the potential to intensify several headwinds already weighing on risk assets in recent weeks—such as concerns around AI valuations, challenges in private credit markets, unprecedented levels of corporate bond issuance, and persistent inflation that might prompt a more hawkish stance from the Federal Reserve.

The most direct and immediate effect stems from elevated energy prices, particularly oil, which has surged sharply due to disruptions in key supply routes like the Strait of Hormuz and broader regional instability. These higher energy costs flow straight into broader inflation pressures, as seen in recent spikes in gasoline and other fuel prices.

If inflation proves more stubborn or reignites as a result, the Fed could respond by delaying planned interest rate cuts, pausing easing efforts, or even adopting a more restrictive policy posture. Such a shift would raise borrowing costs for businesses and households alike, potentially curbing economic growth, squeezing corporate margins, and adding further pressure to already vulnerable asset classes. The ultimate severity will depend on the conflict's duration and scope—short-lived disruptions might limit the damage, while a prolonged scenario risks amplifying these inflationary and GDP growth challenges.

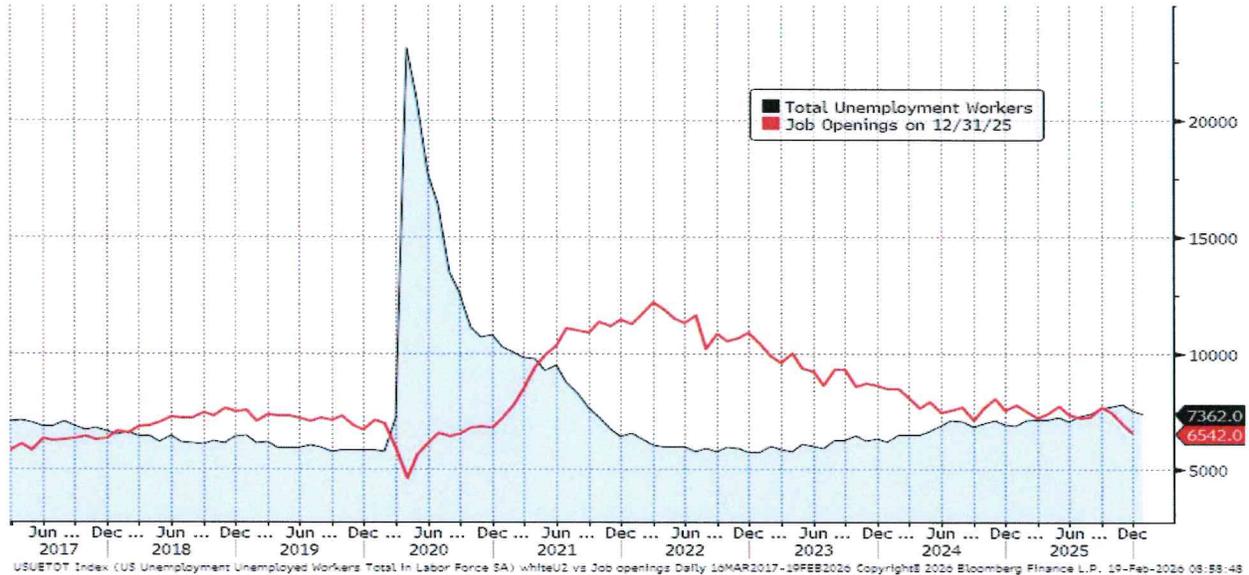
Consumer Spending:

Consumer spending increased in Q4, driven by stronger demand for services even as spending on goods declined. The main contributors within services were health care and other services. Overall, the rise in services spending helped support economic growth despite weaker goods purchases.

Housing Market:

The residential real estate market gained momentum in Q4, driven by a 50-basis-point drop in the 30-year fixed mortgage rate over the prior six months. Total home sales for the year surpassed the weaker 2024 levels, with both new and existing home sales rising more than 6.5 percent from the previous quarter. The market felt more balanced and affordable, as active listings increased by over 12 percent in November compared to the prior year, and median prices for new and existing homes edged lower.

Labor Market:

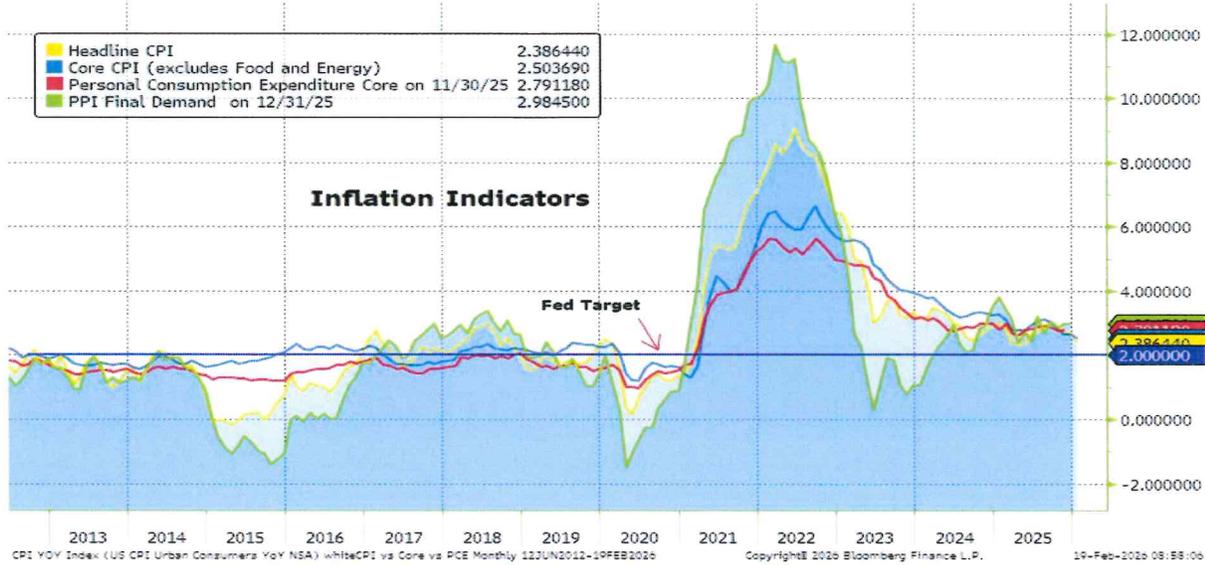


The U.S. labor market stayed stable in late 2025, with moderating job growth and a modest unemployment rise.

Fourth-quarter net job creation averaged 22,000 per month, dragged by a one-time October federal payroll drop. Growth rebounded to about 53,000 per month in November and December, consistent with earlier 2025 quarters.

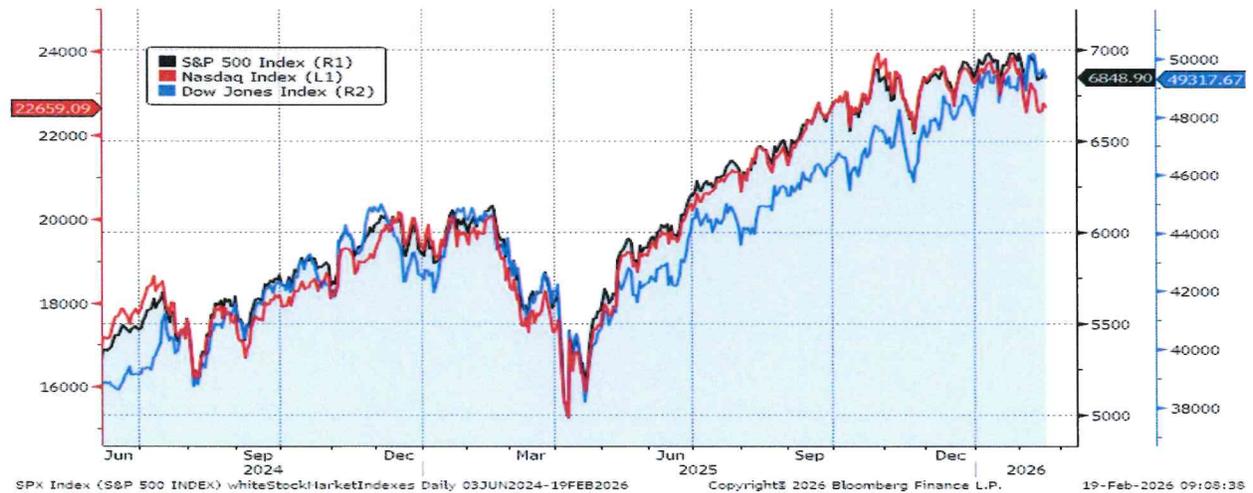
Unemployment rose to a 4.5 percent average in November and December (from 4.3 percent in the third quarter), settling at 4.4 percent in December, near the estimated non-cyclical rate. The uptick reflected slower hiring, not higher layoffs.

Inflation:



Inflationary pressures eased in Q4, with key measures showing notable slowdowns. The headline consumer price index stood at 2.7 percent over the twelve months through December, down from 3.0 percent through September and well below its June 2022 peak. Monthly headline inflation averaged 0.2 percent in the quarter, slower than the 0.3 percent average in the third quarter. Core inflation, excluding food and energy, decelerated sharply to an average of 0.1 percent per month, the slowest quarterly pace since mid-2024, bringing the twelve-month rate to 2.6 percent.

Financial Markets:



The equities market delivered solid gains in Q4, with the S&P 500 Index rising 2.7 percent and closing the year up 17.9 percent. This strong performance was built on robust returns of 26.3 percent in 2023 and 25 percent in 2024.

Fixed income markets benefited from the Federal Reserve's ongoing interest rate cuts, which lowered the target range from 4.25 percent to 3.75 percent during the quarter. The Bloomberg US Aggregate Bond Index returned 7.3 percent for 2025, boosted by attractive coupon payments and rising bond prices from falling yields.

Total Funds Under Management

The table below represents total City funds under management based on their market values as of December 31, 2025:

	12/31/2025	09/30/2025	Change
Pooled Investment Portfolio	\$847,426,361	\$811,275,519	36,150,842
Capital Endowment	1,561,705	1,545,663	16,042
Stranded Investment Reserve Portfolio	45,939,555	45,439,180	500,375
Special Funds	18,044,639	17,888,559	156,080
Investments Held with Fiscal Agents	243,247,221	239,213,701	4,033,520
PARS Section 115 Trust	17,830,662	17,576,534	254,128
Total Funds Under Management	\$1,174,050,143	\$1,132,939,156	\$41,110,987

The Pooled Investment Portfolio value increased by a net \$36,150,842 due to the following cash transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	\$ 9,088,578
Deposits and Credit Card Receipts	165,902,868
Property Tax Revenues	41,058,704
Sales Tax and Other State Apportionments	19,229,172
HUD Receipts Net of Payments and Loans	3,340,789
Payroll and Payroll-related Expenses	(105,825,114)
Vendor Payments and Accounts Payable Checks	(74,296,250)
Debt Service Payments Net of Reimbursements and Subsidies	(10,372,312)
Water and Power Payments Net of Receipts	(20,589,796)
Net Transfer from Other Funds	2,821,056
Sales Proceeds for Property from Cal Trans related to the 710 highway Project	5,793,146
Total	\$ 36,150,842

The Capital Endowment Fund increased by \$16,042, representing investment earnings for the period.

The Stranded Investment Reserve portfolio increased by \$500,375, representing investment earnings for the period adjusted by the change in the market value of investments.

The Special Funds increased by \$156,080, representing investment earnings for the period adjusted by the change in market value of investments.

Investments held with fiscal agents increase by a net \$4,033,520 due to the following:

- A decrease of \$215,251 in trustee accounts for debt service payments on the 2008 Paseo Bonds and 2016A Rose Bowl Bonds.
- An increase of \$2,720,937 from investment earnings, adjusted for changes in the market value of investments.
- An increase of \$563,360 for IRS Subsidy refund received by trustee for 2010B Rose Bowl refunding bonds deposit to the interest account for 2010 Rose Bowl to be used to offset future debt service payments.
- An increase of \$964,474 representing investment earnings, an increase in market value of investments and an adjustment made due to overbilling for FY 2025 by Southern California Public Power Authority.

The PARS Section 115 Trust account increased by \$254,128. The change was comprised of a \$274,687 increase in market value adjusted by \$20,559 in investment expenses.

The City pools all internal funds to gain economies of scale and to simplify the investment function. There are over 100 funds in the Pooled Investment Portfolio. As of December 31, 2025, the General Fund's investment balance was estimated at \$94.9 million representing 11.21 percent of the Pooled Portfolio value. The General Fund's cash balance fluctuates daily based on the timing of revenues, receipts, and payment of expenditures. Investments in the Capital Endowment Fund, the Stranded Investment Reserve Fund, the Special Funds, the PARS Section 115 Trust account, and funds held with fiscal agents are restricted funds or bond proceeds reserved in accordance with the City Charter, City ordinances, bond indentures, and Trust Agreements. The City targets an average duration of two years in managing the pooled portfolio with an effective historic duration range of 1.5 to 2.5 years based on market conditions and the portfolio's risk and return evaluation, the Treasury yield curve, and industry best practices as it pertains to public funds management. As of December 31, 2025, the portfolio's effective duration was 2.16 years.

Per government code requirements, attached are reports by each fund indicating the type of investments, date of maturity, par and dollar amount invested in each security, and investment and moneys within the Treasury with market values as of December 31, 2025. On a monthly basis, the City Treasurer prices the pooled portfolio and all other funds and investments under management. The market values are obtained from Interactive Data Corporation (IDC) and from Bloomberg Financial System. IDC is an independent third-party whose sole service is to provide market prices for all types of securities.

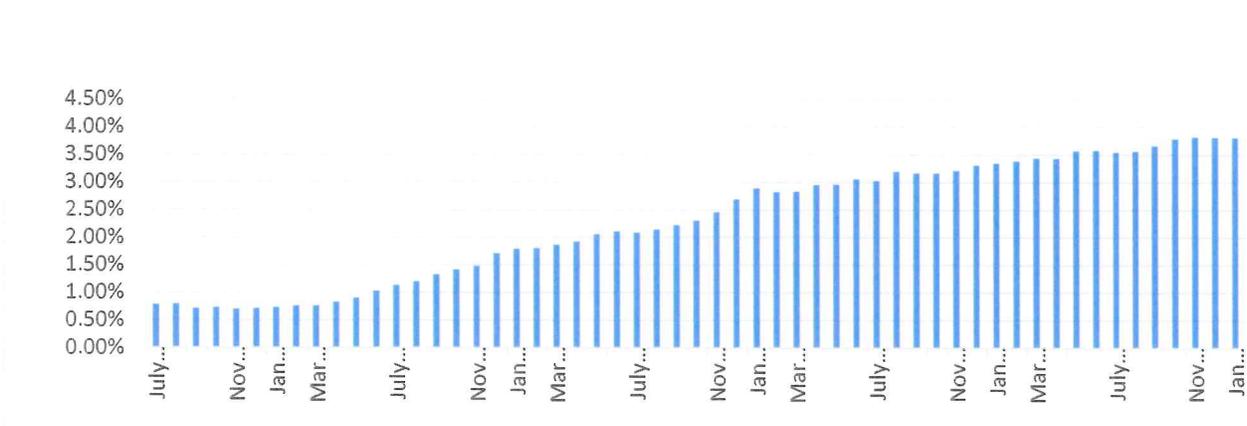
The types of securities held in the portfolio and their percentage allocation to the total are in compliance with the City's Fiscal Year 2026 Investment Policy, which was adopted by the City Council on June 9, 2025, and Section 53600 of the State Government Code. The City Treasurer targets to maintain in excess of \$70 million short-term, liquid investments (1-to-90-day maturities), which represents approximately 1/12th of the City's total aggregate annual Operating Budget. As of December 31, 2025,

the portfolio had \$190.5 million in overnight short-term investments. This balance, along with anticipated cash flows into the City’s account, represents a strong liquidity position to meet budgeted expenditures for the next three months.

The yield to maturity on the pooled portfolio began gradually increasing beginning April 2023 as a result of the Fed tightening the monetary policy by raising the Fed Funds rate. However, the Fed cut the overnight Fed Funds rate three times in 2025 and interest rates across the Treasury yield curve decreased during the quarter with the most declines occurring on the two to five-year maturities. The yield on the pooled portfolio tripled in the last twenty-four months and is expected to moderate depending on the Fed’s actions over the next twelve-month period. The earnings rate on the pooled portfolio as of January 2026 was 3.81 percent.

The graph below represents the historic yield of the Pooled Portfolio from July 2021 to period ending January 31, 2026:

Pooled Portfolio Yield



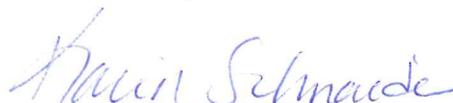
COUNCIL POLICY CONSIDERATION:

This quarterly report supports the City Council’s strategic planning goal to maintain fiscal responsibility and stability.

FISCAL IMPACT:

There is no fiscal impact as a result of this report, nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects.

Respectfully submitted,



KARIN SCHNAIDER

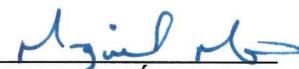
Director of Finance

Prepared by:



Vic Erganian
City Treasurer/Deputy Finance Director

Approved by:



MIGUEL MÁRQUEZ
City Manager

Attachment: (1)

Attachment A – Quarterly Investment Report - Quarter Ending December 31, 2025