

IPAIT BULLETIN

MARCH 2019

NEW ROADS AHEAD, MANAGING THE CURVES

U.S. fundamentals have remained strong, as evidenced by solid third quarter 2018 Gross Domestic Product (GDP) growth of 3.4 percent. Several leading economic indicators suggest we should continue to see solid growth over the coming quarters.

A few potential longer term challenges do include the housing market, as pricing is increasing at a reduced level due to rising mortgage rates and declining home affordability. The consumer represents approximately two-thirds of U.S. GDP, so we are watching these trends carefully. There are also potentially longer term pressures on earnings growth after experiencing over 25% percent overall earnings growth for the members of the S&P index for the last three quarters. The tax cut bump we experienced in early 2018 may be winding down.

2018 started with a roar and ended with a whimper as markets across the globe experienced significant volatility and sold off over the last few quarters. A key factor contributing to the selloff was a high level of uncertainty surrounding political policy and more specifically policy around trade and tariffs. In addition, worry that the US Federal Reserve (Fed) policy of raising rates has gone too far has begun to create some anxiety with investors.

Changes in the overall level of interest rates drove fixed income

returns for the quarter and the year. Interest rates, as measured by the 10 year U.S Treasury note, declined significantly for the quarter and ended the year at 2.69 percent which was 0.38 percent lower than where it started the quarter. For the year, interest rates actually rose modestly for longer maturities and rose more dramatically for short term bonds due to the four Federal Reserve increases during 2018. The difference between the 10 year and 2 year yields has shrunk to levels not seen in over a decade, resulting in a very flat interest rate curve.

The Fed has indicated they will be “patient” in raising rates going forward (previously they indicated three raises during 2019). The Fed is keeping close tabs on inflation which is running on the lower side of their 2% range, as well as watching for economic changes as the result of recent market volatility.

The recent market turmoil has understandably created some anxiety. But, we believe it’s important to step back and assess the longer term fundamental and economic trends, which remain solid, especially in the U.S. We expect 2019 will bring additional volatility while the markets contend with more political turmoil and further rate increases. While we are constantly monitoring the markets and the economy for new opportunities and risks, it is these longer term themes and trends which drive our major investment decisions.

Submitted by Miles Capital, Investment Advisor to IPAIT Diversified Fund

Market commentary presented herein reflects our opinion as of the date of this material, is subject to change without notice, and is provided for information purposes only.

INVESTMENT YIELD SUMMARY

(7-Day Average)
AS OF 3/6/19
2.19%

For current rates, a 12-month history of our daily rates, or investment assistance, please visit our website or call us toll free. The above daily rate is calculated based on a 365-day annualized factor.

Past performance does not guarantee future results.

UPCOMING EVENTS & ABOUT IPAIT

EVENTS

March 14-15 – ISAC Spring Conference
April 10-12 – IMFOA Spring Conference
April 24 – IPAIT Quarterly Board Meeting
May 7-10 – Iowa Treasurers Conference

HOLIDAYS

Fund closed to transactions and
participant inquiries:
Friday, April 19 – Good Friday

ABOUT IPAIT

IPAIT was established in 1987. IPAIT's unique, internet-based proprietary reporting system offers real-time account inquiry, and transaction capabilities via the internet. Participants may invest, withdraw funds, check balances and transaction history, and make vendor payments with this service. There is also toll-free phone access to experienced administrators who can personally assist you with any IPAIT-related inquiry.

There is no limit on the number of individual accounts, no minimum balance requirement, and no limits on the number of transactions per month. Please contact us today to learn more about the additional benefits IPAIT has to offer you.

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HOW SECURE IS YOUR INVESTMENT?

Are you ever stressed out about the safety of your organization's cash and short-term investments? As long as you follow your investment policy, along with the code of Iowa, this should be one worry that you can put to bed. Let me explain.

First, at IPAIT, the only offerings we have are either backed by US Gov't bonds, the FDIC, or are Iowa bank deposits. The first two are backed directly or indirectly by the US Federal Government, which provides the standard for risk free assets in the financial markets due to the unlikely event of a default.

What about bank deposits -- are they safe? In Iowa, yes, they are. They have three forms of security. First, the FDIC deposit insurance covers your first \$250,000 in the bank. Some investors open accounts at multiple banks so they never exceed the limit. As a public entity, however, thankfully you don't have to do this to ensure that your funds are safe.

The second level of security is bank capital. Every bank, as every business, has assets, liabilities and equity or capital. An Iowa bank can take on public funds as long as they have enough capital to back it. For example, if a bank has \$10,000,000 in capital, they could have up to that amount in public fund deposits. If the bank wanted to exceed that amount to accommodate a public entity customer, they would need to collateralize those deposits with US Gov't Bonds. So for instance, that same bank could have \$11,000,000 in deposits, assuming they earmarked an extra \$1,000,000 in US Gov't Bonds to stand by those extra deposits.

The third level of security is the state sinking fund. What happens if the bank in our example fails? The equity that was there is suddenly greatly reduced, creating a potential subsequent shortfall in the deposits. The sinking fund would then kick in. Every bank in Iowa that holds public funds would help fill the gap. In other words, if a bank somewhere across the state has 1% of all the public funds in the state, they would be charged 1% of the shortfall so the depositor could be made whole.

Having these mechanisms in place can help you feel good about having your funds at an Iowa bank. Not only that, but IPAIT also performs extensive due diligence to make sure only the strongest banks are being used. The types of investments and processes IPAIT uses can put your mind at ease.

DAN ZOMERMAAND

Marketing Consultant | PMA Financial Network, Inc., IPAIT Fund Marketer

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Iowa Association
of Municipal Utilities



ISAC
Iowa State Association of Counties

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