

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



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INVESTMENT MANAGEMENT DIVISION

Investment Grade Fixed Income Review

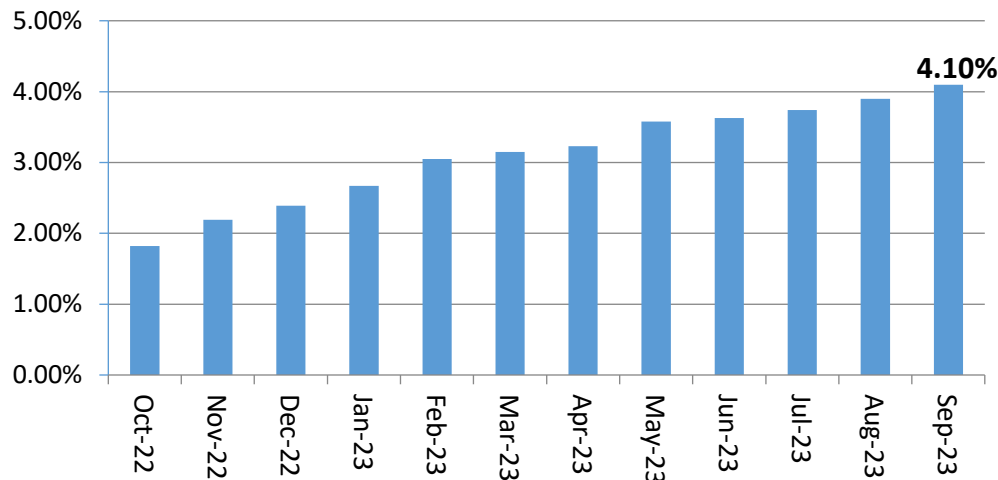
November 15, 2023



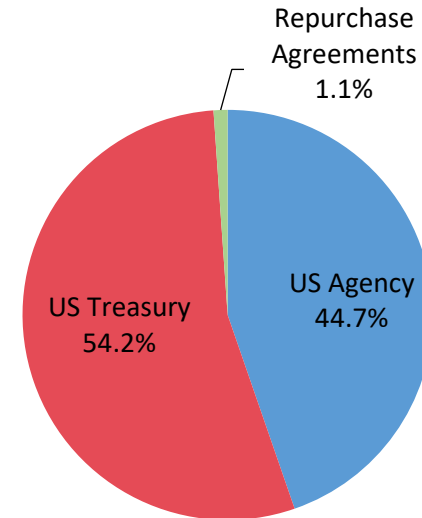
North Carolina Short Term Portfolio (STIF)

September 30, 2023

Historical Annualized Net Cash Return



STIF Allocation

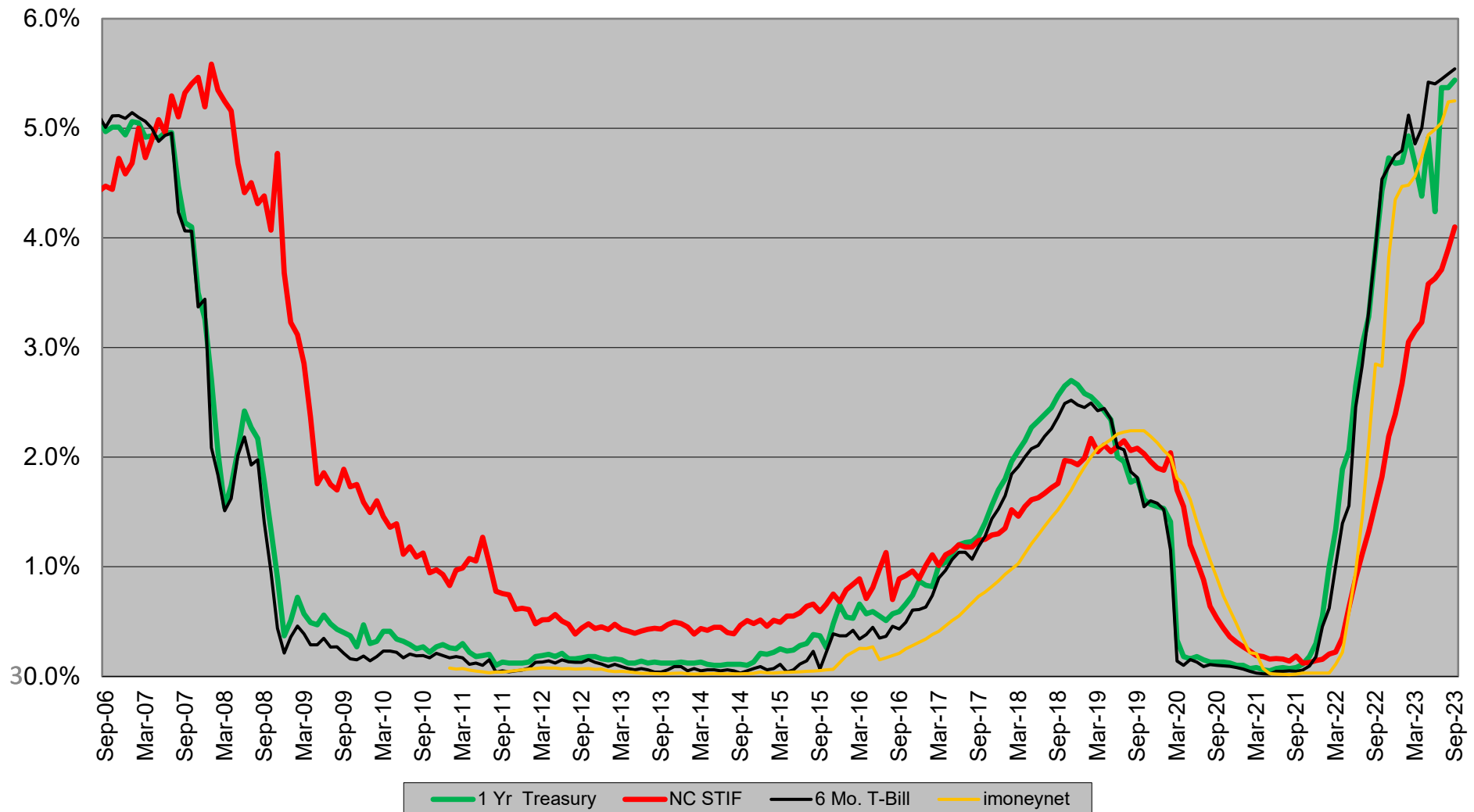


Portfolio Characteristics	Month ending 09/30/23
Current Annualized Net Cash Return	4.10%
Effective Duration	.61
Average Maturity (Yrs)	0.7
Average Credit Rating (Moody's)	AAA
Average Price	99.14
Average Coupon	1.96%



Short Term Portfolio (STIF) Rate History

\$50.3 Billion AUM as of 9/30/23

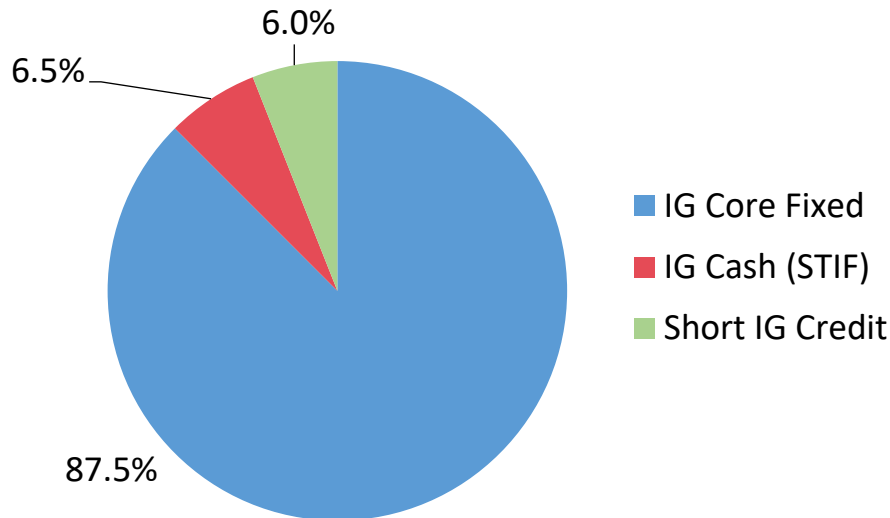




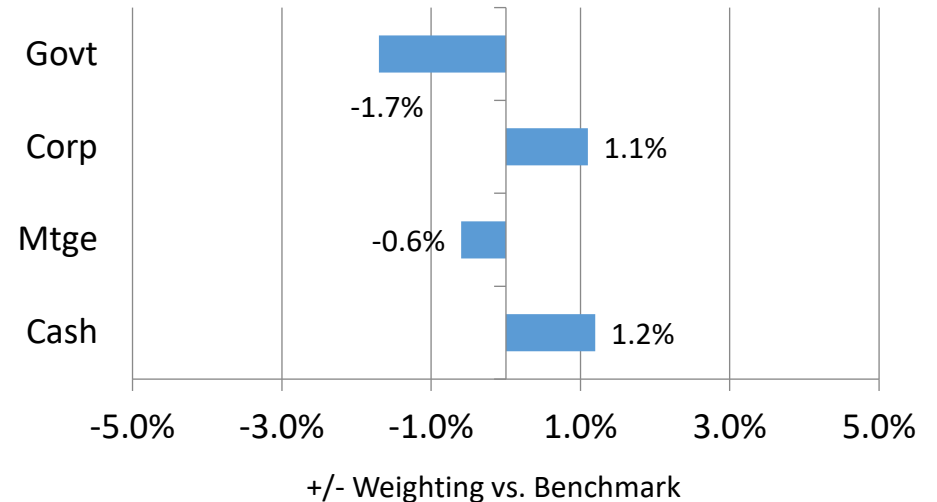
Investment Grade Fixed Income Profile

As of September 30, 2023

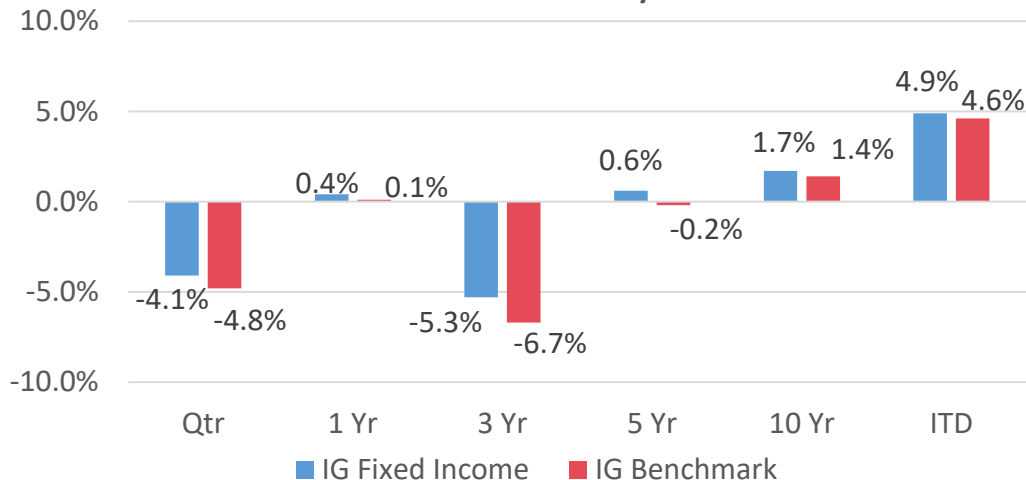
Allocation



Relative Weighting in Core Fixed



Return Summary



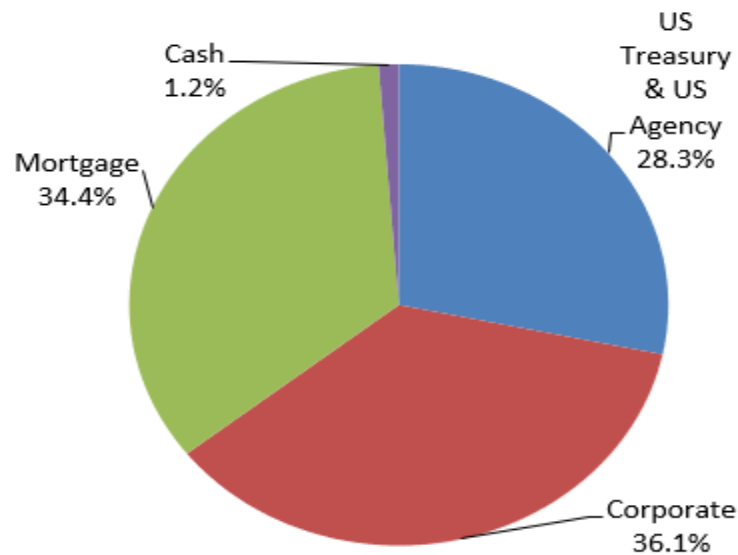
- Returns for I.G. Fixed Income were close to flat for the last year with income offsetting negative price returns on higher rates
- Investment Grade Fixed Income continues to outperform on all measured time periods.
- The portfolio's outperformance over the last year was driven by shorter relative duration.

*BOAML Custom Fixed Income Benchmark

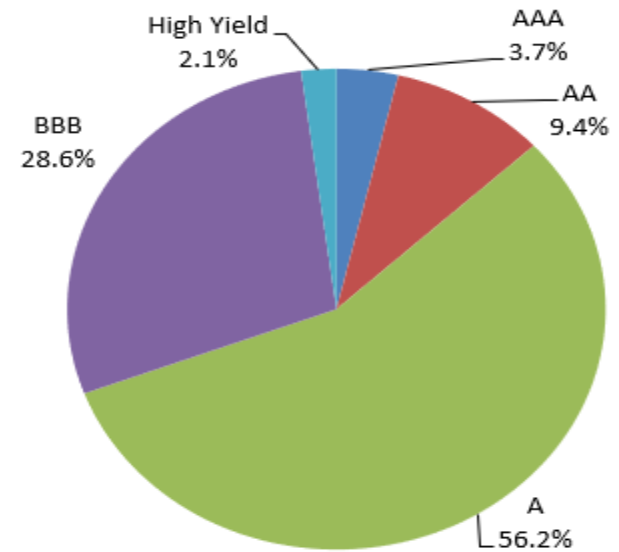


Core Fixed Income Long Term Portfolio (LTIP) September 30, 2023

LTIP Allocation



Corporate Allocation by Quality

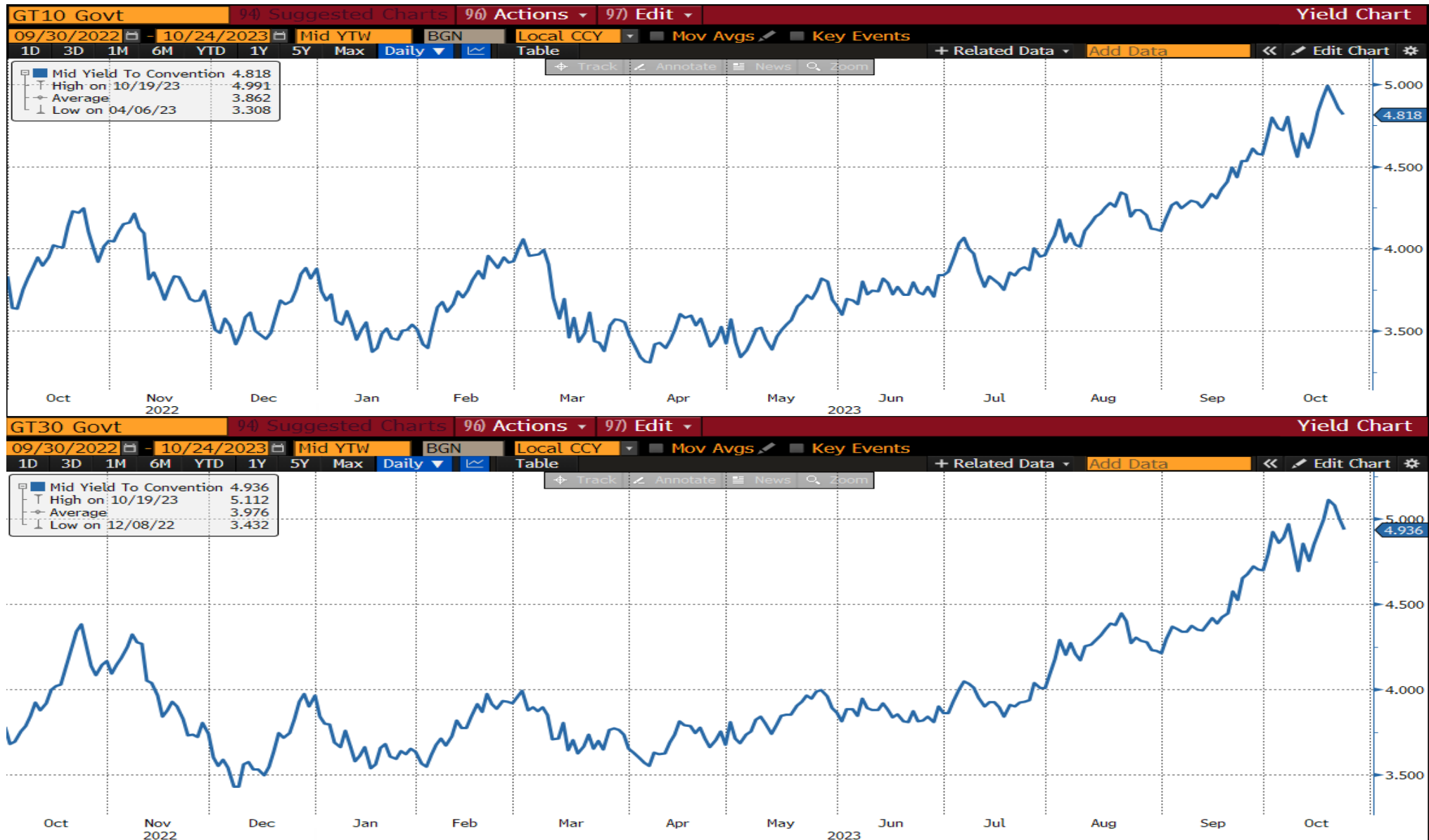


Portfolio Characteristics (ex cash)	As of 9/30/23
Yield to Maturity	5.4%
Duration	8.1
Average Maturity (Yrs)	12.0
Average Credit Rating	AA
Average Coupon	3.8%

* BOAML Custom Fixed Income Benchmark



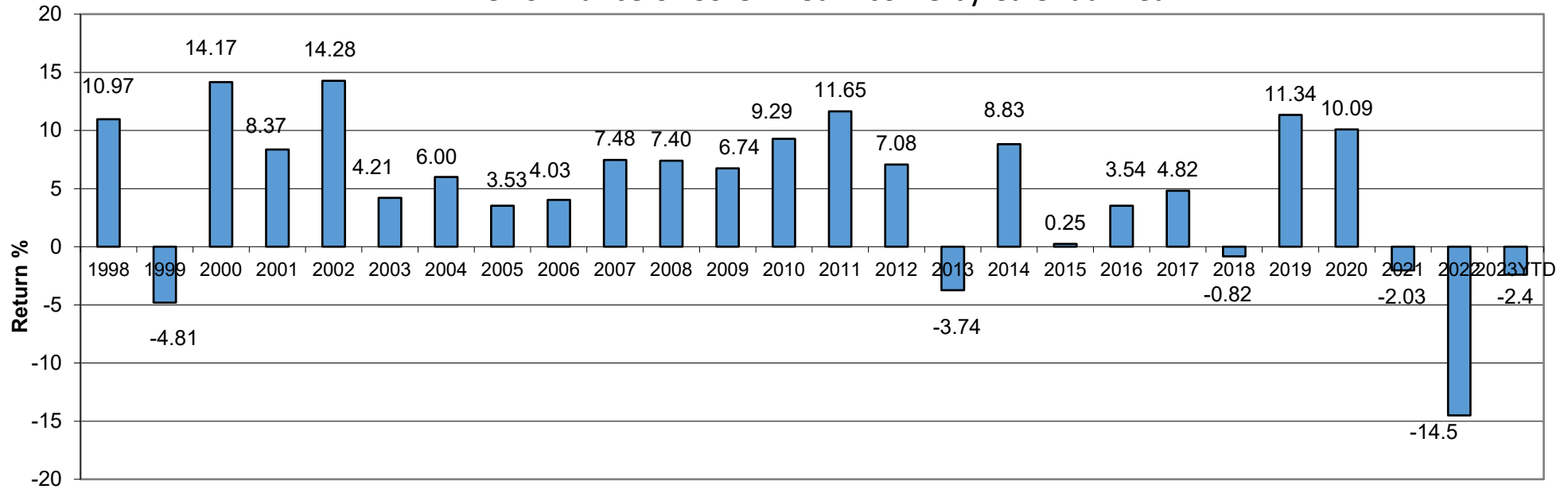
10 year and 30 Year UST Yield History



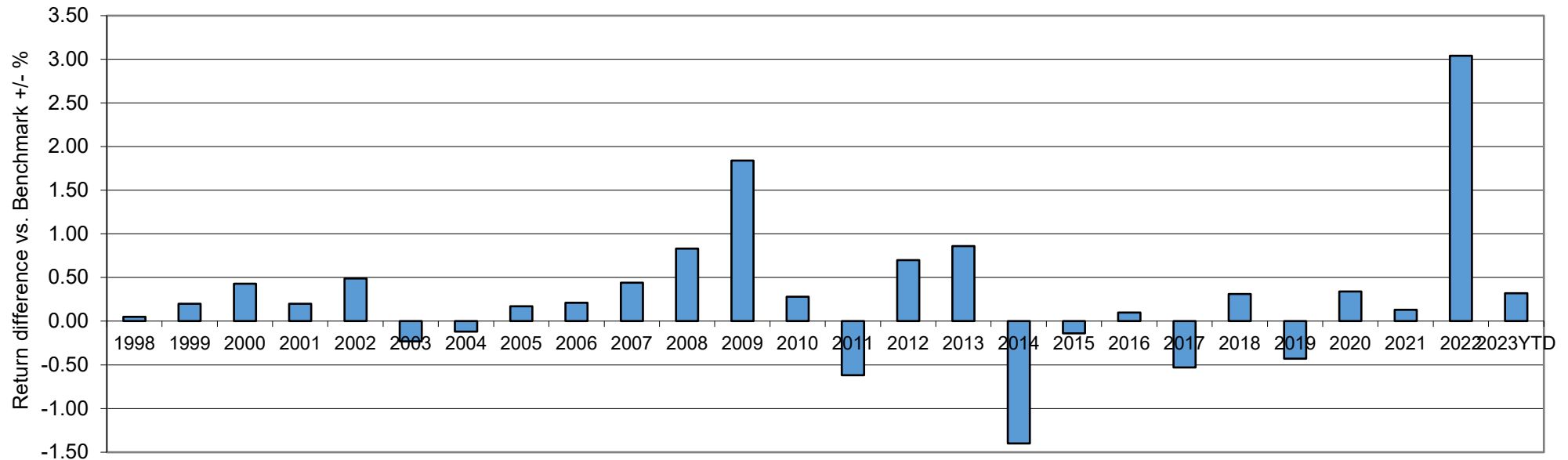




Performance of Core Fixed Income by Calendar Year

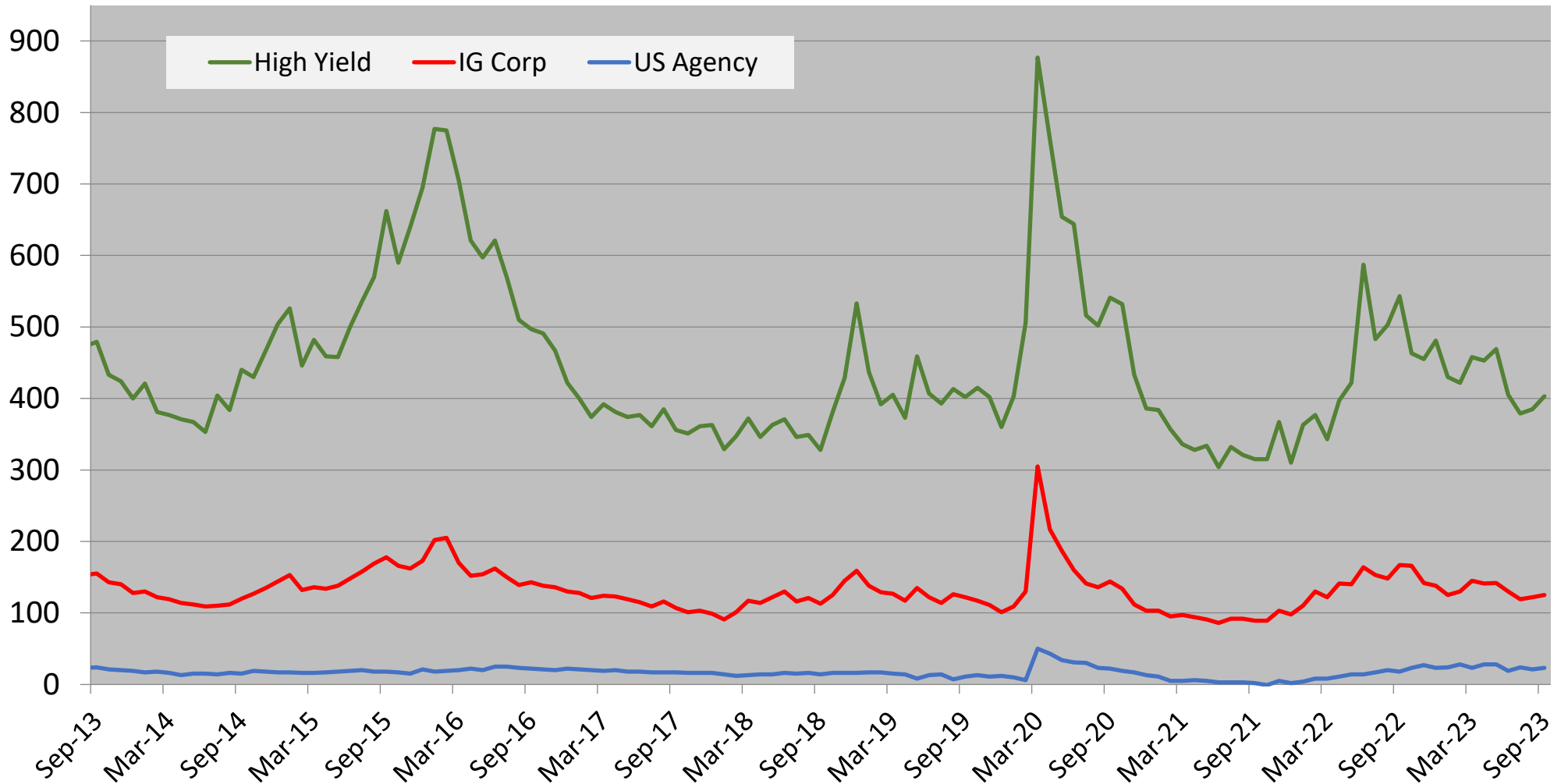


Core Fixed Income Relative Performance vs. BOAML Benchmark by Calendar Year





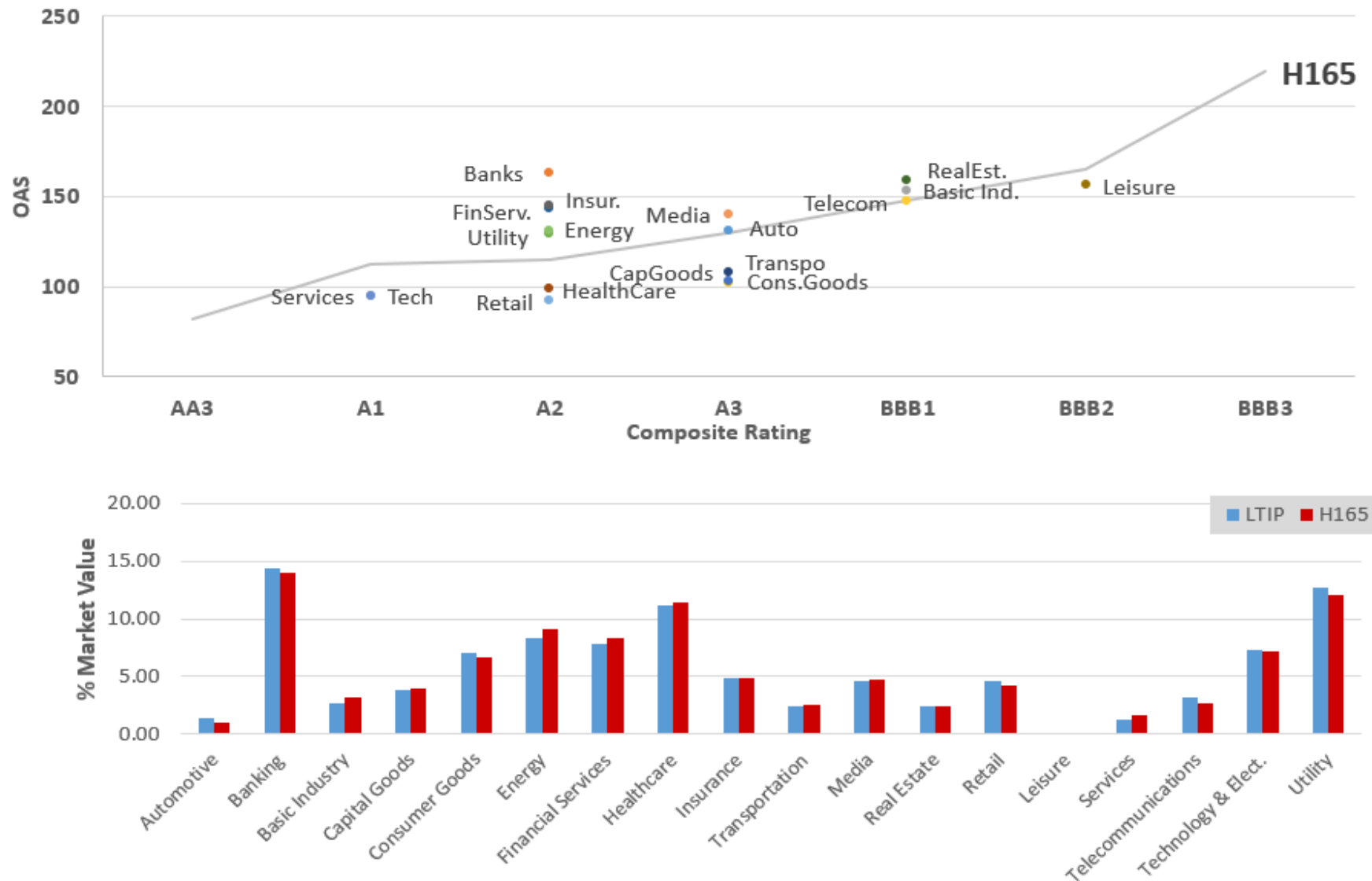
Spread History Credit Markets





Corporate Relative Value and LTIP Allocation by Sector

As of 9/30/23





FOMC Projections

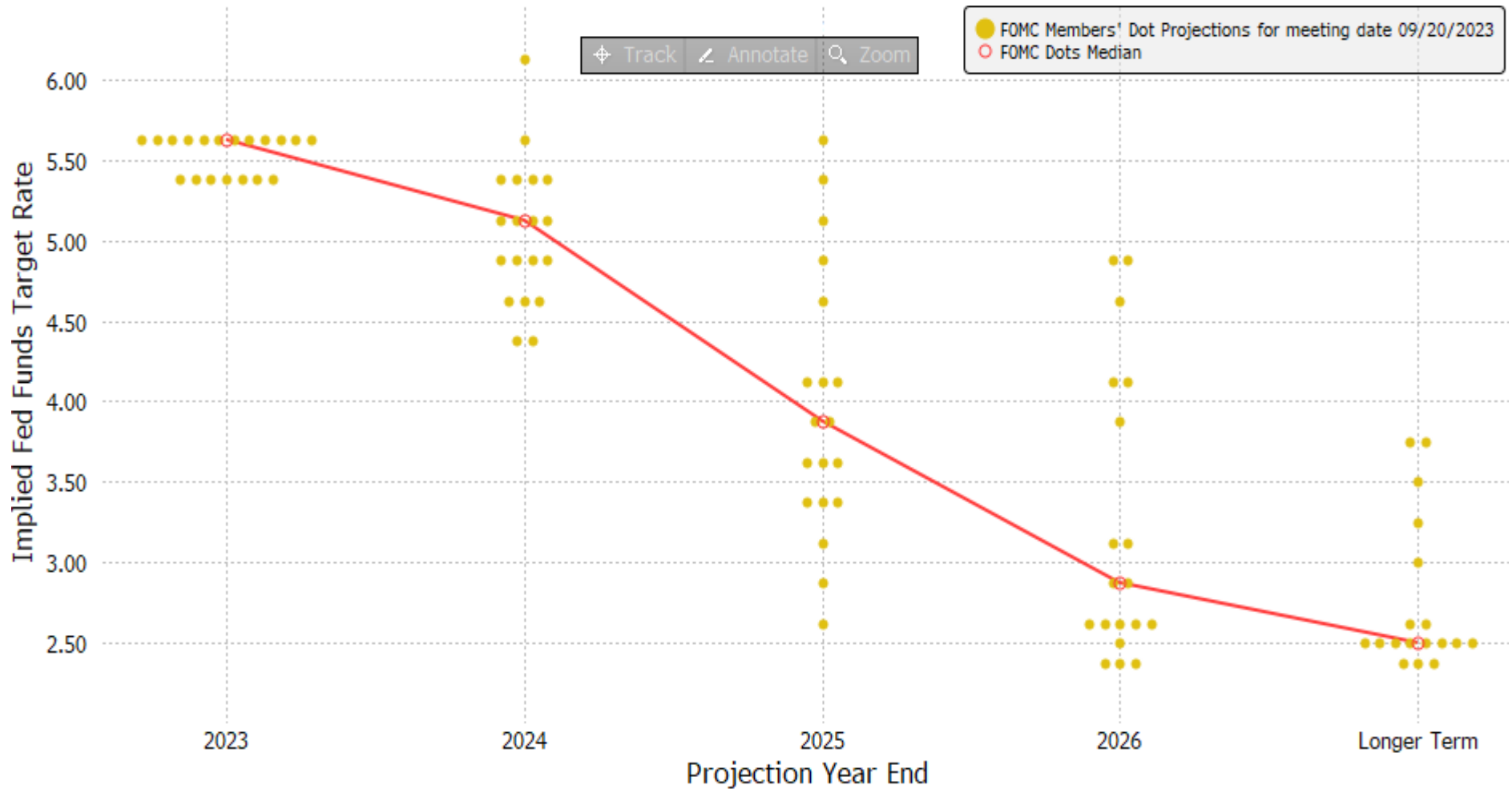
Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, September 2023

Percent

Variable	Median ¹					Central Tendency ²					Range ³				
	2023	2024	2025	2026	Longer run	2023	2024	2025	2026	Longer run	2023	2024	2025	2026	Longer run
Change in real GDP	2.1	1.5	1.8	1.8	1.8	1.9-2.2	1.2-1.8	1.6-2.0	1.7-2.0	1.7-2.0	1.8-2.6	0.4-2.5	1.4-2.5	1.6-2.5	1.6-2.5
June projection	1.0	1.1	1.8		1.8	0.7-1.2	0.9-1.5	1.6-2.0		1.7-2.0	0.5-2.0	0.5-2.2	1.5-2.2		1.6-2.5
Unemployment rate	3.8	4.1	4.1	4.0	4.0	3.7-3.9	3.9-4.4	3.9-4.3	3.8-4.3	3.8-4.3	3.7-4.0	3.7-4.5	3.7-4.7	3.7-4.5	3.5-4.3
June projection	4.1	4.5	4.5		4.0	4.0-4.3	4.3-4.6	4.3-4.6		3.8-4.3	3.9-4.5	4.0-5.0	3.8-4.9		3.5-4.4
PCE inflation	3.3	2.5	2.2	2.0	2.0	3.2-3.4	2.3-2.7	2.0-2.3	2.0-2.2	2.0	3.1-3.8	2.1-3.5	2.0-2.9	2.0-2.7	2.0
June projection	3.2	2.5	2.1		2.0	3.0-3.5	2.3-2.8	2.0-2.4		2.0	2.9-4.1	2.1-3.5	2.0-3.0		2.0
Core PCE inflation ⁴	3.7	2.6	2.3	2.0		3.6-3.9	2.5-2.8	2.0-2.4	2.0-2.3		3.5-4.2	2.3-3.6	2.0-3.0	2.0-2.9	
June projection	3.9	2.6	2.2			3.7-4.2	2.5-3.1	2.0-2.4			3.6-4.5	2.2-3.6	2.0-3.0		
Memo: Projected appropriate policy path															
Federal funds rate	5.6	5.1	3.9	2.9	2.5	5.4-5.6	4.6-5.4	3.4-4.9	2.5-4.1	2.5-3.3	5.4-5.6	4.4-6.1	2.6-5.6	2.4-4.9	2.4-3.8
June projection	5.6	4.6	3.4		2.5	5.4-5.6	4.4-5.1	2.9-4.1		2.5-2.8	5.1-6.1	3.6-5.9	2.4-5.6		2.4-3.6



Fed Dot Plot





Modest Rate Decreases Expected in the Near Term

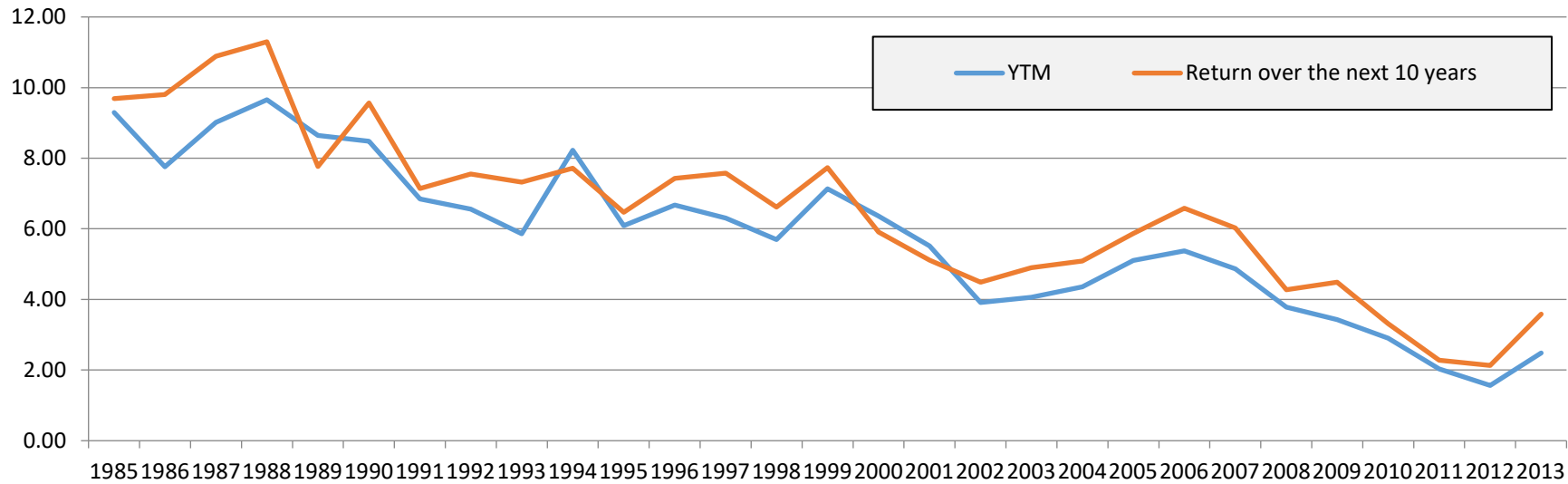
Rate	Mkt Yld	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25
United States										
US 30-Year	4.93	4.65	4.51	4.34	4.16	4.02	3.92	3.88	3.89	3.90
US 10-Year	4.82	4.46	4.28	4.09	3.91	3.77	3.69	3.62	3.60	3.58
US 5-Year	4.82	4.50	4.29	4.05	3.83	3.65	3.56	3.45	3.42	3.40
US 2-Year	5.11	4.93	4.63	4.28	3.94	3.64	3.44	3.28	3.16	3.08
US 3-Month Term SOFR	5.38	5.42	5.32	5.07	4.73	4.35	3.97	3.72	3.50	3.28
Fed Funds Rate - Upper Bound	5.50	5.55	5.50	5.25	4.90	4.45	4.00	3.70	3.50	3.30
Fed Funds Rate - Lower Bound	5.25	5.31	5.25	5.00	4.63	4.22	3.77	3.45	3.25	3.06
2 Year - 10 Year Spread	-0.29	-0.47	-0.35	-0.19	-0.02	0.13	0.25	0.34	0.44	0.50





YTM vs Realized 10 Yr. Return

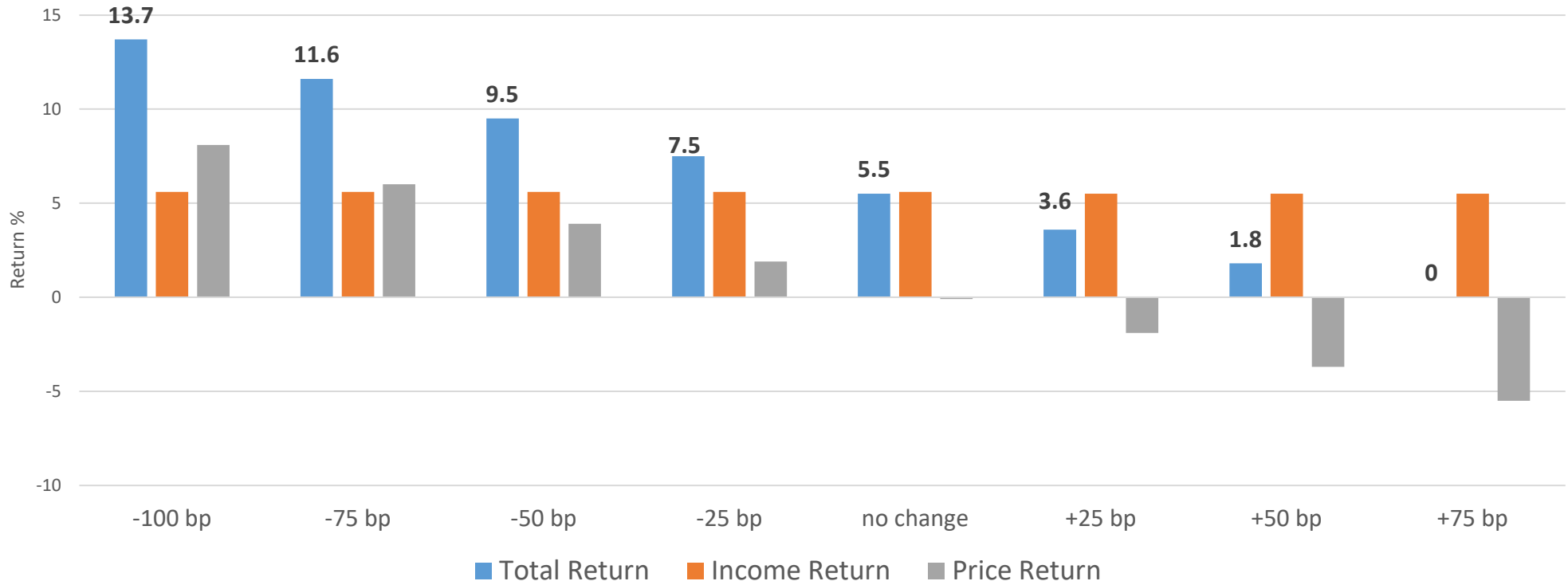
BOAML Domestic Master Index





Fixed Income Return Expectations

1 Year Core Fixed Income Return Simulation (Parallel Shift) as of 9/30/23



- Expectations are for rates to decline modestly in 2024
- The TIPS markets shows little concern over inflation surging to recent high levels
- Return expectations over the next five years have increased to 5-7% due to yields rising yet again in 2023.



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