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Astute Treasury Management Strategies as Inflation Cools.

State and local financiers now face interest rate markets that anticipate decelerating inflation and a weaker economy. Public treasurers and debt managers need fresh ideas, agility and prudent strategies.

As if they didn't already have enough on their plates, public-sector financiers are facing a fresh challenge: With its recent escalation of the short-term "Fed Funds" interest rate, the Federal Reserve has now engineered what's known as a fully inverted yield curve. That's when market interest rates are highest on shorter-maturity U.S. Treasury debt instruments and descend sequentially as maturities increase. It's now downward-sloping for most maturities from three months going out to 10 years.

It's the exact opposite of what's considered a normal yield curve, because ordinarily investors require additional interest compensation for the illiquidity of tying up their money longer term, plus a yield premium to compensate for interest rate risk on longer-term paper — what's known as duration risk.

Astute state and local government treasurers and financial managers must now take into account the dynamic nature of the inverted yield curve scenario and adjust their strategies accordingly. Oversight committees and governing boards should be scheduling study sessions to get up to speed.

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