# TexSTAR

## MONTHLY NEWSLETTER MARCH 2023

## PERFORMANCE

### As of March 31, 2023

| | |
|---|---|
| Current Invested Balance | $ 11,042,113,205.98 |
| Weighted Average Maturity (1) | 12 Days |
| Weighted Average Life (2) | 39 Days |
| Net Asset Value | 1.000029 |
| Total Number of Participants | 1012 |
| Management Fee on Invested Balance | 0.06%* |
| Interest Distributed | $42,836,750.54 |
| Management Fee Collected | $550,737.21 |
| % of Portfolio Invested Beyond 1 Year | 0.58% |
| Standard & Poor's Current Rating | AAAm |

Rates reflect historical information and are not an indication of future performance.

### March Averages

| | |
|---|---|
| Average Invested Balance | $10,807,713,296.46 |
| Average Monthly Yield, on a simple basis | 4.6066% |
| Average Weighted Maturity (1) | 11 Days |
| Average Weighted Life (2) | 39 Days |

Definition of Weighted Average Maturity (1) & (2)

(1) This weighted average maturity calculation uses the SEC Rule 2a-7 definition for stated maturity for any floating rate instrument held in the portfolio to determine the weighted average maturity for the pool. This Rule specifies that a variable rate instruction to be paid in 397 calendar days or less shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate.
(2) This weighted average maturity calculation uses the final maturity of any floating rate instruments held in the portfolio to calculate the weighted average maturity for the pool.

The maximum management fee authorized for the TexSTAR Cash Reserve Fund is 12 basis points. This fee may be waved in full or in part in the discretion of the TexSTAR co-administrators at any time as provided for in the TexSTAR Information Statement.

## NEW PARTICIPANTS

We would like to welcome the following entities who joined the TexSTAR program in March:

* City of Alvord
* Galveston County Municipal Utility District No. 59
* Jefferson County Emergency Services District No. 4
* City of Mineola

## HOLIDAY REMINDER

In observance of Good Friday, **TexSTAR will be closed Friday, April 7, 2023.** All ACH transactions initiated on Thursday, April 6th will settle on Monday, April 10th. Notification of any early transaction deadlines on the business day preceding this holiday will be sent by email to the primary contact on file for all TexSTAR participants. Please plan accordingly for your liquidity needs.

## ECONOMIC COMMENTARY

**Market review**

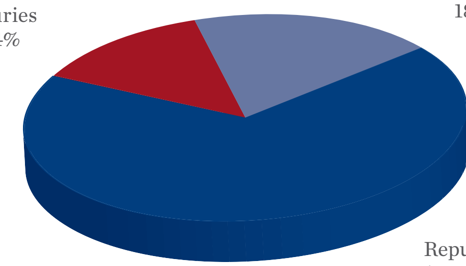
In the early months of 2023, we saw stronger-than-expected economic data, a leveling off in disinflation and signs of cooling wage growth. In recent weeks, financial distress in the U.S. regional bank sector rattled markets and exposed the vulnerabilities of an economy facing a rapid rise in interest rates after a very long period of easy policy. Consequently, credit conditions, which had already tightened due to Federal Reserve (Fed) policy, are expected to tighten further and could drag on economic activity, hiring and inflation. While the government responded swiftly to the bank fears, the Fed stopped short of pausing its monetary tightening campaign with a March rate hike and maintained its focus on bringing inflation down. It is at the point where economic conditions are tight, when a company's vulnerabilities come to light. This was particularly evident for Silicon Valley Bank (SVB), Signature Bank (SBNY), and Credit Suisse (CS). It is important to note that SVB, SBNY and CS were unique situations. Three problems led to the failures of SVB and SBNY. The first issue was a narrow depositor base, concentrated in troubled industries (startups and crypto), with a very large percentage of uninsured deposits. The second issue was an asset base that was particularly vulnerable to increases in interest rates. Third, was the Fed's sharp switch from years of negative real rates and quantitative easing to higher rates and quantitative tightening. Joint action by the Department of the Treasury, the Fed, and the Federal Deposit Insurance Corporation (FDIC), reimbursing all deposits at SVB and Signature Bank, not just insured deposits, and establishing a fund to support other banks with asset problems appeared to help calm the situation.

CS, a global systemically important bank (GSIB) became another casualty in the fallout from the SVB and SBNY collapse. The bank's largest shareholder, Saudi National Bank, said it wouldn't be willing to provide the company additional financing because of exposure limits.

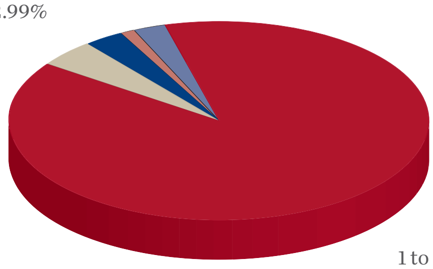
*(continued page 4)*

# INFORMATION AT A GLANCE

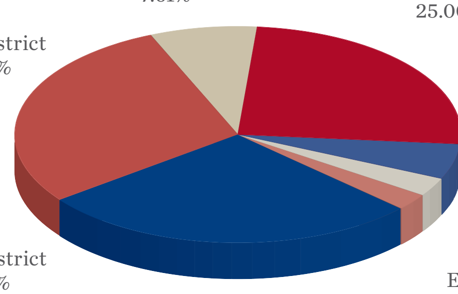
## PORTFOLIO BY TYPE OF INVESTMENT AS OF MARCH 31, 2023




## PORTFOLIO BY MATURITY AS OF MARCH 31, 2023 (1)




## DISTRIBUTION OF PARTICIPANTS BY TYPE AS OF MARCH 31, 2023




(1) Portfolio by Maturity is calculated using WAM (1) definition for stated maturity. See page 1 for definition

# HISTORICAL PROGRAM INFORMATION

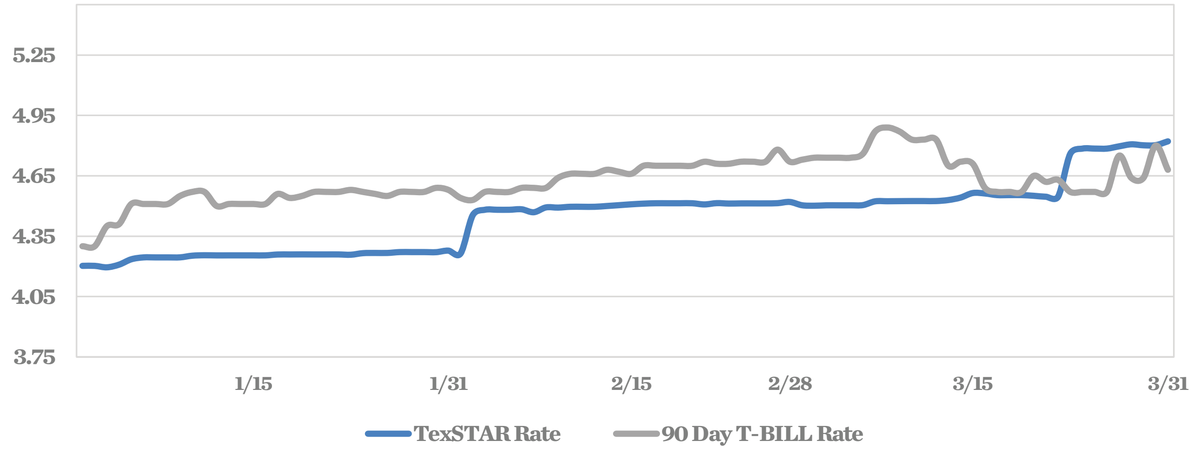
| MONTH | AVERAGE RATE | BOOK VALUE | MARKET VALUE | NET ASSET VALUE | WAM (1) | WAL (2) | NUMBER OF PARTICIPANTS |
|---|---|---|---|---|---|---|---|
| Mar 23 | 4.6066% | $11,042,113,205.98 | $11,042,864,910.32 | 1.000029 | 11 | 39 | 1012 |
| Feb 23 | 4.4919% | 10,962,890,240.57 | 10,961,778,645.78 | 0.999898 | 9 | 38 | 1008 |
| Jan 23 | 4.2515% | 10,451,037,339.95 | 10,450,044,625.54 | 0.999905 | 6 | 41 | 1003 |
| Dec 22 | 3.9681% | 9,016,826,910.67 | 9,015,709,981.89 | 0.999855 | 5 | 43 | 999 |
| Nov 22 | 3.5588% | 8,393,118,851.17 | 8,390,786,906.73 | 0.999722 | 6 | 47 | 998 |
| Oct 22 | 2.8531% | 8,388,414,626.87 | 8,384,901,873.82 | 0.999581 | 10 | 46 | 996 |
| Sep 22 | 2.2941 % | 8,448,258,598.47 | 8,444,307,157.72 | 0.999510 | 16 | 43 | 994 |
| Aug 22 | 1.9469% | 8,988,292,520.61 | 8,983,610,837.50 | 0.999479 | 27 | 50 | 991 |
| Jul 22 | 1.4010% | 9,799,798,062.32 | 9,793,880,215.07 | 0.999396 | 34 | 49 | 990 |
| Jun 22 | 0.9850% | 9,799,299,684.61 | 9,793,062,348.93 | 0.999363 | 42 | 57 | 989 |
| May 22 | 0.6459% | 9,701,777,049.61 | 9,700,243,468.41 | 0.999841 | 43 | 61 | 988 |
| Apr 22 | 0.3225% | 8,985,925,505.16 | 8,984,338,322.90 | 0.999818 | 39 | 60 | 986 |

# PORTFOLIO ASSET SUMMARY AS OF MARCH 31, 2023

| | BOOK VALUE | MARKET VALUE |
|---|---|---|
| Uninvested Balance | $ 725.19 | $ 725.19 |
| Accrual of Interest Income | 11,276,483.73 | 11,276,483.73 |
| Interest and Management Fees Payable | (42,897,085.38) | (42,897,085.38) |
| Payable for Investment Purchased | 0.00 | 0.00 |
| Repurchase Agreement | 7,594,735,999.76 | 7,594,735,999.76 |
| Government Securities | 3,478,997,082.68 | 3,479,748,787.02 |
| **TOTAL** | **$ 11,042,113,205.98** | **$ 11,042,864,910.32** |

Market value of collateral supporting the Repurchase Agreements is at least 102% of the Book Value. The portfolio is managed by J.P. Morgan Chase & Co. and the assets are safekept in a separate custodial account at the Federal Reserve Bank in the name of TexSTAR. The only source of payment to the Participants are the assets of TexSTAR. There is no secondary source of payment for the pool such as insurance or guarantee. Should you require a copy of the portfolio, please contact TexSTAR Participant Services.

# TEXSTAR VERSUS 90-DAY TREASURY BILL




This material is for information purposes only. This information does not represent an offer to buy or sell a security. The above rate information is obtained from sources that are believed to be reliable; however, its accuracy or completeness may be subject to change. The TexSTAR management fee may be waived in full or in part at the discretion of the TexSTAR co-administrators and the TexSTAR rate for the period shown reflects waiver of fees. This table represents historical investment performance/return to the customer, net of fees, and is not an indication of future performance. An investment in the security is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the issuer seeks to preserve the value of an investment of $1.00 per share, it is possible to lose money by investing in the security. Information about these and other program details are in the fund's Information Statement which should be read carefully before investing. The yield on the 90-Day Treasury Bill ("T-Bill Yield") is shown for comparative purposes only. When comparing the investment returns of the TexSTAR pool to the T-Bill Yield, you should know that the TexSTAR pool consists of allocations of specific diversified securities as detailed in the respective Information Statements. The T-Bill Yield is taken from Bloomberg Finance L.P. and represents the daily closing yield on the then current 90-Day T-Bill. The TexSTAR yield is calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940 as promulgated from time to time by the federal Securities and Exchange Commission.

## DAILY SUMMARY FOR MARCH 2023

| DATE | MNY MKT FUND EQUIV. [SEC Std.] | DAILY ALLOCATION FACTOR | INVESTED BALANCE | MARKET VALUE PER SHARE | WAM DAYS (1) | WAL DAYS (2) |
|---|---|---|---|---|---|---|
| 3/1/2023 | 4.5037% | 0.000123390 | $10,934,005,482.72 | 0.999903 | 10 | 38 |
| 3/2/2023 | 4.5014% | 0.000123325 | $11,065,468,689.29 | 0.999896 | 9 | 37 |
| 3/3/2023 | 4.5034% | 0.000123382 | $10,929,935,778.83 | 0.999910 | 9 | 37 |
| 3/4/2023 | 4.5034% | 0.000123382 | $10,929,935,778.83 | 0.999910 | 9 | 37 |
| 3/5/2023 | 4.5034% | 0.000123382 | $10,929,935,778.83 | 0.999910 | 9 | 37 |
| 3/6/2023 | 4.5045% | 0.000123412 | $10,885,527,688.27 | 0.999905 | 9 | 37 |
| 3/7/2023 | 4.5232% | 0.000123922 | $10,866,487,492.38 | 0.999899 | 9 | 37 |
| 3/8/2023 | 4.5236% | 0.000123934 | $10,858,406,297.88 | 0.999880 | 9 | 36 |
| 3/9/2023 | 4.5241% | 0.000123947 | $10,744,115,636.17 | 0.999882 | 9 | 37 |
| 3/10/2023 | 4.5245% | 0.000123958 | $10,722,681,700.29 | 0.999931 | 9 | 36 |
| 3/11/2023 | 4.5245% | 0.000123958 | $10,722,681,700.29 | 0.999931 | 9 | 36 |
| 3/12/2023 | 4.5245% | 0.000123958 | $10,722,681,700.29 | 0.999931 | 9 | 36 |
| 3/13/2023 | 4.5296% | 0.000124099 | $10,703,805,917.77 | 0.999936 | 9 | 36 |
| 3/14/2023 | 4.5417% | 0.000124429 | $10,711,147,872.64 | 0.999960 | 10 | 39 |
| 3/15/2023 | 4.5643% | 0.000125048 | $10,702,810,662.06 | 1.000057 | 13 | 41 |
| 3/16/2023 | 4.5621% | 0.000124988 | $10,732,005,588.25 | 1.000059 | 13 | 41 |
| 3/17/2023 | 4.5540% | 0.000124767 | $10,727,515,983.26 | 1.000061 | 12 | 41 |
| 3/18/2023 | 4.5540% | 0.000124767 | $10,727,515,983.26 | 1.000061 | 12 | 41 |
| 3/19/2023 | 4.5540% | 0.000124767 | $10,727,515,983.26 | 1.000061 | 12 | 41 |
| 3/20/2023 | 4.5506% | 0.000124674 | $10,739,730,466.69 | 1.000041 | 12 | 40 |
| 3/21/2023 | 4.5459% | 0.000124544 | $10,739,821,599.63 | 1.000026 | 12 | 40 |
| 3/22/2023 | 4.5463% | 0.000124556 | $10,727,446,854.41 | 1.000027 | 13 | 41 |
| 3/23/2023 | 4.7593% | 0.000130391 | $10,686,408,406.82 | 1.000056 | 13 | 40 |
| 3/24/2023 | 4.7847% | 0.000131088 | $10,642,985,866.85 | 1.000072 | 14 | 41 |
| 3/25/2023 | 4.7847% | 0.000131088 | $10,642,985,866.85 | 1.000072 | 14 | 41 |
| 3/26/2023 | 4.7847% | 0.000131088 | $10,642,985,866.85 | 1.000072 | 14 | 41 |
| 3/27/2023 | 4.7959% | 0.000131394 | $10,658,770,447.28 | 1.000047 | 13 | 42 |
| 3/28/2023 | 4.8059% | 0.000131669 | $11,098,688,328.32 | 1.000049 | 12 | 40 |
| 3/29/2023 | 4.8011% | 0.000131537 | $11,085,529,588.19 | 1.000031 | 12 | 40 |
| 3/30/2023 | 4.8018% | 0.000131556 | $10,987,463,977.90 | 1.000023 | 12 | 40 |
| 3/31/2023 | 4.8206% | 0.000132072 | $11,042,113,205.98 | 1.000029 | 12 | 39 |
| | | | | | | |
| Average | 4.6066% | 0.000126209 | $10,807,713,296.46 | | 11 | 39 |

*ECONOMIC COMMENTARY (cont.)*

The issues with CS were not new. However, because the markets were already jittery, this became the catalyst for a renewed deterioration in market confidence given CS's complex and lengthy restructuring plan. The repercussions soon blanketed the broader market universe and reignited contagion worries. Initially, the Swiss National Bank (SNB) extended~$55 billion in liquidity support to CS, which underscored the distinction between the challenges facing US regional banks and European GSIBs. In the end, UBS Group AG agreed to buy CS in a government-brokered deal aimed at containing a crisis of confidence that threatened to spread across global financial markets. Ultimately, the banking failures of these three institutions were idiosyncratic events due to poor risk management.

Meanwhile, inflation was still the prime focus of the Fed. Since its peak in June 2022, inflation has shown signs of cooling, although the road to the Fed's 2% target has been bumpier than originally anticipated. February's Consumer Price Index (CPI) report came largely in line with expectations with headline CPI rising 0.4% month-over-month (m/m) and 6% year-over-year (y/y), marking the eighth consecutive monthly decline in the y/y measure. Core CPI (ex-food and energy) rose by 0.5% m/m, and 5.5% y/y. The lagged effect of shelter inflation, which accounts for a little over a third of CPI, continued to be the primary contributor to elevated inflation, at 0.8% m/m. The headline and core Personal Consumption Expenditures (PCE) Price Index both rose 0.3% m/m, a deceleration from prior month. Year-over-year headline PCE cooled, declining from 5.4% to 5.0%. Furthermore, personal income came in slightly above expectations at 0.3%, but at a decelerated rate from prior month. Real personal spending declined by 0.1%, down from the 1.1% increase we saw in January. The personal savings rate increased to 4.6% in February, up from the 4.4% we saw in January, pointing to a slowdown in consumption.

The February Jobs report highlighted solid gains in payroll employment, but other details were softer than expected. Nonfarm payroll employment rose by 311K, well above consensus estimates of 223K. However, gains for the prior two months were revised down by 34K, and the unemployment rate rose above consensus to 3.6%. The labor market continued to prove its resilience. However, there were also clearer signs that wage data is moderating. Average hourly earnings were below consensus, rising by 0.2% m/m and 4.6% y/y. Overall, the report suggested that the labor market is starting to feel the pressure of tighter policy and provided little evidence that a tight labor market will disrupt the downtrend in consumer inflation.

In a highly anticipated policy decision, the Federal Open Market Committee (FOMC) voted unanimously to raise the federal funds rate by 0.25% to a target range of 4.75%-5.00%. The statement language and press conference were somewhat dovish, acknowledging the potential implications of banking turmoil on the economic outlook but also the need for further progress on inflation. The Fed notably downshifted the phrase "ongoing increases in the target range will be appropriate" to "some additional policy firming may be appropriate," signaling a near end to tightening. At the press conference, Chairman Powell kicked off by addressing banks and affirmed that the overall "banking system is sound and resilient." In the Summary of Economic projections (SEP), the "dot plot" revealed an unchanged median expectation for the federal funds rate at 5.1% for year-end 2023, suggesting an additional 25 bp hike to come. Surprisingly, policymakers projected less easing next year, suggesting an expectation that policy will have to be tighter for longer to combat inflation. Updates to the Fed's economic projections reflected a more dovish picture of slower growth, lower unemployment and slightly higher inflation. Treasury yields fell across the curve during the month. In money markets, the three-month Treasury bill yield decreased by 6 bps to 4.75% and the six-month Treasury bill yield decreased by 26 bps to 4.88%. Longer Treasury yields plummeted, with the two-year yield dropping by 79 bps to 4.03% and the three-year yield dropping by 74 bps to 3.79%.

**Outlook**

Following recent events across the banking sector and the latest Fed rate hike, investors have materially reassessed their expectations for the future path of interest rates. Prior to recent concerns about the financial sector, the market expected that the Fed would continue to hike with the federal funds rate peaking at 5.5%. Markets are now teetering between the potential for another 25 bp hike or a pause at the May 3 FOMC meeting and anticipate rate cuts by year-end. The front end of the curve is particularly reactive to headline risks and has seen both a material repricing and a high level of volatility. We think that the outcome of the March FOMC meeting was designed to show the markets that the Fed has confidence in the banking system, and that it is willing to be flexible depending upon ongoing developments.

*ECONOMIC COMMENTARY (cont.)*

Bank lending (globally) is very likely to decline rapidly. Credit conditions were already tightening before the regional bank issue, and Chair Powell recognizes that a tightening in lending standards will slow GDP growth and weaken demand for labor, thus substituting for additional rate hikes. The volatility of the past couple of weeks supports our base case of a recession, as tight monetary policy has caused stress in the banking sector while inflation persists. The Fed is in a challenging spot as they need to strike a balance between financial stability and price stability. As a result, we think it is likely that they raise rates in May before pausing. The federal funds futures market is pricing in rate cuts beginning in June. While that may be a bit aggressive, the market is removing policy hikes in anticipation of weakening hard economic data.

This information is an excerpt from an economic report dated March 2023 provided to TexSTAR by JP Morgan Asset Management, Inc., the investment manager of the TexSTAR pool.