City of Meriden, CT

Meriden City Hall, 142 East Main Street, Meriden, CT 06450

Pension Fund Update December 13, 2016

From December 13, 2016:

Markets have staged an extraordinary realignment following the unpredicted election of President Donald Trump. Without relitigating the ineptitude of pollsters and pundits, the election results have shaken the political elite and reignited investment in economic sectors directly impacted by decades of increased regulation: energy and financials. It remains to be seen if public enthusiasm for disruptive new leadership will be overtaken by entrenched opposition, or if the incoming administration's unapologetic promise of American economic renewal can be fulfilled. An extended honeymoon has propelled a post-election rally in equities, while undercutting bonds in advance of the Federal Reserve's pending rate adjustment. The benchmark 10-year Treasury plunged in value after the election, anticipating higher inflation. Ten-year rates, often seen as a guidepost for US mortgages, moved from 1.81% to 2.15%, representing a 21% increase in borrowing costs – the most dramatic shift since 1962. But those same expectations for accelerating growth energized equity values, and indexes roared to more than a dozen new daily highs.

It is widely expected that the Fed will raise rates a notch this week, but maintain its longer view that clings to historically low ranges. After all, European and Japanese rates remain below zero. Promises of tax reform, including simplification of personal taxes, more competitive corporate rates, and a repatriation of profits held offshore, are being embraced by companies and have fueled a strong jump in consumer sentiment. Coupled with a slowdown in regulation, the conditions seem favorable for an extended uptrend market. So, what could possibly go wrong? History shows that investment markets anticipate opportunities and obstacles – requiring a disciplined commitment to established long term goals.

Meriden Retirement Fund

Diversified and balanced investment portfolios, such as the Meriden retirement plans, underperformed the headline stock averages last month. The decline in bond values and a sell-off in international stocks offset the advance in domestic equity portfolios. There were some outstanding November performances however, as Matrix and Anchor each posted gains over five percent, and Kayne Anderson's small-cap accounts jumped more than 8%. But overall performance held at +1.3% for the month, while the S&P gained 3.7%. (By comparison, a benchmarked 60/40 portfolio advanced 1.28%.) November's momentum carried forward into December, with further gains posted last week. The Meriden investment accounts have gained more than $6 million since election night, while distributing nearly a million in benefits. October's portfolio losses have now been recovered, and we approach the fiscal year mid-point with a projected 3.4% composite gain for the pensions and 4.8% for the OPEB Healthcare Trust.

At the January meeting, the Board will consider reaffirming its Investment Policy, the annual declaration of authorized persons, and a potential consolidation of international equity, value equity, and liquidity fixed portfolios. Review materials will be provided in advance of the scheduled discussion.