City of Meriden, CT

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

Pension Fund Update June 9, 2015

Overview

Mixed economic signals offered little clarity for investment markets this past month. Soft retail, but strong auto sales. Rising healthcare premiums, but an upward trend in hiring. Interest rates moved higher in advance of a formal action by the Federal Reserve Board. US stock averages are holding to the least volatile range in years, cautiously approaching the policy change that will tighten the monetary spigot and increase the cost of borrowing for business, consumers, and the government itself. The encouraging report on job creation is unlikely to move policymakers to raise benchmark interest rates at next week's meeting. Dow Jones News Service reports Fed confidence was "shaken by an economic contraction in the first quarter and signs of a slow rebound in the second," and that officials are watching for proof "the winter slowdown was transitory and not a signal of a more serious loss of momentum."

While global attention has focused on the overwhelming debt obligations of Greece and the potential for Eurozone relief or expulsion, US investors may have greater concern with an unsustainable debt challenge closer to home. Puerto Rico is appealing for federal intervention, as the commonwealth struggles with $72 billion in public debt amassed during a decade-long economic slump. The governor has signed legislation, boosting the sales tax from 7% to 11.5% effective July first, and imposing a new professional services tax of 4% later this year. Spending may be reduced by $674 million in the island's new $9.8 billion budget, while the population is migrating to the mainland, fleeing a 14% unemployment rate. Puerto Rico municipal bonds are widely held by non-resident investors seeking tax-free income, and by State-specific mutual funds. One New York muni fund, for example, holds 26% in Puerto Rico bonds.

Meriden Retirement Funds

Meriden investment funds continue to outpace lackluster broad market performance for 2015, advancing 2.5% in the retirement accounts as of last Friday and over 4% in the OPEB Healthcare Trust. During the same period, a balanced (60/40) market index advanced only 1.03%. Stifel analyst Elliot Spar notes the S&P 500 is flat since December; Transports down 9.4% and Utilities off 13%. May, like April, closed with just a fractional gain in the Meriden retirement composite, leaving the fiscal year-to-date below 2%. The pension portfolios maintain a defensive overlay, with 25% of the assets committed to non-correlated investments, such as real estate, private equity, managed futures, and gold.